

INNOVATIVE DESIGNS INC  
Form 10-K  
January 28, 2013

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, 2012

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

Commission file number:H00-51791

Innovative Designs, Inc.

(Exact name of registrant as specified in its charter)

Delaware	03-0465528
(State or other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

124 Cherry Street	
Pittsburgh, Pennsylvania	15223
(Address of Principal Executive Offices)	(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:

(Title of Class)

Common Stock, \$.0001 par value per share

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

“ Yes x 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 x 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 x No “

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes x 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.

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 \$812,761.

The aggregate market value of the voting stock and non-voting stock held by non-affiliates of the issuer based on the closing price of \$0.42 on January 23, 2013, as reported by the NASDAQ Over-The Counter Bulletin Board, was \$3,815,172.

The number of shares of the issuer's common stock outstanding, as of January 23, 2013, was 18,935,743.

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. The Company has recently added a house wrap made from INSULTEX for the building construction industry. We have a license agreement directly with the owner of the INSULTEX Technology.

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. This product was discontinued during 2010 and we are only selling from our existing inventory.

Hunting Apparel Line: Our hunting apparel provides almost total block from odors provided by the INSULTEX material. This product was discontinued during 2010 and we are only selling from our existing inventory.

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.

INSULTEX House Wrap: Our house wrap product is designed for the building construction industry. This product, made from INSULTEX, provides barrier protection plus moisture vapor transmission and approximately R3 value insulation. We are currently working on a house wrap line with a much higher R value. We also sell a tape that is designed to be used with the INSULTEX House Wrap.

INSULTEX Material: We sell INSULTEX material in bulk to non-competing customers.

We also offer a product that helps restore the waterproof character of the outer side of our Arctic Armor clothing. In addition, we offer cold weather headgear and a base insulation clothing product.

Our apparel products containing INSULTEX 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 and (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. Our INSULTEX House Wrap product is manufactured in the United States.

- 2 -

### 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 receive from third party sub-licensees, 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 outdoor apparel. "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 2010, 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.

- 3 -

### 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 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.

### 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
- Ski resort workers; and
- Police and First Responders.

### 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 provides barrier protection plus moisture vapor transmission and the novel feature of approximately R3 value insulation. The INSULTEX House Wrap was designed specifically to add enhanced insulating characteristics. In addition the house wrap is priced competitively with existing house wraps that do not provide any insulation. The development efforts were conducted by our own personnel and outside consultant. The testing phase has been completed and the product was found to be up to code and we are now offering it for sale. We are also working on developing a house wrap with a much higher R value.



Website and Retailers

We sell both wholesale and retail products on our web site. Our web site, 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 web site features a "wholesaler only" area, allowing our wholesalers access to information, ordering, and reordering. Our products are offered and sold by retailers, distributors and through our web site in all states and Canada. Except for products sold through our web site, others who purchase our products do so at wholesale prices which they plan to sell at their retail prices, or use within their industry:

- 4 -

## 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 primary 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.

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 Canadian Tire, Red Rock Wilderness Store, Scheels and Frank's Great Outdoors. Some of our distributors during the last fiscal year were Big Rock Sports, Triple S Pro Fishing Supplies and Fleece Corner. We also sell our cold weather products to various divisions of CSX railroad. We distribute our products to the following:

### Swimeez Products

We distribute our Swimeez products through our web site.

### Hunting Apparel Line

We distribute our hunting apparel through our web site.

Our hunting apparel consists of a 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.

Arctic Armor Line

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

INSULTEX House Wrap

We offer our house wrap product directly to builders through our website and distributors. In December 2012, we entered into a Master Standard Buying Agreement with Lowes Companies, Inc. to offer INSULTEX House Wrap in their stores. We are currently working with Lowes to add the product onto their website.

- 5 -

Our marketing program consists of the following:

MARKETING COMPONENT

Website 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 and Canada.

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. During the last fiscal year we did not attend any trade shows.

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" outdoor apparel 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 Arctic Armor finished goods, except for our headwear, and is purchased directly from the Ketut Group.

All of our products, except for our gloves, which are purchased from a supplier in the U.S., 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 U.S. Customs Service imposes an importation duty of 6.5% on all our imported products.

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 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.

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 units of finished products in inventory.

- 7 -

In 2004, we were granted a trademark for our name "idigear" with the United States Patent and Trademark Office.

In 2007, we were granted the mark "INSULTEX" by the United States Patent and Trademark Office.

In 2011, we were granted a trademark for "INSULTEX HOUSE WRAP" by the United States Patent and Trademark Office.

In December 2009, we filed a patent application, No. 12 642714, with the United States Patent and Trademark Office for our Composite House Wrap. The application is still pending. We had filed a provisional application in December 2008.

In February of 2010, we filed a patent application for a composite material for clothing. The application is still pending. We had filed a provisional application in January 2009.

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 the U.S.

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. We are using an outside consultant for the development of our House Wrap product. We do not pay the consultant but intend to share part of our sales revenue to the consultant.

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



<b>Issue</b>	<b>Test Result</b>	
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/ft <sup>2</sup> 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 6.5% importation duty to the United States Customs Service on all imported products. 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 effect 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 effect 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).

#### ITEM 1A RISK FACTORS.

##### Lack of Sufficient Operating Funds

Because we are not able to generate sufficient funds from sales and because we are unable to access commercial sources of credit, we are consistently underfunded. As a result, our growth is very limited and we have difficulty in sustaining our current level of operations. We are not able to initiate adequate marketing programs, hire additional

staff, develop new products or have flexibility in ordering products from our manufacturers. In the past, we have depended on borrowings from our CEO and other private parties, primarily shareholders. Should we not be able to continue to rely on this source of funding to at least meet our current level of operations our revenue stream will be adversely affected.

#### 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.

- 10 -

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

- Ice Clam Corporation
- Vexilar
- Mustang Survival
- Frabill

We compete in the following ways:

A. Emphasize the Advantages of our Products.

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 stimulant 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.

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

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.



### Cyclicalities

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, 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, exclusive of one's residence, 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.

#### Significant Customers

During our fiscal year ended October 31, 2012, two customers accounted for more than ten percent of our sales, Fleece Corner (11.4%) and Pro Fishing Supplies (11.5%). Red Rock Wilderness accounted for 6.5% of sales.

#### ITEM 2. PROPERTIES.

Since May 2002, we have maintained an executive office of 1500 square feet at 223 North Main Street, Suite 1, Pittsburgh, Pennsylvania 15215. We pay monthly rent of \$700 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. Mr. Riccelli estimates that he uses this office approximately twenty percent of his professional time.

In October 2002, we arranged for the lease of warehouse space for our inventory and raw materials at 124 Cherry Street, Etna, Pennsylvania. We also use this space as our principle executive offices. 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 \$3,500 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. Mr. Frank Riccelli is the brother to our Chief Executive Officer and the owner of the property. 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 3. LEGAL PROCEEDINGS.

