

INNOVATIVE DESIGNS INC  
Form 10KSB  
January 31, 2006

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-KSB

(I)

Annual report under section 13 or 15(d) of the Securities Act of 1934.

For the fiscal year ended October 31, 2005

( )

Transition report under section 13 or 15(d) of the Securities Act of 1934.

For the Transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number:

333-103746

Innovative Designs, Inc.

(Exact name of registrant as specified in its charter)

Delaware

03-0465528

(State or other jurisdiction of

(I.R.S. Employer

incorporation or organization)

Identification Number)

223 North Main Street, Suite 1

Pittsburgh, Pennsylvania 15215

(Address and zip code of principal executive offices)

(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:

\_\_\_\_\_

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

\_\_\_\_\_

Check if no disclosure of delinquent filers to Item 405 of Regulation S-B is contained in this form, and no disclosure will 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-KSB or any amendment to this Form 10-KSB. X

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

Yes

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No

X

The issuer's revenues for its most recent fiscal year were \$312,486.

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 \$7,645,913 as of January 13, 2006.

The number of shares of the issuer's common stock outstanding, as of January 13, 2006 was 17,781,193.

Transitional Small Business Disclosure Format:

Yes

\_\_\_\_\_

No

X

## PART I

[Items 6 - 12 of Model B of Form 1-A]

### ITEM 6.

#### DESCRIPTION OF BUSINESS.

We are a development stage company. Incorporated in the State of Delaware on June 25, 2002, we market recreational products that are made from eliotex, a material with buoyancy and thermal resistant properties. Since our formation and as more fully explained throughout this Form 10-KSB, we have devoted our efforts to:

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Formulating and developing our business plan;

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Raising capital through a private placement of our stock;

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Developing our marketing plan;

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Developing our web site;

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Negotiating and completing our sublicense agreement with RMF Global;

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Completing the development, design, and prototypes of certain products;

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Obtaining retail stores to offer and sell our products; and

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Executing an agreement with a manufacturers representative group to sell our products to retail chains.

RMF Global, Inc. was incorporated on April 1, 1999 in the State of Pennsylvania and is owned and controlled solely by our Chief Executive Officer, Joseph Riccelli. On March 2, 2003, RMF Global entered into a written license agreement with Ko-Myung Kim for the exclusive distribution rights to eliotex in the United States, Canada, Mexico, India, the United Kingdom and Turkey. Mr. Kim owns the patent to the process to make the eliotex material. On November 25, 2002, we entered into a written sublicense agreement with RMF Global for the exclusive rights to produce and distribute three products made with eliotex, which RMF Global developed, and to use eliotex in products that we develop. We plan to market our products containing eliotex, three of which were developed by RMF Global under the label "i.d.i.gear".

We have never been the subject of any bankruptcy or receivership action. We have had no material reclassification, merger, consolidation, purchase, or sale of a significant amount of assets outside the ordinary course of business.

We currently have no plans to seek a merger, acquisition, or business reorganization or to otherwise enter into a business combination with another entity.

The only exclusive distribution rights we have are derived from our November 25, 2002 written sublicense agreement with RMF Global, an affiliated entity, to: (a) produce and distribute sleeping bags, Swimeez, and stadium pack products containing eliotex, which RMF Global developed; and (b) to use eliotex in products which we produce and develop.

We currently have no distribution rights, exclusive or otherwise, to be a distributor of eliotex; however, RMF Global, does have exclusive distribution rights to distribute eliotex in the United States, Canada, Mexico, Indonesia, the United Kingdom and Turkey, in accordance with the March 2, 2003 written license agreement with Mr. Kim which is

described in more detail on pages 4. As such, we purchase eliotex from RMF Global to be used in the manufacturing of our products. Similarly, other companies are free to purchase eliotex from RMF Global, assuming

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that it is a company within the distribution jurisdiction that RMF Global covers. RMF Global is the supplier/distributor of the raw material "eliotex" and does not currently have any future plans to directly manufacture finished goods containing "eliotex."

We offer the following three products containing eliotex which were developed by RMF Global:

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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 eliotex, which enhances floatability.

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Sleeping Bag Products: Our sleeping bag products, available in both rectangular and mummy styles, are water resistant, windproof and weigh less than 2 pounds each. The eliotex insulation enables our sleeping bags to have a temperature rating of 15 degrees to 20 degrees Fahrenheit.

•

Stadium Pack: The use of eliotex in this product provides protection from weather conditions such as rain and cold. By altering the configuration of the folds and zippers, the product can be used as a:

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Stadium seat cushion or pillow;

•

Thermal rain parka with a zip-out hood;

•

Sleeping Bag;

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Flotation Raft; and

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Double Comforter.

We use eliotex to provide protection from harsh weather conditions in the following products which we developed:

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Windshirts: Our windshirts are available in only one style and in five colors: grey, navy, red, black, and khaki.

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Jackets: Our jackets are available in only one style and in five colors: grey, navy, red, black, and khaki.

•

Hunting Apparel Line: Our hunting apparel provides almost total block from odors provided by the eliotex material. We have sent for a trade mark application for use of the name Scent Barrier on September 26, 2005, which we have not received at the date of the filing of the 10-KSB. The Hunting Apparel Line is being endorsed by Bill Maas, former all pro National Football League football player and Fox Sports Analyst.

•

Fishing Apparel Line: We plan to introduce a full line of fishing apparel featuring eliotex, which will be endorsed by professional fisherman, Jose Wejebe, under the name Jose Wejebe Spanish Fly Fishing Apparel.

Products in Development Stage

In December 2003, we completed the design, prototype, and testing of certain hunting line apparel and accessories, which we are in the development stage of introducing into our existing "i.d.i.gear" line. These products utilize the



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Mossy Oak / Haas Outdoors, Inc. camouflage fabric and our eliotex fabric and are intended for the hunting outdoor apparel industry. The apparel products in this development stage are:

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- six pocket pants which are styled similar to cargo pants;
- 1/2 zip pullover jacket with collar;
- parka jacket;
- fleece jacket;
- guide series shirt, which is similar in style to a button down collar long sleeved oxford style shirt;
- bib coveralls in light weight; and
- bib coveralls in arctic weight which contains two layers of eliotex.

Our hunting apparel line is being endorsed by Bill Maas, and we are in the development stage of introducing a full line of fishing apparel as discussed above.

These prototypes were manufactured at the 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 were 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.

