

INNOVATIVE DESIGNS INC
Form 10-K/A
January 11, 2010

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

FORM 10-K/A-1

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

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

Commission file number: 000-51791

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

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

(Zip Code)

15215

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
 Yes No

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

Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities and Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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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 \$543,137.

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

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

Transitional Small Business Disclosure Format: Yes No

EXPLANATORY NOTE

Innovative Designs, Inc. (the “Company”) is filing this Amendment No. 2 on Form 10-K to amend our Annual Report on Form 10-K for the fiscal year ended October 31, 2008 which was filed with the US Securities and Exchange commission (the “SEC”) on January 29, 2009. (the “Original Filing”).

The purpose of this Amendment No.2 is to respond to certain comments received from the staff of the SEC. The following sections of the Original Filing have been revised to reflect the staff’s comments:

- Cover Page
- Recent Sales of Unregistered Securities
- Management’s Discussion and Analysis of Financial Condition and Results of Operations
- Controls and Procedures Directors, Executive Officers and Corporate Governance
- Executive Compensation Security Ownership of Certain Beneficial Owners and management, and Director Independence
- Certain Relationships and Related Transactions
- Exhibits and Financial Statement Schedules Signatures
- Financial Statements
- Section 302 Certifications

This Amendment No.2 does not reflect events that that occurred after the filing of the Original Filing and does not modify or update the disclosure therein in any way other than as required to reflect the matters set forth above. Accordingly, this Amendment No.2 should be read along with our other filings made with the SEC.

ITEM 1. DESCRIPTION OF BUSINESS.

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

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

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

We offer the following products containing INSULTEX:

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

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

The INSULTEX License and Manufacturing Agreement

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

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

The Haas Agreement

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

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

The Jordan Agreement.

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

Swimeez Product

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

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

Hunting Line

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

- Hunting enthusiasts; and
- Professional hunters.

Arctic Armor Line

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

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

House Wrap

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

Website and Retailers

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

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

Sales

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

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

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

We distribute our products to the following:

Swimeez Products

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

Hunting Apparel Line

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

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

Arctic Armor Line

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

Our marketing program consists of the following:

MARKETING COMPONENT

Webside Development and Internet Marketing

We contract with marketing consultants to:

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

Sales Representatives

Our vice president of sales and marketing works to:

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

Contract with Manufacturer

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

Public Relations Campaign

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

Design and Develop

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

Establish Wholesale

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

Develop Trade Show Booth

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

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

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

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

All of our products are sub-manufactured by PT Lidya and Natalia located in Indonesia. Indonesia does not impose quotas that limit the time period or quantity of items which can be imported. The United States Customs Service imposes a 9% importation duty on all finished goods, based upon our completed stadium packs. All other products are 6.5% including INSULTEX.

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

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

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

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

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

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

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

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

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

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

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

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

Issue	Test Result	
Fabric Weight	0.042 oz./square yard	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 ² of material (Good)	Low
Moisture Permeability (protection from water)	5 grams/sq. meter/24 hrs. (Good)	Low

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

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

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

Federal Trade Commission

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

United States Customs Service

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

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

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

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

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

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

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

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.

ITEM 1A RISK FACTORS.

Competition

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

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

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

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

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

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

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

- Ice Clam Corporation
- Vexilar
- Mustang Survival

We compete in the following ways:

A. Emphasize the Advantages of our Products.

Floating Swimwear Products

We emphasize the following characteristics of our swimeez swimsuit product:

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

Hunting Line

We emphasize the follow