With regard to the civil complaint we filed in July 2012, in the District Court for the Western District of Pennsylvania against Striker Brands and Korky's Outpost, LLC, asserting deceptive claims aimed at our Artic Armor products, the defendants filed a counterclaim asserting libel and slander and tortious interference. This matter is pending. In addition, the Striker Brands, LLC filed an action in the District Court for Ramsey County, Second Judicial District, State of Minnesota alleging interference with prospective business advantage and defamation. They also named as a defendant an independent sales agent of the Company. The Company did not timely respond to the Summons & Complaint in the Minnesota action. A hearing on Striker Brands LLC's default judgment is scheduled for February 19, 2013. The Company has filed a motion with the court requesting an extension of time to respond to the Summons and Complaint. That motion is currently under advisement and, if granted, will cure the default.

### ITEM 4. REMOVED AND RESERVED.

- 14 -

**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY; RELATED STOCKHOLDER MATTERS AND 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 2012	Low	High
Fourth Quarter	\$0.19	0.49
Third Quarter	\$0.33	0.51
Second Quarter	\$0.08	0.60
First Quarter	\$0.08	0.15

FY 2011	Low	High
Fourth Quarter	\$0.08	0.20
Third Quarter	\$0.08	0.16
Second Quarter	\$0.14	0.25
First Quarter	\$0.21	0.35

On January 23, 2013, the closing bid price was \$0.42.

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

**Holders**

As of January 23, 2013, we had 158 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 April 16, 2011, we issued 25,000 shares of our common stock for professional services for \$.10 per share or \$2,500. 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 April 17, 2011, we issued 20,000 shares of our common stock for professional services for \$.10 per share or \$2,000. 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 April 24, 2012, the Company issued 35,000 shares of its common stock for professional services for \$.30 per share or \$10,500. 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 July 2, 2012, the Company issued 100,000 shares of its common stock for professional services for \$.25 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, as an offering not involving a public offering.

On October 4, 2012, the Company issued 25,000 shares of its common stock for professional services for \$.20 per share or \$5,000. 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.

#### ITEM 6. SELECTED FINANCIAL DATA.

As a smaller reporting company, under SEC regulations, we are not required to furnish selected financial data.

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

##### General

The following information should be read in conjunction with the consolidated financial statements and the notes thereto 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 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 primarily market and sell cold weather clothing products called “Arctic Armor” that are, except for our headwear, made from INSULTEX, a material with buoyancy, scent block and thermal resistant properties. We also are starting to offer our house wrap product line which is also made from INSULTEX. We obtain INSULTEX through a license agreement with the owner and manufacturer of the material.

## Results of Operations

Comparison of the fiscal year ended October 31, 2012, with the fiscal year ended October 31, 2011.

The following table shows a comparison of the results of operations between the fiscal years ended October 31, 2012 and October 31, 2011:

	Fiscal Year Ended October 31, 2012	% of Sales	Fiscal Year Ended October 31, 2011	% of Sales	Increase (Decrease)	% Change
REVENUE	\$812,761	100.00%	\$1,039,149	100.00%	\$(226,388)	-21.79%
OPERATING EXPENSES						
Cost of sales	320,021	39.37%	489,344	47.09%	(169,323)	-34.60%
Selling, general and administrative expenses	635,255	78.16%	495,907	47.72%	139,348	28.10%
Income/(loss) from operations	(142,515)	-17.53%	53,898	5.19%	(196,413)	-364.42%
OTHER INCOME/(EXPENSE)						
Other income	600	0.07%	11,984	1.15%	(11,384)	-94.99%
Interest expense	(122,799)	-15.11%	(55,816)	-5.37%	(66,983)	120.01%
Loss contingency	(190,000)	-23.38%	-	0.00%	(190,000)	-100.00%
Gain on sale of equipment	-	0.00%	5,000	0.48%	5,000	-100.00%
Net income (Loss)	\$(454,714)	-55.95%	\$15,066	1.45%	\$(469,780)	-1,574.27%
Shares outstanding	18,935,743		18,775,743			
Earnings per share	\$(0.024)		\$0.001			

Fiscal years ended October 31, 2012 and 2011

## Results of Operations

Revenues for the fiscal year ended October 31, 2012, were \$812,761 compared to revenues of \$1,039,149 for the comparable period ending October 31, 2011. The decrease in revenue is a result of the warm weather in those areas of North America where we sell our cold weather products. Approximately \$110,000 of revenues was from our hunting apparel line. Nearly all of the remaining revenues were derived from our Arctic Armor product line. Revenues are net of returns and discounts. During the period we took back products valued at approximately \$17,800. We estimate that approximately sixty percent of our cold weather apparel products are sold to outdoor sportsmen.

Selling, general and administrative expense increased from \$495,907 in fiscal year 2011, to \$635,255 in fiscal year ending October 31, 2012. Some of the increases were for; salaries \$54,000, bank service charges \$16,000, professional fees \$24,000, house wrap testing and development \$15,000 and advertising \$14,000.

Our cost of sales decreased from \$489,344 as of October 31, 2011 to \$320,021 as of October 31, 2012. Part of the decrease is approximately \$51,000, which is part of the allowance write-off in prior years for the hunting apparel which we sold in the current fiscal year.

#### Liquidity and Capital Resources

During the fiscal year ended October 31, 2012, we funded our operations from revenues from sales, and loans from our Chief Executive Officer and others. We will continue to fund our operations from these sources and the possible sale of our securities until we are able to secure commercial lending arrangements. We are not presently seeking any commercial credit arrangements based on our past attempts to do so.

**Short Term:** We funded our operations with revenues from sales and from loans from our Chief Executive Officer and others. During the fiscal year ended October 31, 2012, we borrowed approximately \$268,000 from these sources. We cannot access commercial lines of credit.

Our existing debt obligations consist of the following:

US SBA Loan. The amount was \$280,100. This was a disaster loan assistance program. The date of the loan was July 12, 2005. The interest rate is 2.9% yearly. Payments are \$1,186 per month for thirty years. The loan is guaranteed by our CEO and he and his spouse have pledged certain assets as collateral for the loan. The loan was modified on January 23, 2006. The new loan amount is \$430,500. The monthly payments are \$1,820 and the loan matures in July 2035. As the loan was for a specific disaster assistance program we cannot obtain any additional funds.

Note Payable \$100,000 - James Kearney. The principal amount of the loan is \$100,000 and the interest owed is \$92,000. Interest has stopped on the loan. Interest and principle are due and payable in full at any time after December 10, 2005. As of October 31, 2012, \$12,500 in principle plus accrued interest was still outstanding.