From February 2001 and until approximately January of 2002, RMF Global searched for sources of eliotex and eventually located Mr. Kim, a citizen of Korea. RMF Global entered into a verbal agreement with Mr. Kim in June of 2002. From approximately June 2002 until March 2, 2003, RMF Global, our sublicensor, purchased eliotex on an as needed basis from Mr. Kim, in accordance with a verbal agreement. The same terms of the verbal agreement were set forth in a written agreement on March 2, 2003. On March 2, 2003, RMF Global entered into a written agreement with

Mr. Kim, whereby Mr. Kim granted RMF Global the exclusive, unlimited, irrevocable right and license, with the right to grant sublicenses to third parties, to purchase, use, develop, commercialize, market, have marketed, sell and have sold, manufacture and have manufactured products related to or utilizing eliotex whether present or future for all countries in the world other than Korea and Japan. Under the terms of the agreement Mr. Kim agreed to promptly deliver to RMF Global within twenty-eight (28) days of receiving an order from RMF Global, all eliotex ordered by RMF Global. Under the terms of the agreement, RMF Global is required to pay a fixed amount per meter of eliotex. This fixed amount will not change under the agreement for a period of ten (10) years after the date of the agreement was signed. The agreement provides that after the ten (10) year period, the price of the eliotex shall be adjusted for a subsequent ten (10) year term, no more than twelve percent (12%) per the subsequent ten (10) year period. RMF Global shall order eliotex from Mr. Kim from time to time as needed and shall not be required to purchase any minimum amount of eliotex during the term of this agreement, and RMF Global is not required to make any minimum annual payment to Mr. Kim. However, should RMF Global place an order, any quantity ordered must be a minimum of 55,000 meters of eliotex. RMF Global is not required to pay to Mr. Kim any part of any sublicense fee that RMF Global receives from third party sublicensees, and RMF Global shall not pay any fees to Mr. Kim. This agreement will be in full legal force and effect for an initial term of ten (10) years from the date of its execution. RMF Global will have the option to renew this agreement for up to four (4) successive terms of ten (10) years each by giving notice to Mr. Kim of its intention to so renew not less than ninety (90) days prior to the expiration of the then-current term.

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On November 25, 2002, we entered into a licensing agreement with RMF Global. The terms of this agreement provide that RMF Global: (a) grants us an exclusive sublicense to manufacture and market RMF Global's three product lines, which are floating swimwear, sleeping bags and stadium packs; (b) is required to provide us with eliutex to adequately and timely meet our needs; and (c) will sell eliutex to us at a price equal to the lowest price it charges any of its other customers. In addition, the agreement requires that Joseph A. Riccelli oversee raw material ordering, receiving and warehousing, sub-manufacturing, warehousing and shipping of our products. The agreement is for a term of ten years and we shall have the option to renew the agreement for four subsequent terms of ten years each.

Under the agreement, we must pay RMF Global \$1,250,000 for the grant of the sublicense, consisting of a \$50,000 down payment, which was paid. Due to cash flow problems experienced by the Company, on January 31, 2005, the holder of the note payable, RMF - Global, Inc. agreed to accept 1,909,098 shares of the Company's \$.0001 par value common stock in settlement of \$763,639 of the Company's obligation. We still have \$200,000 outstanding of a note payable - related party as of the filing date of the Form 10-KSB.

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 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 or New BreakUp. The term of the agreement is two years from the effective date of the agreement, May 30, 2003. During 2005, the Company extended the terms of this agreement with Haas Outdoors. 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.

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.

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## Sleeping Bags

Our sleeping bag products are intended for use by the following groups that are in the Company's target market for these products:

- Outdoor enthusiasts, such as hikers, climbers, mountain bikers and kayakers;
- Campers;
- Boy Scouts and Girl Scouts;
- Motorcyclists; and
- Hunters and Fishermen.

## Stadium Pack

Our stadium pack products are intended for use by the following groups that are in the Company's target market for these products:

- Colleges;
- Child/Amateur sport organizations; and
- Hunting/Fishing enthusiasts.

### Windshirts

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

- Golf club pro shops;
- Golf tournament organizers;
- Corporate promotional organizations; and
- Sporting organizations and teams.

### Jackets

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

- Colleges;
- Sporting teams; and
- Corporations.

### 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

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Professional hunters.

### Fishing Line

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

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Professional fisherman; and

- 

Fishing enthusiasts.

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Website and Retailers

We sell both wholesale and retail products on our website. Our website, located at [www.idigear.com](http://www.idigear.com), became operational in October 2002 and contains information on our products, technical information on eliotex 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 recalls. The web site is hosted by Nidhog Hosting. The secure payment gateway provider for our online e-commerce is SkipJack Financial Services.

The following retailers purchase our products at wholesale prices which they plan to sell at their retail prices:

- Woodlands Outdoor World, a retail store, located in Farmington, Pennsylvania, sells our sleeping bag and our windshirt products;
- Nemacolin Woodlands Resort and Spa's retail store located in Farmington, Pennsylvania, sells our windshirt product; their online catalogue at [www.nemacolin.com](http://www.nemacolin.com) offers our i.d.i.gear products;
- Dick Sporting Goods, a Pittsburgh-based retail chain, carries the Bill Maas Hunting Apparel Line;
- Dunham's Sports, headquartered in Waterford, Michigan, carries the Bill Maas Hunting Apparel Line in the states of Pennsylvania, Ohio, Delaware, Michigan, and Wisconsin;
- Sportsman's Warehouse, headquartered in Midvale, Utah, carries the Bill Maas Hunting Line in stores across the contiguous United States as well as Alaska;
- Kittery Trading Post, located in Kittery, Maine, has submitted a purchase order to carry the Bill Maas Hunting Line in 2006;
- Vern's Archery, located in Silverton, Oregon, carries the Bill Maas Hunting Line;

- Andrew s Archery, located in Frackville, Pennsylvania, carries the Bill Maas Hunting Line;
- M & M Sportshop, located in New Lisbon, Wisconsin, carries the Bill Maas Hunting Line;
- H-B Sportsman s Club, located in Elmira, New York, carries the Bill Maas Hunting Line;
- Gibson s Discount Store, located in Kerrville, Texas, carries the Bill Maas Hunting Line;
- Gassman s Archery, located in San Antonio, Texas, carries the Bill Maas Hunting Line;
- Sierra Trading Post, located in Cheyenne, Wyoming, carries our sleeping bags and All-In-Ones;
- Pennington Seed, located in Greenfield, Missouri, carries our stadium pack;
- Bob's Army and Navy Store located in Clearfield, Pennsylvania retails our sleeping bags and stadium packs; and
- the following retailers retail our sleeping bags: (a) Hunters Headquarters located in Sunbury, Ohio; (b) Sportmens Den located in Shelby, Ohio; (c) Fin, Feather, Fur Outfitters located in Ashland, Ohio; (d) Buckeye Outdoors, Inc. located in Hebron, Ohio; and (e) Southern Ohio Trading located in Nelsonville, Ohio.

We have no verbal or written agreement with these retailers and we currently have no intention of entering into any such agreement. These retailers purchase our products from us strictly on a purchase order basis.

In November 2002, we entered into a verbal agreement with Havel-Giarusso and Associates, a manufacturer representative located in Big Lake, Minnesota, to be the manufacturer representative of our products.



Havel-Giarusso and Associates determined that there would be a conflict of interest with their other clients if they became the manufacturer representative of our products. Therefore, Innovative Designs and Havel-Giarusso mutually agreed to terminate the verbal agreement in April 2004.