Note Payable \$10,000 - Frank Riccelli. Interest is at 10% for 120 days. The principal and interest was due on demand on December 20, 2011, but was extended through a verbal agreement. As of October 31, 2012, \$10,000 in principle plus accrued interest was still outstanding.

Note Payable \$8,000 - Roberta Riccelli. Interest is at 10% for 120 days. The principal and interest was due on June 17, 2012, but was extended through a verbal agreement. As of October 31, 2012, \$8,000 in principle plus accrued interest was still outstanding.

Edgar Filing: INNOVATIVE DESIGNS INC - Form 10-K

Note Payable \$100,000 - Sol & Tina Waxman Family Foundation. Interest is at 10% for 6 months. The principal and interest is due on demand on December 20, 2012. As of October 31, 2012, \$75,000 in principle plus accrued interest was still outstanding.

Note Payable \$50,000 - Joseph Riccelli. Interest is at 10% for 120 days. The principal and interest is due on demand on November 9, 2012. As of October 31, 2012, \$50,000 in principle plus accrued interest was still outstanding.

Note Payable \$27,000 - Darryl Zaontz. Interest is at 10% for 6 months. The principal and interest is due on demand on January 31, 2013. As of October 31, 2012, \$27,000 in principle plus accrued interest was still outstanding.

- 18 -

Note Payable \$25,000 - Hilary Ackermann. Interest is at 10% for 6 months. The principal and interest is due on demand on January 31, 2013. As of October 31, 2012, \$15,000 in principle plus accrued interest was still outstanding.

Note Payable \$50,000 - Aaron Riccelli. Interest is at 10% for 120 days. The principal and interest is due on demand on January 14, 2013. As of October 31, 2012, \$50,000 in principle plus accrued interest was still outstanding.

Note Payable \$8,476 - Prime Rate Premium Finance Corporation, Inc. Interest is at 12.50% for 9 months. Final payment is due on January 10, 2013. As of October 31, 2012, \$1,885 in principle was still outstanding.

The Company intends to repay these debt obligation with funds it generates from revenues, from the possible sale of its securities either debt or equity, from advances from its CEO or other stockholders. Because we cannot currently access commercial lending facilities, should we not be able to continue to obtain funding from our CEO and/or other individuals or sell our securities or should our revenues decrease our operations would be severely effected as we would not be able to fund our purchase orders to our suppliers for finished goods. The Company continues to pay its creditors when payments are due.

Long Term: The Company will continue to fund operations from revenues, borrowings and the possible sale of its securities. Should we not be able to continue to rely on these sources our operations would be severely effected as we would not be able to fund our purchase orders to our suppliers for finished goods.

#### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK.

As a smaller reporting company under SEC Regulation, we are not required to provide this information.

#### ITEM 8. FINANCIAL STATEMENTS.

Our audited financial statements may be found beginning on page 30 elsewhere in this report.

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

None

ITEM 9A. (T) CONTROLS AND PROCEDURES.

Disclosure Controls and Procedures

Management of Innovative Designs is responsible for maintaining disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 (the "Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. In addition, the disclosure controls and procedures must ensure that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer/Chief Financial Officer, as appropriate, to allow timely decisions regarding required financial and other required disclosures.

At the end of the period covered by this report, an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13(a)-15(e) and 15(d)-15(e) of the Securities Exchange Act of 1934 (the "Exchange Act")) was carried out under the supervision and with the participation of our Chief Executive Officer/Chief Financial Officer. Based on his evaluation of our disclosure controls and procedures, he concluded that during the period covered by this report, such disclosure controls and procedures were not effective. This was due to our limited resources, including the absence of a financial staff with accounting and financial expertise and deficiencies in the design or operation of our internal control over financial reporting that adversely affected our disclosure controls and that may be considered to be "material weaknesses."

At this time we do not have the financial resources to employ a financial staff with accounting and financial expertise, once we have the necessary financial resources, we plan to hire a designate individual responsible for identifying reportable developments and to implement procedures designed to remediate the material weakness by focusing additional attention and resources in our internal accounting functions. However, the material weakness will not be considered remediated until the applicable remedial controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively.

Effective March 19, 2008, our Chief Executive Officer assumed the duties of the Chief Financial Officer.

#### Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance to our management and board of directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect our transactions; (ii) provide reasonable assurance that transactions are recorded as necessary for preparation of our financial statements; (iii) provide reasonable assurance that receipts and expenditures of company assets are made in accordance with management authorization; and (iv) provide reasonable assurance that unauthorized acquisition, use or disposition of company assets that could have a material effect on our financial statements would be prevented or detected on a timely basis.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because changes in conditions may occur or the degree of compliance with the policies or procedures may deteriorate.

Our management, assessed the effectiveness of our internal control over financial reporting as of October 31, 2012. This evaluation was based on criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO, Internal Control-Integrated Framework. Based upon such assessment, our Chief Executive Officer / Chief Financial Officer concluded that our internal controls over financial reporting were not effective as of October 31, 2012. In particular, our controls over financial reporting were not effective in the specific areas described in the paragraphs below.

As of October 31, 2012 our Chief Executive Officer / Chief Financial Officer identified the following specific material weakness in the Company's internal controls over its financial reporting processes:

- Policies and Procedures for the Financial Close and Reporting Process — Currently there are no policies or procedures that clearly define the roles in the financial close and reporting process. The various roles and responsibilities related to this process should be defined, documented, updated and communicated. Not having such policies and procedures



in place amounts to a material weakness in the Company's internal controls over its financial reporting process.

· Representative with Financial Expertise — For the year ended October 31, 2012, the Company did not have a representative with the requisite knowledge and expertise to review the financial statements and disclosures at a sufficient level to monitor the financial statements and disclosures of the Company. All of our financial reporting is carried out by one individual and the use of an external accounting firm. This lack of accounting staff results in a lack of segregation of duties, timeliness in closing the books and records, delays in filing quarterly financial information, numerous post closing adjusting journal entries and accounting technical expertise necessary for an effective system of internal control. Failure to have a representative with such knowledge and expertise amounts to a material weakness to the Company's internal controls over its financial reporting processes.

- 20 -

**PART III****ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.**

## 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
Joseph Riccelli	63	Chief Executive Officer, Chief Financial Officer, Principal Accounting Officer, Chairman	1 year
Dean P. Kolocouris	42	Director	1 year
Robert D. Monsour	62	Director	1 year
Daniel P. Rains	60	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. Mr. Kolocouris has been in banking for over fifteen years and his knowledge of finance and business experience is helpful to the Company.

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. Mr. Monsour's business experience and his knowledge of the law make him qualified to serve as a director of the Company.