In March 2004, we entered into a formalized agreement for the manufacture representation services of Evernham & Anderson Associates, Inc. Evernham & Anderson Associates, Inc. is an Indianapolis, Indiana based company which maintains a reputable presence in the hunting industry through client/buyer contacts. They sell primarily to a customer base consisting of dealers, distributors, mass merchants, and buying groups consisting of but not limited to law enforcement distributors, Cabelas, Bass Pro Shops, Gander Mountains, Galyans, Jays and Dunhams. They cover the following states: Illinois, Indiana, Iowa, Kansas, Kentucky, Michigan, Minnesota, Missouri, Nebraska, North Dakota, South Dakota, Ohio, South Dakota, Wisconsin, and California.

We plan to distribute our products to the following:

#### Sleeping Bag Products

We plan to distribute our sleeping bag products through sporting goods catalogs, sporting shows and trade shows, and retail outlets and chains.

#### Swimeez Products

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

#### Stadium Pack Products

We plan to distribute our Stadium Pack products through sporting goods catalogs, trade shows, sporting shows, and retail outlets and chains.

#### Windshirts and Jackets

We plan to distribute our windshirts and jackets through various wholesalers, retail outlets and chains, and trade shows.

#### Hunting Apparel Line

We plan to 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 and fishing apparel line. We plan to distribute these products, which we are in the development stage of introducing to the public, through trade shows, product information mailings to prospective retail buyers, and private showings to targeted buyers in the retail industry.

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Our planned marketing program will consist of the following:

### MARKETING COMPONENT

#### Webside Development and Internet Marketing

We plan to 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 plans 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

In March 2004, we entered into a formalized agreement with Evernham and Anderson

Associates, Inc. They will

represent us in various states throughout the United States as discussed above.

#### Public relations campaign

We plan to contract with marketing consultants to develop and distribute press releases

regarding company status, product innovations, and other notable events and developments

#### Design and develop

We are and continue to contract with marketing consultants 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.

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 are and continue to contract with marketing consultants to design and develop a portable display booth, and product materials to be used in sporting goods and outdoor apparel trade shows.

We plan to ship wholesale product orders by United Parcel Service or trucking companies. Retail orders from our website will be shipped United Parcel Ground Service or Federal Express overnight. The costs of shipping our finished goods is 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.

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Our "idigear" label is sewn on all of our products. Haas Outdoors, Inc.'s Mossy Oak and New Break Up 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. Our new hunting apparel line also includes a hang tag noting such endorsement.

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

Raw Materials to be Provided for our Floating Swimwear Products:

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Eliotex

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

- 

Lycra

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

- 

Zippers

We plan to purchase zippers from Barbie International Corporation, located in New York, New York.

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



Raw Materials to be provided for our Sleeping Bags and Stadium Pack Products:

- 

Eliotex

Eliotex is used in our sleeping bags and stadium pack products as insulation and to provide buoyancy to these products.

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Rip Stop Nylon

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

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#### Nylon polyester tricot

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

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#### Compression sacks

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

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#### New Products Utilizing the Mossy Oak Brand Camouflage Pattern

We plan to purchase the Mossy Oak Brand camouflage fabric from a licensed distributor for Haas Outdoors, Inc, MAHCO, based in Bentonville, Arkansas. This fabric will be shipped to our submanufacturer, PT Lydia and Natalia, Indonesia. PT Lydia and Natalia, at their discretion, will source the additional raw materials for the completion of each garment or accessory.

#### Raw Materials to be provided for our Jackets and Windshirts

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#### Eliotex

Eliotex will be used to provide insulation in our jackets and windshirts.

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Polyester peached microfiber

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

•

Rib knit

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

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

The only "raw product" we store on a continual basis is "eliotex" which is stored in our warehouse. Our warehouse space is sufficient for our storage of eliotex. For the other raw materials that are below 1000 piece goods, we have the materials shipped directly to the sub-manufacturer. For production runs in excess of 1000 piece goods, we arrange for the raw materials to be shipped to our warehouse facility, which is sufficient for that use. Thereafter, we distribute to the sub-manufacturer the quantity needed for each production run and we store the remaining quantity. Payment typically will be due on an average of 30 to 60 days after receipt of the raw materials by our sub-manufacturer or our warehouse facility. Our Indonesia based

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

All of our products are sub-manufactured by PT Lidya and Natalia. Because the predominant function of the Stadium Pack is a sleeping bag, they are imported as sleeping bags. Indonesia does not impose quotas that limit the time period or quantity of items which can be imported. The United States Customs Service imposes a 9% importation duty for Indonesia based goods imported into the United States.

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 sub-manufacturer manufactures our products on a per order basis.

The fulfillment process involved in completing wholesale orders for non stocked swimsuit, sleeping bag, windshirt and jacket products is described below:

DAY

ACTION

1 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 a raw material supplier to send a certain number of yards of raw materials to our sub-manufacturers. Raw materials are ordered according to need.

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.

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.

DAY

ACTION

10

Our sub-manufacturers ship finished goods to us.

14

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.

The basis for the above time estimates has been derived from RMF Global's prior experience with these sub-manufacturers.

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The fulfillment process involved in completing wholesale orders for our Stadium Pack products is described below:

DAY	ACTION
1	We receive an order for a certain number of items from a wholesale purchase by hand delivery, fax, courier, or mail with an authorized signature of the purchaser.  We contact our sub-manufacturers with details of the order, including the number of units to be produced according to color combinations. The sub-manufacturers then procure the raw materials.
7	Our sub-manufacturers receive raw materials from suppliers and begin production.
25 - 30	Within 25-30 days, our sub-manufacturers ship finished goods to us, pending no international freight or shipping issues.
56 - 61	We receive finished goods, and facilitates shipment to the buyer.

The basis for the above time estimates has been derived from RMF Global's prior experience with these sub-manufacturers.

Any inventory we maintain will be stored at our warehousing facility. Our warehouse facility has the capacity to hold 250,000 finished products in inventory and raw materials or eliotex. The amount of raw materials or eliotex we store at our warehousing facility is dependent upon the size of production runs at any one time and cannot be estimated with any certainty.

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:

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[www.floatingswimwear.com](http://www.floatingswimwear.com);

•

[www.maui.net/-welck](http://www.maui.net/-welck); and

•

[www.hotshop.at/enlisch/swimc](http://www.hotshop.at/enlisch/swimc).

•

Welck-em Floats located in Lahaina, Hawaii;

•

Aqua Leisure Industries located in Avon, Massachusetts; and

•

Swim Coach websites located in the United Kingdom.

Some of our biggest competitors in the sleeping bag market are:

•

North Face located in San Leandro, California or [www.thenorthface.com](http://www.thenorthface.com);

•

Slumberjack located in Saint Louis, Missouri or [www.slumberjack.com](http://www.slumberjack.com);

•

Sierra Designs located in Emeryville, California;

•

Kelly Pack, Inc. located in Boulder, Colorado; and

•

Marmot Mountain, Ltd. located in Santa Rosa, California.

- # -



Some of our biggest competitors in our stadium pack market are:

- North Face located in San Leandro, California or [www.thenorthface.com](http://www.thenorthface.com);
- Slumberjack located in Saint Louis, Missouri or [www.slumberjack.com](http://www.slumberjack.com)
- Sierra Designs located in Emeryville, California;
- Kelly Pack, Inc. located in Boulder, Colorado; and
- Marmot Mountain, Ltd. located in Santa Rosa, California.

Some of our biggest competitors in our windshirts market are:

- [www.zerorestriction.com](http://www.zerorestriction.com);
- [www.innerharborshirts.com](http://www.innerharborshirts.com); and
- [www.cutterbuckapparel.com](http://www.cutterbuckapparel.com).

Some of our biggest competitors in our jacket markets are:

- [www.zerorestriction.com](http://www.zerorestriction.com);

- cutterbuckapparel.com; and
- North Face located in San Leandro, California or [www.thenorthface.com](http://www.thenorthface.com).

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

- Cabela's located in Sidney, Nebraska;
- Bass Pro Shops located in Springfield, Missouri; and
- Dicks Sporting Goods located in Pittsburgh, Pennsylvania.

We plan to compete in the following ways:

- A.  
Emphasize the Advantages of our Products Sleeping Bag Products

We plan to emphasize the following characteristics of our sleeping bag products:

- inherent buoyancy of eliotex;
- low weight;
-

compactness;

- 

water repellency;

- 

thermal insulation properties which makes a thinner, more compact, and warmer sleeping bag than some of our competitors; and

- 

having these multiple advantages.

#### Floating Swimwear Products

We plan to emphasize the following characteristics of our swimeez swimsuit product:

- 

inherent buoyancy of eliotex 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.

- # -

## Stadium Pillow Products

We plan to emphasize the following advantages of our Stadium Pack product:

- 

Our Stadium Pack product has multiple uses by acting as a stadium seat cushion or pillow, thermal rain parka, sleeping bag, flotation raft and double comforter; and

- 

Our Stadium Pack product has the advantages of low weight, compactness, water repellency, and thermal insulation properties.

## Windshirts and Jackets

We plan to emphasize the following advantages of our windshirt and jacket products:

- 

low weight;

- 

compactness;

- 

water repellency;

- 

thermal insulation properties which makes a thinner, more compact product than some of our competitors; and

- 

having these multiple advantages.

Hunting and Fishing Line

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

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

The basis for our above product claims is derived from the Vartest Lab Results, a fiber/yarn, fabric and apparel testing firm, located in New York, New York that RMF Global retained and paid \$5,275 to conduct testing of the eliotex material. The March 1999 Vartest Lab Results appear under our "Research and Development" Section.

Eliotex provides a scent barrier which we had a permeation test performed on at the Texas Research Institute Austin, Inc., at a cost of \$650. The product was subjected to gas simulant for an eight-hour period. The product was tested for permeation of the gas every three minutes for the duration of the test with almost no detection of the gas throughout the test. The testing was based upon accepted industry practices as well as the test method used. We have applied for a trade mark on the name Scent Barrier on September 26, 2005, which we have not received at the date of

the filing of the 10-KSB.

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.

- # -

D.

Utilize product endorsements from professional athletes and sports figures to bolster awareness and image of our products. We currently have former all pro national football league player Bill Maas endorsing our hunting apparel line and Jose Wejebe, professional fisherman, endorsing our fishing apparel line.

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

- 

Lack of a broad range of product designs or styles; lack of product line depth.

- 

Preference for less insulated sleeping bag.

Because our sleeping bags are developed for use in cold conditions, outdoor enthusiasts in warmer climates may prefer a less insulated sleeping bag offered by our competitors.

- 

Lack of brand name recognition or recognition of the properties of eliotex and its advantages. We, as well as our products, have little brand name recognition compared to our competitors. Our Stadium Pillow products, as new products, will especially 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 eliotex 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.

Edgar Filing: INNOVATIVE DESIGNS INC - Form 10KSB

On March 4, 2003, we applied for trademark protection for our name "idigear" with the United States Patent and Trademark Office. On December 24, 2003, we received a Notice of Publication from the United States Patent and Trademark Office, informing us that the "idigear" mark appears to be entitled to registration and would be published in the Official Gazette on January 13, 2004 to ascertain whether there would be any opposition by any person who believes he will be damaged by the registration of the mark and that if no opposition is filed within the time specified by Trademark rules, the Commissioner of Patents and Trademarks may issue a certificate of registration. We have not received any other communication or any disposition regarding this trademark application and there is no assurance that we will ever receive trademark approval for our idigear name.

On March 10, 2003, our affiliated entity, RMF Global, applied for registration of the mark "eliotex" with the United States Patent and Trademark Office. RMF Global has not received approval or any disposition regarding this service mark application and there is no assurance that RMF Global will ever receive service mark approval for the "eliotex" name.

We have not applied for trademark protection for our name, "Innovative Designs, Inc." with the United States Patent and Trademark Office. There can be no assurance that our use of the name Innovative Designs, Inc. or idigear will not violate the proprietary rights of others. If our use of the Innovative Designs, Inc. or idigear name is challenged, our use of the name could be prohibited. Our competitors may adopt product or service names similar to ours, which would impede our ability to build brand identity and otherwise negatively affect our brand name reputation. Should we be unable to protect our trade names, our business, results of operations, and financial condition will be negatively affected.

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Edgar Filing: INNOVATIVE DESIGNS INC - Form 10KSB

On September 26, 2005, we applied for a trade mark for our scent barrier which is used in our hunting and fishing apparel lines. We have not been granted a trade mark at the date of the filing of the 10-KSB.

The patent states that it is the "object of the present invention to eliminate the above mentioned drawbacks [bulkiness and being cumbersome in practical use] by providing a foamed expanded super lightweight sheet having superior buoyancy and cold and heat resistance properties. Another object of the present invention is to provide a thin and super lightweight lining for garments and sports articles and other related equipment which are cumbersome and bulky, while yet combining both buoyancy and thermal resistance properties."

We do not have the actual patent described above; rather, we have been granted a sublicense by RMF Global for the exclusive marketing and distribution rights for use of eliotex in sleeping bags, swimeez, and stadium packs and the rights to purchase eliotex for the manufacture of other apparel and accessory items containing eliotex. As explained immediately below, the inventor of eliotex and patent recipient, Mr. Moon, assigned the patent to Mr. Kim. RMF Global obtained its license rights from Mr. Kim.

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

Because we plan to use sub-manufacturers for our products, we will 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 affiliate, RMF Global, hired and paid \$5,275 to Vartest Laboratories, Inc. to perform testing of the eliotex material. Other than the testing performed by Vartest Laboratories, Inc, RMF Global has spent no funds on research and development.