Daniel P. Rains has been a director since March 2007. Mr. Rains is currently Vice President of business development at McCarl's, Inc., a mechanical contracting firm. He has held this position for over 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. Mr. Rains has been in professional sports and in business for over twenty years. His experience and knowledge of these fields are helpful to the Company. As the Company enters the building construction market with its House Wrap product, Mr. Rains' experience in that industry will be especially helpful.

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

#### Audit Committee

We do not have a separate standing Audit Committee. Therefore, our entire Board of Directors acts as the Audit Committee. The Board of Directors has determined that Mr. Dean Kolocouris is its financial expert. Mr. Kolocouris is a loan officer for a bank and has a degree in Finance.

#### Nominating and Compensation Committees

We do not have either a nominating committee or a compensation committee. The basis for the Board of Directors to not have a nominating committee is the fact that our principal stockholder who is also our CEO and Chairman of the Board controls approximately fifty-one percent of the voting stock. And the Company has never held an Annual Meeting of stockholders. New board members are recommended to the Board by the Chairman of the Board.

#### Board of Directors Meetings

During the last full fiscal year, there was one meeting of the Board of Directors.

#### 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.

- 22 -

## ITEM 11. EXECUTIVE COMPENSATION.

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

## Summary Compensation Table

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
Joseph Riccelli, CEO, Chairman	2012	\$65,639	0	0	0	0	0	0	\$65,639
Joseph Riccelli, CEO, Chairman	2011	\$15,000	0	0	0	0	0	0	\$15,000

During 2012, we paid our Chief Executive Officer \$65,639 in compensation.

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.

Other than Mr. Ricelli, who is our CEO, the Board of Directors considers the remaining Directors Messrs. Monsour, Kolocouris and Rains to be independent directors.

## Director Compensation

Name	Fees Paid or Paid in Cash (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
------	--------------------------------	-------------------	--------------------	---	--	-----------------------------	------------

Edgar Filing: INNOVATIVE DESIGNS INC - Form 10-K

Dean P. Kolocouris	0	0	0	0	0	0	0
Robert D. 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

Securities Authorized for Issuance under Equity Compensation Plans.

Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon exercise of outstanding options, warranties and rights	Weighted-average exercise price of outstanding options, warranties and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding those reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	\$ 400,000	\$ 0.42	(2) \$ 383,000

(1) The Company has issued an additional 12,000 shares of its stock to various consultants in exchange for past and future services. The weight average price per share was \$0.2818.

Weighted average price was based on market value of the shares on or about the date the service was performed.  
 (2) Market value of the price per share ranged from \$2.00 to \$0.15 per share over the period of time in which the various services were performed.

(3) All stock that has been issued by the Company out of the equity compensation plan was for the exchange of professional services. No shares were sold for cash.

Use of Proceeds from Registered Securities

Not Applicable

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT, AND RELATED STOCKHOLDER MATTERS.

The following table sets forth the ownership as of January 23, 2012 (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.

- 24 -

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 Chief Executive Officer Chairman of the Board (1) of Directors 142 Loire Valley Drive Pittsburgh, Pa 15209	8,914,000	Direct	47.48 %
		801,000	Indirect	4.27 %
Common Stock	Robert D. Monsour Director 6131 Saltzburg Road Murrysville, PA 15668	-		
Common Stock	Dean P. Kolocouris Director 120 Timberglen Drive Imperial, Pa 15216	52,000	Direct	*
Common Stock	Daniel P. Rains 2509 Wigham Road Aliquippa, PA 15001	85,000	Direct	*
All Directors and Executive Officers as a Group		9,852,000		52.47 %

\* Represents less than one percent.

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

- 25 -

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 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 Executive Officer. We pay \$3,500 per month for a total of \$42,000 per year.

We have received advances from our Chief Executive Officer.

We received various advances from Joseph Riccelli. We currently owe approximately \$84,100 on the advances; there are no written loan documents to evidence these advances. These advances accrue interest at a rate of 8% per quarter and the advances have no specified repayment terms.

#### Independence of Board Members

The Company has adopted the NASDAQ Listing Rules; Rule 5605 and 5605 (a) (2), for determining the independence of its directors. Directors are deemed independent only if the Board affirmatively determines that the director has no material relationship with the Company directly or as an officer, share owner or partner of an entity that has a relationship with the Company or any other relationship which, in the opinion of the Board, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director.

#### ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

##### Audit Fees

The aggregate fees billed for the fiscal years ended October 31, 2012 and 2011 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, 2012 and 2011, our current auditors, Louis Plung & Company billed the Company \$18,000 for professional services, respectively.

##### Audit Related Fees

None.

Tax Fees

None.

All Other Fees

None.

- 26 -

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]**
10.2	Authorization dated April 1, 2008 by and between Jordan Outdoor Enterprises, Ltd and Innovative Designs, Inc.***
10.3	License Agreement effective May 30, 2005 by and between HAAS outdoors, Inc. and Innovative Designs, Inc.***
10.4	Loan Authorization Agreement, dated July 12, 2005 between the U. S. Small Business Administration and Innovative Designs, Inc.***
10.6	Motor Vehicle Installment Sale Contract dated September 26, 2005.***
10.8	Agreement by and between Innovative Designs, Inc. and James Kearney, dated July 28, 2004.***
10.9	Note Agreement between Roberta Riccelli and Innovative Designs, Inc., dated February 17, 2012, principle amount \$8,000.
10.10	Note Agreement between Sol & Tina Waxman Family Foundation and Innovative Designs, Inc., dated May 2, 2012, principle amount \$50,000.*****
10.11	Note Agreement between Joseph Riccelli and Innovative Designs, Inc., dated July 9, 2012, principle amount \$50,000.*****
10.12	Personal Service Agreement dated May 5, 2005, by and between Innovative Designs, Inc. and William Thomas Mass.*****
10.13	Note Agreement between Darryl Zaontz and Innovative Designs, Inc., dated July 12, 2012, principle amount \$27,000.*****
10.14	Note Agreement between Hilary Ackermann and Innovative Designs, Inc., dated July 12, 2012, principle amount \$25,000.*****
10.15	Note Agreement between Aaron Riccelli and Innovative Designs, Inc., dated September 14, 2012, principle amount \$50,000.
23.0	Consent of Independent Registered Public Accounting Firm.
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.*
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Statement of Operations for the years ended October 31, 2011 and 2010, (ii) the Balance Sheets at October 31, 2011 and 2010, (iii) the Statements of Cash Flows for the years ended October 31, 2011 and 2010 and (iv) the notes to the Financial Statements.