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

<u>Issue</u>		<u>Test Result</u>
Fabric Weight	0.042 oz./square yard	Low
Fabric Thickness	0.021 inches	Thin
Thermal Retention	Clo value: 2.0	Good
	0.01 cubic feet of air/min/ft2 of material	(Good) Low

Air Permeability

(protection from wind)

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 eliotex product. The testing was based upon accepted industry practices. The permeation test resulted in almost no detection of the gas through the eliotex 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:

- # -

Department of Transportation

Our shipment of raw materials to our manufacturers is and will be subject to United States Department of Transportation regulations.

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 9% importation duty to the United States Customs Service on all finished goods, based upon our completed Stadium Pack and jacket products, all containing "eliotex", which are sub-manufactured by PT Lidya and Natalia and then imported into the United States. Because we purchase the eliotex from RMF Global, we are not required to pay an importation duty to the United States Customs Service on "eliotex"; however, RMF Global, is required to pay a 6.5% importation duty to the United States Customs Service for the importation of eliotex, regarding its importation of eliotex from South Korea or Indonesia from Mr. Kim, in accordance with RMF Global's agreement with Mr. Kim. RMF Global imports eliotex from South Korea because this is the location of his manufacturing facilities for eliotex. RMF Global imports eliotex from Indonesia because Mr. Kim has additional warehousing facilities to store eliotex in Indonesia

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.

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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 currently have a total of 8 employees, 4 of which are full time employees and 4 of which are part time employees. Our full time employees are:

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Joseph Riccelli, our Chief Executive Officer;

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Joseph A. Riccelli, our Vice President;

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Gregory P. Domian, Vice President of Sales and Marketing; and

- 

David Shondeck, our Director of Finance.

We have the following part-time employees:

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Frank Riccelli, our President;

•

Anthony Fonzi, our Chief Financial Officer/Chief Accounting Officer; and

•

2 clerical/warehouse employees.

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 7.

##### DESCRIPTION OF PROPERTY.

Since May 2002, we have maintained our executive offices of 1500 square feet at 223 North Main Street, Suite 1, Pittsburgh, Pennsylvania 15215. We share our office space with RMF Global which. We pay monthly rent of \$700.00 to Riccelli Properties, a property management firm owned by our Chief Executive Officer, Joseph Riccelli.

RMF Global occupies these offices rent-free from Riccelli Properties. We have a verbal lease agreement with Riccelli Properties to pay Riccelli Properties \$700 per month. This verbal agreement further provides that we or

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Riccelli Properties may terminate this verbal lease at any time with 30 days written notice. Neither we nor RMF Global have any verbal or written agreement regarding these offices.

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

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.

#### ITEM 8.

#### LEGAL PROCEEDINGS.

We are subject to dispute and litigation in the ordinary course of our business. None of these matters, in the opinion of our management, is material or likely to result in a material effect on us based upon information available at this time.

The Company became aware, by virtue of communication from certain of its customers and/or prospective customers, of their receipt of a letter from attorneys purporting to represent Elio Cattan, informing said parties that the Company was infringing on a patent held by Mr. Cattan in its manufacture and use of products containing Eliotex. Said letter went on to threaten unspecified reprisals against any party that continued to so infringe, and further actively solicited the purchase of Eliotex from Mr. Cattan. No legal action was instituted by Mr. Cattan to support said allegations; the letters were mere recitations that the Company strongly believes are false, fraudulent and malicious.

In response, the Company caused to be filed a Declaratory Judgment Action in the United States District Court for the Western District of Pennsylvania at Case No. Cv04-0593 on April 20, 2004. In said Action, in which the Company was joined by RMF Global, Inc., the Company seeks:

(1)

a declaration that it did not infringe on U.S. Patent No. 6,083,999;

(2)

a declaration that said patent is invalid and unenforceable;

(3)

a declaration that the plaintiffs have not infringed on the Eliotex trademark;

(4)

an injunction prohibiting any further tortious interference with the Company's business and contractual relations;

(5)

an injunction prohibiting any further engaging in unfair competition; and

(6)

RMF Global uses new and improved eliotex. The new eliotex holds a Korean Patent No. 04 26429.

Without answering or denying any of the Company's allegations, Mr. Cattan sought to stay the District Court proceedings, pending an arbitration proceeding to determine the merits of the dispute among the parties. That Motion was granted by the Court. A subsequent Motion was filed by the Company, seeking to dismiss any claims the Court might find to be arbitrable, and

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lift the stay with respect to the remaining claims so that Mr. Cattan's allegations may be subject to the scrutiny of a court of law. That Motion was denied by the Court.

The Company is of the strong opinion and belief, as is its counsel, that the District Court has erred in its interpretation of both the facts and the law in this case, and is in the process of taking an appeal of Judge Schwab's Orders before the Third Circuit Court of Appeals of the United States District Court. The Company is confident of its position, and the likelihood of its success on the merits, and views the actions of Mr. Cattan as desperate delay tactics designed to enable him to attempt the perpetuation of a fraud upon both the Company and its customers and prospective customers.

Subsequent to October 31, 2005, the end of our fiscal year, the Company learned that *Elio Cattan and Eliotex s.r.l.* obtained an arbitration award against the Company in the amount of \$4,176,000.00, on May 6, 2005 from an Italian Arbitration Tribunal. The Company was later informed that Defendant's counsel filed a subsequent motion in the District Court to confirm and enforce the Tribunal's award against the Company and to add Joseph Riccelli as a part to the litigation. As of the date of this filing, no ruling had been made on the above motion.

The Company has also instructed its counsel to take all actions necessary and proper to protect the interests of both the Company, its shareholders and all other entities and individuals with which it conducts business.

ITEM 9.

MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

Market Information

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

<b>2005</b>	<b>Low</b>	<b>High</b>
Fourth Quarter	\$ .30	\$ .75
Third Quarter	\$ .17	\$ .51
Second Quarter	\$ .13	\$ .58
First Quarter	\$ .20	\$ .80

<b>2004</b>		<b>Low</b>		<b>High</b>
Fourth Quarter	\$	.25	\$	1.05
Third Quarter	\$	.80	\$	1.35
Second Quarter	\$	.90	\$	2.05
First Quarter	\$	1.05	\$	3.00

<b>2003</b>		<b>Low</b>		<b>High</b>
Fourth Quarter	\$	3.00	\$	3.00
Third Quarter	\$	.00	\$	.00
Second Quarter	\$	.00	\$	.00
First Quarter	\$	.00	\$	.00

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

No regular trading market exists for our common stock and there is no assurance that a regular trading market will develop, or if developed be sustained. A shareholder in all likelihood, therefore, will not be able to resell their securities should he or she desire to do so when eligible

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for public resales. Furthermore, it is unlikely that a lending institution will accept our securities as pledged collateral for loans unless a regular trading market develops.

Holders.

As of January 13, 2006, we had 157 holders of record of our common stock. We have one class of stock outstanding. We have no shares of our preferred stock outstanding. As of January 13, 2006, there were 4,203,125 shares of our stock held by non-affiliates and 13,573,068 shares of our stock held by affiliates that Rule 144 of the Securities Act of 1933, defines as restricted securities.

Options.

We have no shares of our common equity that are subject to outstanding options to purchase.

Penny Stock Considerations.

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

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

- 

Deliver, prior to any transaction involving a penny stock, a disclosure schedule prepared by the Securities and Exchange Commission relating to the penny stock market, unless the broker-dealer or the transaction is otherwise exempt;

- 

Disclose commissions payable to the broker-dealer and its registered representatives and current bid and offer quotations for the securities;

- 

Send monthly statements disclosing recent price information pertaining to the penny stock held in a customer's account, the account's value and information regarding the limited market in penny stocks; and

- 

Make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction, prior to conducting any penny stock transaction in the customer's account.

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

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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.

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, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	<u>\$ 400,000</u>	<u>0.42</u> (2)	<u>\$ 180,000</u> (1)

- (1) The Company has issued an additional 317,000 shares of its stock to various consultants in exchange for past and future services. The weight average price per share was \$0.2818.
- (2) Weighted average price was based on the market value of the shares on or about the date the service was performed. 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.

Recent Sales of Unregistered Securities.

On June 26, 2002, we issued 2,000,000 shares of our stock to our President, Frank Riccelli, in payment for services rendered to us as our President. The shares issued to Frank Riccelli were valued at a price of \$0.0001 per share, or an aggregate price of \$200. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4(2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. Frank Riccelli, our Officer and Director, represented to us that he was purchasing the shares for investment purposes without a view towards resale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

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On June 26, 2002, we issued 18,000 shares of our stock to our Chief Financial Officer and Director, Anthony Fonzi, in payment for services rendered to us as our Chief Financial Officer. The shares issued to Anthony Fonzi were valued at a price of \$0.75 per share, or an aggregate price of \$13,500. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4(2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. Anthony Fonzi, our Officer and Director, represented to us that he was purchasing the shares for investment purposes without a view towards resale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

On June 26, 2002, we issued 45,000 shares of our stock to our Board of Director member, Robert D. Monsour, in payment for services rendered to us as our Board of Director member. The shares issued to Robert D. Monsour were valued at a price of \$0.75 per share, or an aggregate price of \$33,750. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4(2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. Robert D. Monsour, our Director, represented to us that he was purchasing the shares for investment purposes without a view towards resale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

On June 26, 2002, we issued 22,500 shares of our stock to our Board of Director member, Dean Kolocouris, in payment for services rendered to us as our Board of Director member. The shares issued to Dean Kolocouris were valued at a price of \$0.75 per share, or an aggregate price of \$16,875. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4(2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. Dean Kolocouris, our Director, represented to us that he was purchasing the shares for investment purposes without a view towards resale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

On June 26, 2002, we issued 63,000 shares of our stock to our Board of Director member, Dominic Cerniglia, in payment for services rendered to us as our Board of Director member. The shares issued to Dominic Cerniglia were valued at a price of \$0.75 per share, or an aggregate price of \$47,250. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4(2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. Dominic Cerniglia, our Director, represented to us that he was purchasing the shares for investment purposes without a view towards resale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

On June 26, 2002, we issued 740,000 shares of our stock to our Vice President, Joseph A. Riccelli, in payment for services rendered to us as our Vice President. The shares issued to Joseph A. Riccelli were valued at a price of \$0.0001 per share, or an aggregate price of \$74. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4(2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. Joseph A. Riccelli, our Vice President, represented to us that he was purchasing the shares for investment purposes without a view towards resale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their

transferability and sale.

On June 26, 2002, we issued 740,000 shares of our stock to our consultant, Gino M. Riccelli, in payment for services rendered to us as our technology business consultant. The shares issued to Gino M. Riccelli were valued at a price of \$0.0001 per share, or an aggregate price of \$74.

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We relied upon Section 4(2) of the Act for the sale. We believed that Section 4(2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. Gino M. Riccelli had a pre-existing relationship with Joseph Riccelli, our Officer and Director. Gino M. Riccelli represented to us that he was purchasing the shares for investment purposes without a view towards resale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

On June 26, 2002, we issued 10,400,000 shares of our stock to our Chief Executive Officer, Joseph Riccelli, in payment for services rendered to us as our Chief Executive Officer. The shares issued to Joseph Riccelli were valued at a price of \$0.0001 per share, or an aggregate price of \$1,040. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4(2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. Joseph Riccelli, our Chief Executive Officer, represented to us that he was purchasing the shares for investment purposes without a view towards resale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

On August 29, 2002, we sold 450 shares of our stock to Dominic Cerniglia, our Director, for a price of \$2.00 per share or \$900. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4(2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. Dominic Cerniglia, our Director, represented to us that he was purchasing the shares for investment purposes without a view towards resale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

On September 2, 2002, we sold 3,600 shares of our stock to Dean Kolocouris, our Director, for a price of \$2.00 per share or \$7,200. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4(2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. Dean Kolocouris, our Director, represented to us that he was purchasing the shares for investment purposes without a view towards resale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

On September 26, 2002, we sold 2,250 shares of our stock to Anthony Cerniglia, for a price of \$2.00 per share or \$4,500. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4(2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. Anthony Cerniglia had a pre-existing relationship with Joseph Riccelli, our Officer and Director. Anthony Cerniglia represented to us that he was purchasing the shares for investment purposes without a view towards resale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

On December 6, 2002, we sold 4,000 shares of our stock to Geoffrey B. Monsour, for a price of \$2.00 per share or \$8,000. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4(2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale.

Geoffrey B. Monsour had a pre-existing relationship with Joseph Riccelli, our Officer and Director. Geoffrey B. Monsour represented to us that he was purchasing the shares for investment purposes without a view towards resale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

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On September 15, 2003, we sold 10,000 shares of our stock to Stephen D. Seitz, for a price of \$2.00 per share or \$20,000. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4(2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. Stephen D. Seitz had a pre-existing relationship with Joseph Riccelli, our Officer and Director. Stephen D. Seitz represented to us that he was purchasing the shares for investment purposes without a view towards resale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

On September 16, 2003, we sold 2,500 shares of our stock to James and Joann Gould, for a price of \$2.00 per share or \$5,000. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4(2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. James and Joann Gould had a pre-existing relationship with Joseph Riccelli, our Officer and Director. James and Joann Gould represented to us that they were purchasing the shares for investment purposes without a view towards resale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

On September 16, 2003, we sold 15,000 shares of our stock to Robert Giarusso, for a price of \$2.00 per share or \$30,000. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4(2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. Robert Giarusso had a pre-existing relationship with Joseph Riccelli, our Officer and Director. Robert Giarusso represented to us that he was purchasing the shares for investment purposes without a view towards resale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

On September 16, 2003, we sold 1,000 shares of our stock to Wayne Dennis, for a price of \$2.00 per share or \$2,000. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4(2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. Wayne Dennis had a pre-existing relationship with Joseph Riccelli, our Officer and Director. Wayne Dennis represented to us that he was purchasing the shares for investment purposes without a view towards resale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

On September 16, 2003, we sold 3,000 shares of our stock to David Holzer, for a price of \$2.00 per share or \$6,000. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4(2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. David Holzer had a pre-existing relationship with Joseph Riccelli, our Officer and Director. David Holzer represented to us that he was purchasing the shares for investment purposes without a view towards resale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

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On September 16, 2003, we issued 450,000 shares of our stock to legal counsel, Hamilton, Lehrer, and Dargan, PA, in payment for legal services rendered to us. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4(2) was available because the sale did not involve a public offering.