- \* 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
- \*\*\* Previously filed as exhibits to Form 10-K/A filed November 23, 2009
- \*\*\*\*\* Previously filed as exhibits to Form 10-K/A-1 filed January 10, 2010

\*\*\*\*\*

Previously filed as exhibits to Form 10-Q filed on September 14, 2012

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 23, 2013 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 23, 2013 by: /s/ Joseph Riccelli  
Joseph Riccelli  
Chief Executive Officer,  
Chief Financial Officer, Principle  
Accounting Officer, and Chairman  
of the Board of Directors

Date: January 23, 2013 by: /s/ Dean P. Kolocouris  
Dean P. Kolocouris  
Director

Date: by: \*  
Robert D. Monsour  
Director

Date: January 23, 2013 by: /s/ Daniel Rains  
Daniel Rains  
Director



**INNOVATIVE DESIGNS, INC.**

FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT

October 31, 2012 and 2011

- 29 -

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors

Innovative Designs, Inc.

Pittsburgh, Pennsylvania

We have audited the accompanying balance sheets of Innovative Designs, Inc. (a Delaware corporation) as of October 31, 2012 and 2011, and the related statements of operations, stockholders' deficit equity, and cash flows for the fiscal years then ended. 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 auditing 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, assessing the accounting principles used and significant estimates made 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, 2012 and 2011, and the results of its operations, and its cash flows for the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Louis Plung & Company, LLP

Pittsburgh, Pennsylvania

January 23, 2013



**INNOVATIVE DESIGNS, INC.****BALANCE SHEETS**October 31, 2012 and 2011

	2012	2011
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$54,995	\$91,209
Accounts receivable	102,350	191,135
Inventory - net of obsolete inventory reserve of \$65,000 and \$116,439, respectively	623,722	700,931
Deposits on inventory	44,514	37,896
Prepaid insurance	4,360	-
Total current assets	829,941	1,021,171
<b>PROPERTY AND EQUIPMENT - NET</b>	<b>20,448</b>	<b>1,271</b>
<b>TOTAL ASSETS</b>	<b>\$850,389</b>	<b>\$1,022,442</b>
<b>LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$64,455	\$77,979
Current portion of notes payable	91,298	110,178
Accrued interest expense	190,859	104,703
Due to shareholders	266,600	247,100
Loss contingency	190,000	-
Accrued expenses	876	6,470
Total current liabilities	804,088	546,430
Long-term portion of notes payable	347,663	363,160
<b>TOTAL LIABILITIES</b>	<b>1,151,751</b>	<b>909,590</b>
<b>STOCKHOLDERS' (DEFICIT) EQUITY</b>		
Preferred stock, \$0.0001 par value, 100,000,000 shares authorized	-	-
Common stock, \$0.0001 par value, 500,000,000 shares authorized, and 18,935,743 and 18,775,743 issued and outstanding as of October 31, 2012 and 2011, respectively	1,896	1,880
Additional paid-in capital	5,688,645	5,648,161
Accumulated deficit	(5,991,903)	(5,537,189)
Total stockholders' (deficit) equity	(301,362 )	112,852
<b>TOTAL LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY</b>	<b>\$850,389</b>	<b>\$1,022,442</b>

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

- 31 -

**INNOVATIVE DESIGNS, INC.**

## STATEMENTS OF OPERATIONS

For the Fiscal Years Ended October 31, 2012 and 2011

	2012	2011
REVENUES	\$812,761	\$1,039,149
OPERATING EXPENSES		
Cost of sales	320,021	489,344
Selling, general and administrative expenses	635,255	495,907
INCOME FROM OPERATIONS	(142,515 )	53,898
OTHER INCOME (EXPENSE)		
Gain on sale of equipment	-	5,000
Other income	600	11,984
Loss contingency	(190,000 )	-
Interest expense	(122,799 )	(55,816 )
TOTAL OTHER INCOME (EXPENSE)	(312,199 )	(38,832 )
NET (LOSS) INCOME	\$(454,714 )	\$15,066
PER SHARE INFORMATION		
Basic		
Net (Loss) Income Per Common Share	\$(0.012 )	\$0.001
Weighted Average Number of Common Shares Outstanding	18,830,401	18,756,455

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

**INNOVATIVE DESIGNS, INC.**

## STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

For the Fiscal Years Ended October 31, 2012 and 2011

	Common Stock Number of Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Total
Balance at October 31, 2010	18,730,743	\$ 1,875	\$ 5,643,666	\$(5,552,255 )	\$93,286
Shares issued for services	45,000	5	4,495	-	4,500
Net income	-	-	-	15,066	15,066
Balance at October 31, 2011	18,775,743	1,880	5,648,161	(5,537,189 )	112,852
Shares issued for services	160,000	16	40,484	-	40,500
Net loss	-	-	-	(454,714 )	(454,714)
Balance at October 31, 2012	18,935,743	\$ 1,896	\$ 5,688,645	\$(5,991,903 )	\$(301,362)

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

**INNOVATIVE DESIGNS, INC.**

## STATEMENTS OF CASH FLOWS

For the Fiscal Years Ended October 31, 2012 and 2011

	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net (loss) income	\$(454,714)	\$15,066
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Common stock issued for services	40,500	4,500
Depreciation	649	534
Gain on sale of equipment	-	(5,000 )
Provision for inventory reserves	(51,439 )	(9,753 )
Increase (decrease) from changes in:		
Accounts receivable	88,785	(38,928 )
Inventory	128,648	213,309
Deposits on inventory	(6,618 )	(37,896 )
Prepaid insurance	(4,360 )	-
Loss contingency	190,000	-
Accounts payable	(13,524 )	34,468
Accrued expenses	(5,594 )	5,574
Accrued interest expense	86,156	83
Net cash (used in) provided by operating activities	(1,511 )	181,957
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures	(19,826 )	-
Proceeds from sale of equipment	-	5,000
Net cash (used in) provided by investing activities	(19,826 )	5,000
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payments on shareholder advances	(165,500)	(67,264 )
Proceeds from shareholder advances	185,000	-
Payments on related party note	-	(69,636 )
Payments on notes payable	(117,853)	(254,798)
Proceeds from notes payable	83,476	179,000
Net cash used in financing activities	(14,877 )	(212,698)
Net decrease in cash equivalents	(36,214 )	(25,741 )



CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	91,209	116,950
CASH AND CASH EQUIVALENTS, END OF THE YEAR	\$54,995	\$91,209
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$36,643	\$44,422

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

- 34 -

**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, the Russian Federation 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. The fiscal years ending October 31, 2012 and 2011 are referred to as 2012 and 2011, respectively, throughout the Company’s financial statements.

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. 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. During 2012 and 2011, the Company took back certain products from customers that accounted for \$17,778 and \$74,589 in revenue, respectively. The Company was not required to accept these returns but made a business decision to do so.

Fair Value of Financial Instruments - The carrying value of cash and cash equivalents, accounts receivable, accounts payable, and certain other liabilities approximate their estimated fair values due to the short-term nature of these instruments. The fair value of the Company's debt instruments approximates their fair values as the interest is tied to or approximates market rates.

Estimated Uncollectable Accounts - The Company considers all accounts receivable balances to be fully collectable at October 31, 2012 and 2011, accordingly, no allowance for doubtful accounts is provided. During 2012, the Company wrote-off approximately \$3,800 in uncollectable accounts receivable.

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

During the fiscal year ended October 31, 2010, the Company discontinued its hunting and swimming lines of apparel. A reserve balance of approximately \$65,000 and \$116,000 was recorded as of October 31, 2012 and 2011, respectively. The reserve is evaluated on a quarterly basis and adjusted accordingly.

Property and Equipment - Property and equipment are stated at cost. Expenditures for maintenance and repairs are charged to income as incurred. Additions, improvements and major replacements are capitalized. The cost and accumulated depreciation related to assets sold or retired are removed from the accounts and any gain or loss is credited or charged to income.

For financial reporting purposes, depreciation is primarily provided on the straight-line method over the estimated useful lives of depreciable assets, which range from 5 to 7 years.

Impairment of Long-lived Assets - Management of the Company considers the valuation and depreciation of property and equipment. Management considers both the current and future levels of undiscounted cash flow generated by the Company and the continuing value of property and equipment to determine when and if an impairment has occurred. Any write-downs due to impairment are charged to operations at the time the impairment is identified. No such write-downs due to impairment have been recorded in 2012 and 2011.

Income Taxes - The Company accounts for income taxes in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 740 "*Income Taxes*", which requires an asset and liability approach for financial reporting purposes. Deferred income taxes are provided for differences between the tax bases of assets and liabilities and the financial reporting amounts at the end of the period, and for net operating loss and tax credit carryforwards available to offset future taxable income. Changes in enacted tax rates or laws result in adjustments to recorded deferred tax assets and liabilities in the periods in which the tax laws are enacted or tax rates are changed.

In addition, ASC 740 clarifies the accounting for uncertainty in tax positions and requires that a company recognize in its financial statements the impact of a tax position, only if it is more likely than not of being sustained upon examination, based on the technical merits of the position. The Company recognized no material adjustments to the liability for unrecognized income tax benefits.

The Company's policy regarding the classification of interest and penalties recognized in accordance with ASC 740 is to classify them as income tax expense in its financial statements, if applicable.

The Company is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Company believes it is no longer subject to income tax examinations for years up to and including the year ended October 31, 2009.

Freight Costs - Freight costs associated with acquiring inventories are charged to cost of goods sold when incurred. Freight costs for delivering products to customers are included in revenues from sales at the time the goods are shipped.

Net Income Per Common Share - The Company calculates net income per share in accordance with ASC Topic 260 "*Earnings per Share*". Basic earnings per share are calculated by dividing net income by the weighted average number of common shares outstanding for the period. The Company only has common stock outstanding for 2012 and 2011. As a result, diluted earnings per share was not calculated.

**INNOVATIVE DESIGNS, INC.**NOTES TO FINANCIAL STATEMENTS

Stock-Based Compensation - The Company accounts for stock based compensation in accordance with ASC Topic 718 “*Compensation - Stock Compensation*”. In accordance with the provisions of ASC 718 share-based payment transactions with employees are measured based on the fair value of the equity instruments issued on the grant date or on the fair value of the liabilities incurred. Share-based payments to nonemployees are measured and recognized using the fair-value method, based on the fair value of the equity instruments issued or the fair value of goods or services received, whichever is more reliably measured.

New Accounting Pronouncements - During 2012 and 2011, the FASB issued various Accounting Standards Updates (“ASUs”). Based on management’s review, it was determined that the ASUs will have no material effect on the Company’s financial statements. As new ASUs are issued, management will evaluate their impact on the Company. Any future impact will be included in the notes to the Company’s financial statements.

2.

PROPERTY AND EQUIPMENT

Property and equipment are summarized by major classifications as follows:

	2012	2011
Equipment	\$28,987	\$17,002
Furniture and fixtures	11,092	11,092
Leasehold improvements	4,806	4,806
Automobile	7,841	-
	52,726	32,900
Less accumulated depreciation	32,278	31,629
Property and equipment - net	\$20,448	\$1,271

Depreciation expense for the years ended October 31, 2012 and 2011 was \$649 and \$534, respectively.

During the fiscal year ended October 31, 2011, the Company received \$5,000 relating to the sale of fully depreciated fixed assets, which was presented as a gain on sale within the 2011 statement of operations.

- 37 -

**INNOVATIVE DESIGNS, INC.**NOTES TO FINANCIAL STATEMENTS**3. BORROWINGS**

Borrowings at October 31, 2012 and 2011 consisted of the following:

	2012	2011
Due to Shareholders		
Note Payable - Joseph Riccelli Interest is 8% per quarter with no payment terms.	\$84,100	\$ 142,100
Note Payable \$100,000 - James Kearney, September 2005. Interest of \$8,000 per quarter was charged from October 2005 through October 2008; principal and interest due and payable in full at any time after December 10, 2005.	12,500	25,000
Note Payable \$10,000 - Frank Riccelli, July 2011. Due December 20, 2011; payable on demand; interest is 10% for 120 days. Note was extended through a verbal agreement.	10,000	10,000
Note Payable \$5,000 - Dr. John Bailliet, September 2011. Due December 7, 2011; payable on demand; interest is 10% for 90 days. This note was paid in full during the current year.	-	5,000
Note Payable \$50,000 - Sol & Tina Waxman Family Foundation. Due December 31, 2011; payable on demand; interest is 10% for 120 days. This note was paid in full during the current year.	-	50,000
Note Payable \$15,000 - Darryl Zaontz, September 2011. Due January 7, 2012; payable on demand; interest is 10% for 120 days. This note was paid in full during the current year.	-	15,000
Note Payable \$8,000 - Roberta Riccelli, February 2012. Due June 17, 2012; interest is 10% for 120 days.	8,000	-
Note Payable \$100,000 - Sol & Tina Waxman Family Foundation, May 2012. Due December 20, 2012; payable on demand; interest is 10%.	75,000	-



Subtotal

\$189,600 \$247,100

- 38 -

**INNOVATIVE DESIGNS, INC.**NOTES TO FINANCIAL STATEMENTS

	2012	2011
Subtotal from Page 39	\$ 189,600	\$ 247,100
Note Payable \$50,000 - Joseph Riccelli, July 2012. Due January 9, 2013; interest is 10% for 120 days.	50,000	-
Note Payable \$27,000 - Darryl Zaontz, July 2012. Due January 31, 2013; payable on demand; interest is 10% for 6 months.	27,000	-
Total Due to Shareholders	\$ 266,600	\$ 247,100
Notes Payable		
Note Payable - U.S. Small Business Administration. Due July 2035; payable in monthly installments of \$1,820 including interest at 2.9% annum.	\$ 362,076	\$ 374,338
Note Payable \$20,000 - Corinthian Development, LLC. Due November 15, 2011; payable on demand; interest is 10% for 120 days. This note was paid in full during the current year.	-	20,000
Note Payable \$34,000 - Xunjin Hua, August 2011. Due December 20, 2011; payable on demand; interest is 10% for 120 days. This note was paid in full during the current year.	-	34,000
Note Payable \$20,000 - Aaron Riccelli, September 2011. Due January 10, 2012; payable on demand; interest is 10% for 120 days. This note was paid in full during the current year.	-	20,000
Note Payable \$25,000 - Janet Thomas, October 2011. Due January 22, 2012; payable on demand; interest is 10% for 90 days. This note was paid in full during the current year.	-	25,000
Subtotal	\$ 362,076	\$ 473,338