On September 19, 2003, we sold 2,500 shares of our stock to John Spagnolo, Jr., for a price of \$2.00 per share or \$5,000. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4(2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. John Spagnolo, Jr. had a pre-

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existing relationship with Joseph Riccelli, our Officer and Director. John Spagnolo, Jr. represented to us that he was purchasing the shares for investment purposes without a view towards resale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

On September 24, 2003, we sold 250 shares of our stock to Bonnie Weissinger, for a price of \$2.00 per share or \$500. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4(2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. Bonnie Weissinger had a pre-existing relationship with Joseph Riccelli, our Officer and Director. Bonnie Weissinger represented to us that she was purchasing the shares for investment purposes without a view towards resale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

On September 24, 2003, we sold 250 shares of our stock to J. Wood Weissinger, for a price of \$2.00 per share or \$500. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4(2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. J. Wood Weissinger had a pre-existing relationship with Joseph Riccelli, our Officer and Director. J. Wood Weissinger represented to us that he was purchasing the shares for investment purposes without a view towards resale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

On September 25, 2003, we sold 100 shares of our stock to Grady L. Hill, for a price of \$2.00 per share or \$200. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4(2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. Grady L. Hill had a pre-existing relationship with Joseph Riccelli, our Officer and Director. Grady L. Hill represented to us that he was purchasing the shares for investment purposes without a view towards resale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

On September 26, 2003, we sold 4,000 shares of our stock to Carol Yenchik, for a price of \$2.00 per share or \$8,000. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4(2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. Carol Yenchik had a pre-existing relationship with Joseph Riccelli, our Officer and Director. Carol Yenchik represented to us that she was purchasing the shares for investment purposes without a view towards resale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

On September 26, 2003, we sold 1,000 shares of our stock to Darla Oliastro, for a price of \$2.00 per share or \$2,000. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4(2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. Darla Oliastro had a pre-existing relationship with Joseph Riccelli, our Officer and Director. Darla Oliastro represented to

us that she was purchasing the shares for investment purposes without a view towards resale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

On September 26, 2003, we sold 1,000 shares of our stock to Christopher Oliastro, for a price of \$2.00 per share or \$2,000. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4(2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. Christopher Oliastro had a pre-existing relationship with Joseph Riccelli, our Officer and Director. Christopher Oliastro

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represented to us that he was purchasing the shares for investment purposes without a view towards resale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

On September 26, 2003, we sold 1,000 shares of our stock to John A. Wasuchno, for a price of \$2.00 per share or \$2,000. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4(2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. John A. Wasuchno had a pre-existing relationship with Joseph Riccelli, our Officer and Director. John A. Wasuchno represented to us that he was purchasing the shares for investment purposes without a view towards resale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

On September 26, 2003, we sold 500 shares of our stock to Justin Oliastro, for a price of \$2.00 per share or \$1,000. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4(2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. Justin Oliastro had a pre-existing relationship with Joseph Riccelli, our Officer and Director. Justin Oliastro represented to us that he was purchasing the shares for investment purposes without a view towards resale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

On September 26, 2003, we sold 200 shares of our stock to Harry J. Hilty, for a price of \$2.00 per share or \$400. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4(2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. Harry J. Hilty had a pre-existing relationship with Joseph Riccelli, our Officer and Director. Harry J. Hilty represented to us that he was purchasing the shares for investment purposes without a view towards resale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

On October 1, 2003, we sold 11,000 shares of our stock to Anthony Fazio, for a price of \$2.00 per share or \$22,000. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4(2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. Anthony Fazio had a pre-existing relationship with Joseph Riccelli, our Officer and Director. Anthony Fazio represented to us that he was purchasing the shares for investment purposes without a view towards resale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

On October 1, 2003, we sold 500 shares of our stock to Daniel C. Hudock, for a price of \$2.00 per share or \$1,000. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4(2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. Daniel C. Hudock had a pre-existing relationship with Joseph Riccelli, our Officer and Director. Daniel C. Hudock represented to us that he was purchasing the shares for investment purposes without a view towards resale. We placed

legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

On October 6, 2003, we sold 2,000 shares of our stock to Kathleen and Albert Panza, for a price of \$2.00 per share or \$4,000. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4(2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. Kathleen and Albert Panza had a pre-existing relationship with Joseph Riccelli, our Officer and Director. Kathleen and Albert Panza represented to us that they were purchasing the shares for investment purposes

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without a view towards resale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

On October 10, 2003, we sold 1,000 shares of our stock to William A. Perry, for a price of \$2.00 per share or \$2,000. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4(2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. William A. Perry had a pre-existing relationship with Joseph Riccelli, our Officer and Director. William A. Perry represented to us that he was purchasing the shares for investment purposes without a view towards resale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

On October 11, 2003, we sold 5,000 shares of our stock to Eric Jerpe, for a price of \$2.00 per share or \$10,000. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4(2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. Eric Jerpe had a pre-existing relationship with Joseph Riccelli, our Officer and Director. Eric Jerpe represented to us that he was purchasing the shares for investment purposes without a view towards resale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

On October 12, 2003, we sold 500 shares of our stock to Raymond A. Stevens, for a price of \$2.00 per share or \$1,000. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4(2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. Raymond A. Stevens had a pre-existing relationship with Joseph Riccelli, our Officer and Director. Raymond A. Stevens represented to us that he was purchasing the shares for investment purposes without a view towards resale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

On October 15, 2003, we sold 1,000 shares of our stock to Marina Posvar, for a price of \$2.00 per share or \$2,000. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4(2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. Marina Posvar had a pre-existing relationship with Joseph Riccelli, our Officer and Director. Marina Posvar represented to us that she was purchasing the shares for investment purposes without a view towards resale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

On October 15, 2003, we sold 500 shares of our stock to Mildred M. Posvar, for a price of \$2.00 per share or \$1,000. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4(2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. Mildred M. Posvar had a pre-existing relationship with Joseph Riccelli, our Officer and Director. Mildred M. Posvar represented to us that she was purchasing the shares for investment purposes without a view towards resale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set

forth the restrictions on their transferability and sale.