**INNOVATIVE DESIGNS, INC.**NOTES TO FINANCIAL STATEMENTS

	2012	2011
Subtotal from Page 40	\$362,076	\$473,338
Note Payable \$8,477 - Prime Rate Premium Finance Corporation, March 2012. Monthly payments of \$992 due beginning April 10, 2012, including interest at 12.5%.	1,885	-
Note Payable \$25,000 - Hilary Ackermann, July 2012. Due January 31, 2013; payable on demand; interest is 10% for 6 months.	25,000	-
Note Payable \$50,000 - Aaron Riccelli, September 2012. Due January 14, 2013; payable on demand; interest is 10% for 120 days.	50,000	-
Total Notes Payable	\$438,961	\$473,338
Total Borrowings	705,561	720,438
Less Due to Shareholders	266,600	247,100
Less Current Portion of Notes Payable	91,298	110,178
Total Long Term Portion of Notes Payable	\$347,663	\$363,160

Maturities of long-term debt are as follows:

Year Ending	Amount
October 31	Due
2013	\$354,951
2014	11,803
2015	12,150
2016	12,481
2017	12,874

Thereafter 301,302

Total \$705,561

**INNOVATIVE DESIGNS, INC.**

**NOTES TO FINANCIAL STATEMENTS**

THE COMPANY HAS RECEIVED VARIOUS ADVANCES FROM JOSEPH RICCELLI WHICH HAVE BEEN USED TO FuND OPERATIONS. THESE advances TOTALED \$84,100 AS OF OCTOBER 31, 2012. EFFECTIVE NOVEMBER 1, 2011, MANAGEMENT AUTHORIZED ACCRUED INTEREST TO BE APPLIED ON ALL ADVANCES MADE BY JOSEPH RICCELLI SINCE INCEPTION. THIS RESULTED IN INTEREST EXPENSE OF APPROXIMATELY \$77,000.

In September 2005, the Company entered into 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. Interest of \$8,000 per quarter was charged from October 2005 through October 2008. Interest accrued and due on this note was \$92,000 as of October 31, 2012. The principal and interest are due and payable in full at any time after December 10, 2005. The principal balance as of October 31, 2012 and 2011 was \$12,500 and \$25,000, respectively.

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 of \$1,186 began five months from the date of the promissory note. The note is 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 was 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 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, of \$1,820 are due each month beginning February 13, 2006. All remaining principal and accrued interest are due and payable on July 13, 2035. The loan balance was \$362,076 and \$374,338 at October 31, 2012 and 2011, respectively.

In July 2011, the Company entered into a note payable with Corinthian Development, LLC for \$20,000. This loan was to be used to fund operations of the Company. This loan is due on demand, including interest at 10% for 120 days. This note was paid in full during the current year.

In July 2011, the Company entered into a note payable with Frank Riccelli for \$10,000. This loan was to be used to fund operations of the Company. This loan is due on demand, including interest at 10% for 120 days. This note was extended through a verbal agreement. The loan balance at October 31, 2012 was \$10,000.

In August 2011, the Company entered into a note payable with Xunjin Hua for \$34,000. This loan was to be used to fund operations of the Company. This loan is due on demand, including interest at 10% for 120 days. This note was paid in full during the current year.

In June 2011, the Company entered into a note payable with the Sol & Tina Waxman Family Foundation for \$50,000. This loan was to be used to fund operations of the Company. This loan is due on demand, including interest at 10% for 180 days. The Company has pledged 250,000 shares of its stock, as collateral. This note is also personally guaranteed by the Company's president. This note was paid in full during the current year.

In September 2011, the Company entered into a note payable with Dr. John Bailliet for \$5,000. This loan was to be used to fund operations of the Company. This loan is due on demand, including interest at 10% for 90 days. This note was paid in full during the current year.

**INNOVATIVE DESIGNS, INC.**

NOTES TO FINANCIAL STATEMENTS

In September 2011, the Company entered into a note payable with Darryl Zaontz for \$15,000. This loan was to be used to fund operations of the Company. This loan is due on demand, including interest at 10% for 120 days. This note was paid in full during the current year.

In September 2011, the Company entered into a note payable with Aaron Riccelli for \$20,000. This loan was to be used to fund operations of the Company. This loan is due on demand, including interest at 10% for 120 days. This note was paid in full during the current year.

In October 2011, the Company entered into a note payable with Janet Thomas for \$25,000. This loan was to be used to fund operations of the Company. This loan is due on demand, including interest at 10% for 90 days. This note was paid in full during the current year.

In February 2012, the Company entered into a note payable with Roberta Riccelli for \$8,000. This loan was to be used to fund operations of the Company. This loan is due on demand, including interest at 10% for 120 days. The loan balance at October 31, 2012 was \$8,000.

In March 2012, the Company entered into a note payable with Prime Rate Premium Finance for \$8,477. This loan was to be used to finance insurance premiums of the Company. Monthly payments of \$992 were due beginning April 10, 2012, including interest at 12.5%. The loan balance at October 31, 2012 was \$1,885.

In May 2012, the Company entered into a note payable with the Sol & Tina Waxman Family Foundation for \$100,000. This loan was to be used to fund operations of the Company. This loan is due on demand, including interest at 10% for 180 days. The Company has pledged 250,000 shares of its stock, as collateral. This note is also personally guaranteed by the Company's president. The loan balance at October 31, 2012 was \$75,000.

In July 2012, the Company entered into a note payable with its president, Joseph Riccelli for \$50,000. This loan was to be used to fund operations of the Company. This loan is due on demand, including interest at 10% for 120 days. The loan balance at October 31, 2012 was \$50,000.

In July 2012, the Company entered into a note payable with Darryl Zaontz for \$27,000. This loan was to be used to fund operations of the Company. This loan is due on demand, including interest at 10% for 180 days. The loan balance at October 31, 2012 was \$27,000.

In July 2012, the Company entered into a note payable with Hilary Ackermann for \$25,000. This loan was to be used to fund operations of the Company. This loan is due on demand, including interest at 10% for 120 days. The loan balance at October 31, 2012 was \$25,000.

In September 2012, the Company entered into a note payable with Aaron Riccelli for \$50,000. This loan was to be used to fund operations of the Company. This loan is due on demand, including interest at 10% for 120 days. The loan balance at October 31, 2012 was \$50,000.

- 42 -



**INNOVATIVE DESIGNS, INC.**

NOTES TO FINANCIAL STATEMENTS

4. 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.

5. CONCENTRATIONS

The Company has one customer that accounted for approximately 12% of the Company’s revenues for the years ended October 31, 2012 and 2011, respectively. In addition, there was another customer that accounted for approximately 11% of the Company’s revenues for the year ended October 31, 2012. The Company had one customer that accounted for approximately 6% of the Company’s revenue for year ended October 31, 2012.

Accounts receivable from one customer was approximately 14% of the Company’s accounts receivable as of October 31, 2012. Two different customers accounted for approximately 18% and 12% of the Company’s October 31, 2011 accounts receivable balance.

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, and one manufacturer that produces house wrap on behalf of the Company.



**INNOVATIVE DESIGNS, INC.**NOTES TO FINANCIAL STATEMENTS

6.

INCOME TAXES

In prior years the Company incurred net operating losses and, accordingly, no provision for income taxes has been recorded. In addition, no benefit for income taxes has been recorded due to the uncertainty of the realization of any tax assets. For the 2011 tax year, fiscal year end October 31, 2012, the Company had net operating loss carryforwards of approximately \$2,566,000 for tax purposes. The carryforwards are available to offset taxable income of future periods and begin to expire after the Company's 2024 tax year, fiscal year end October 31, 2025. Realization of the deferred tax benefit related to the carryforward is dependent upon the Company generating sufficient taxable income in the future, against which the loss can be offset, which is not guaranteed.

Deferred income taxes reflect the net tax effect of temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, as well as tax benefits of net operating loss carryforwards. The significant components of the Company's deferred tax assets and liabilities relate to the following:

	2012	2011
Net operating loss carryforward	\$872,600	\$879,400
Depreciation	(200 )	(200 )
Net deferred tax assets before valuation allowance	872,400	879,200
Less: Valuation allowance	(872,400)	(879,200)
Net deferred tax assets	\$-	\$-

For financial reporting purposes, the Company has incurred losses in previous years. Based on the available objective evidence, including the Company's previous losses, management believes it is more likely than not that the net deferred tax assets will not be fully realizable. Accordingly, the Company provided for a full valuation allowance against its net deferred tax assets as of October 31, 2012 and 2011, respectively.

The effective income tax rate varied from the statutory Federal tax rate as follows:

	2012	2011
Federal statutory rate	34 %	34 %
Effect of net operating losses	(34 )%	(34 )%
Effective income tax rate	-	-

The Company's effective tax rate is lower than what would be expected if the federal statutory rate were applied to income (loss) before taxes, primarily due to net operating loss carryforwards.

- 44 -

**INNOVATIVE DESIGNS, INC.**NOTES TO FINANCIAL STATEMENTS7. COMMITMENTS

The Company currently maintains two locations which are leased pursuant to oral agreements on a month-to-month basis. The Company leases our executive offices from Riccelli Properties, which is solely owned by our Chief Executive Officer, Joseph Riccelli, Sr., for \$700 per month. The Company leases warehouse space from the Frank Riccelli, a stockholder and brother of our Chief Executive Officer, for \$3,500 per month. For the years ended October 31, 2012 and 2011, rent expense totaled approximately \$50,400 and \$46,200, respectively.

8. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

2012	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Revenue	\$551,771	\$45,471	\$7,165	\$208,354	\$812,761
Income/(loss) from operations	129,715	(169,474 )	(79,941 )	(22,815 )	(142,515 )
Net income (loss)	\$108,019	\$(183,929 )	\$(97,283 )	\$(281,521 )	\$(454,714 )
Weighted average shares outstanding	18,775,743	18,783,132	18,843,352	18,918,352	18,830,401
Basic income/(loss) per share	0.006	(0.010 )	(0.005 )	(0.015 )	(0.024 )

**INNOVATIVE DESIGNS, INC.**NOTES TO FINANCIAL STATEMENTS

2011	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Revenue	\$681,009	\$34,161	\$38,961	\$285,018	\$1,039,149
Income/(loss) from operations	222,341	(104,034 )	(65,905 )	37,496	53,898
Net income (loss)	\$199,940	\$(149,651 )	\$(67,628 )	\$32,405	\$15,066
Weighted average shares outstanding	18,730,743	18,743,159	18,775,743	18,755,743	18,756,455
Basic income/(loss) per share	0.011	(0.008 )	(0.004 )	0.002	0.001

9. COMMON STOCK

On April 16, 2011, the Company issued 25,000 shares of its common stock for professional services for \$.10 per share or \$2,500. The negotiated value was divided by the approximate trading value of the Company's common stock and 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.

**INNOVATIVE DESIGNS, INC.**

NOTES TO FINANCIAL STATEMENTS

On April 17, 2011, the Company issued 20,000 shares of its common stock for professional services for \$.10 per share or \$2,000. The negotiated value was divided by the approximate trading value of the Company's common stock and 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.

On April 12, 2012, the Company issued 35,000 shares of its common stock for professional services for \$.30 per share or \$10,500. The negotiated value was divided by the approximate trading value of the Company's common stock and 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.

On July 2, 2012, the Company issued 100,000 shares of its common stock for professional services for \$.25 per share or \$25,000. The negotiated value was divided by the approximate trading value of the Company's common stock and 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.

On October 4, 2012, the Company issued 25,000 shares of its common stock for professional services for \$.20 per share or \$5,000. The negotiated value was divided by the approximate trading value of the Company's common stock and 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.

10. Related Party Transactions

The Company has entered into various debt agreements with related parties. These agreements are classified as shareholder loans within Note 3 to the financial statements.

The Company has entered into 2 verbal lease agreements as further discussed in Note 7 to the financial statements.

#### 11. SUBSEQUENT EVENTS

In accordance with ASC Topic 855, “*Subsequent Events*”, the Company evaluated subsequent events through January 23, 2013, the date these financial statements were available to be issued. During such evaluation no subsequent events were identified except those discussed below.

On January 15, 2013, the Company received a short-term advance of \$20,000 from a shareholder. Interest is at 10% for 4 months.

Subsequent to October 31, 2012, the Company was named as a defendant in a claim asserting libel, slander, and torturous interference. The Company did not respond in a timely manner to the summons & complaint in the Minnesota action, and as a result a default judgment hearing is scheduled during February 2013. The Company has filed a motion for an extension to respond to the summons. Additionally, the Company has recorded a contingent liability of approximately \$190,000 related to the default judgment.



Page Intentionally Left Blank