On October 23, 2003, we sold 2,000 shares of our stock to Daniel J. Upham, for a price of \$2.00 per share or \$4,000. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4(2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. Daniel J. Upham had a pre-existing relationship with Joseph Riccelli, our Officer and Director. Daniel J. Upham represented

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to us that he was purchasing the shares for investment purposes without a view towards resale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

On October 23, 2003, we sold 5,000 shares of our stock to Robert Giarusso, for a price of \$2.00 per share or \$10,000. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4(2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. Robert Giarusso had a pre-existing relationship with Joseph Riccelli, our Officer and Director. Robert Giarusso represented to us that he was purchasing the shares for investment purposes without a view towards resale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

On October 23, 2003, we sold 2,500 shares of our stock to Guy R. Leone, M.D., for a price of \$2.00 per share or \$5,000. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4(2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. Guy R. Leone, M.D. had a pre-existing relationship with Joseph Riccelli, our Officer and Director. Guy R. Leone, M.D. represented to us that he was purchasing the shares for investment purposes without a view towards resale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

On November 14, 2003, we sold 500 shares of our stock to Bradford and Kendra Herlehy, for a price of \$2.00 per share or \$1,000. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4(2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. Bradford and Kendra Herlehy had a pre-existing relationship with Joseph Riccelli, our Officer and Director. Bradford and Kendra Herlehy represented to us that they were purchasing the shares for investment purposes without a view towards resale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

On November 15, 2003, we sold 7,950 shares of our stock to Peter E. Tyra, for a price of \$2.00 per share or \$15,900. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4(2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. Peter E. Tyra had a pre-existing relationship with Joseph Riccelli, our Officer and Director. Peter E. Tyra represented to us that he was purchasing the shares for investment purposes without a view towards resale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

On November 15, 2003, we sold 2,000 shares of our stock to George DeBruhl, for a price of \$2.00 per share or \$4,000. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4(2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. George DeBruhl had a pre-existing relationship with Joseph Riccelli, our Officer and Director. George DeBruhl represented to us that he was purchasing the shares for investment purposes without a view towards resale. We placed

legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

On November 19, 2003, we sold 2,500 shares of our stock to Barbara K. James, for a price of \$2.00 per share or \$5,000. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4(2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. Barbara K. James had a pre-existing relationship with Joseph Riccelli, our Officer and Director. Barbara K. James

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represented to us that she was purchasing the shares for investment purposes without a view towards resale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

On November 21, 2003, we sold 500 shares of our stock to Sean E. McGuire, for a price of \$2.00 per share or \$1,000. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4(2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. Sean E. McGuire had a pre-existing relationship with Joseph Riccelli, our Officer and Director. Sean E. McGuire represented to us that he was purchasing the shares for investment purposes without a view towards resale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

On November 22, 2003, we sold 500 shares of our stock to Sandra G. DaVane, for a price of \$2.00 per share or \$1,000. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4(2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. Sandra G. DaVane had a pre-existing relationship with Joseph Riccelli, our Officer and Director. Sandra G. DaVane represented to us that she was purchasing the shares for investment purposes without a view towards resale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

On November 25, 2003, we issued 100,000 shares of our stock to Arnold Palmer Revocable Trust in exchange for Arnold Palmer's consulting services rendered to us pertaining to the design and development of certain of our apparel, and product related promotional services rendered to us. We valued these shares at approximately \$2.00 per share or an aggregate of \$200,000.

On November 25, 2003, we issued 150,000 shares of our stock to Anthony Dorsett in exchange for conducting certain licensing agreement negotiations pertaining to our idigear products. We valued these shares at approximately \$2.00 per share or an aggregate of \$300,000.

On November 25, 2003, we issued 50,000 shares of our stock to Dianne C. Roffe in exchange for developing, designing, and endorsing current and future products, and for providing on-location product promotional services. We valued these shares at approximately \$2.00 per share or an aggregate of \$100,000.

On November 25, 2003, we issued 50,000 shares of our stock to Daniel P. Rains in exchange for product promotions and on-location promotional event services rendered to us. We valued these shares at approximately \$2.00 per share or an aggregate of \$100,000.

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On November 25, 2003, we issued 5,000 shares of our stock to Rodney Clark in exchange for consulting in the design and product testing of our hunting apparel, and for conducting license agreement related negotiations with Haas Outdoors, Inc. We valued these shares at approximately \$2.00 per share or an aggregate of \$10,000.

On November 25, 2003, we issued 10,000 shares of our stock to Robert Korbe, in exchange for past and future consulting services pertaining to inventory control, warehouse services, and a shipping program with freight carriers. We valued these shares at approximately \$2.00 per share or an aggregate of \$20,000.

On November 25, 2003, we issued 10,000 shares of our stock to Anthony Fazio, in exchange for providing construction modifications and improvements to our facility. We valued these shares at approximately \$2.00 per share or an aggregate of \$20,000.

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On November 25, 2003, we issued 5,000 shares of our stock to John Spagnola, Jr. in exchange for technical services rendered to us pertaining to the installation of our network and Internet access system. We valued these shares at approximately \$2.00 per share or an aggregate of \$10,000.

On December 10, 2003, we sold 1,500 shares of our stock to Shirley Komack, for a price of \$2.00 per share or \$3,000. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4(2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. Shirley Komack had a pre-existing relationship with Joseph Riccelli, our Officer and Director. Shirley Komack represented to us that she was purchasing the shares for investment purposes without a view towards resale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

On December 13, 2003, we sold 3,000 shares of our stock to Nick E. Novak, for a price of \$2.00 per share or \$6,000. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4(2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. Nick E. Novak had a pre-existing relationship with Joseph Riccelli, our Officer and Director. Nick E. Novak represented to us that he was purchasing the shares for investment purposes without a view towards resale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

On December 31, 2003, we issued 5,000 shares of our stock to Thomas Ciancutti in exchange for product promotions and on-location promotional event services. We valued these shares at approximately \$2.00 per share or an aggregate of \$10,000.

On December 31, 2003, we issued 560,000 shares of our stock to the Altavilla Family Trust in exchange for investor relations related consulting services. We valued these shares at approximately \$2.00 per share or an aggregate of \$1,120,000.

On December 31, 2003, we issued 120,000 shares of our stock to Marlin Molinaro in exchange for investor relations related consulting services. We valued these shares at approximately \$2.00 per share or an aggregate of \$240,000.

On December 31, 2003, we issued 120,000 shares of our stock to Thomas Ciancutti in exchange for investor related consulting services. We valued these shares at approximately \$2.00 per share or an aggregate of \$240,000.

In February 2004, we issued 30,000 shares of our stock to Leech Tishman Fuscaldo & Lampl, LLC in exchange for legal services to be provided. We valued these shares at approximately \$2.00 per share or an aggregate of \$60,000.

On April 1, 2004, we sold 50,000 shares of our stock to Anthony J. Kessler for a price of \$1.00 per share or \$50,000. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4 (2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. Anthony J. Kessler had a pre-existing relationship with Joseph Riccelli, our Officer and Director. Anthony J. Kessler represented to us that he was purchasing the shares for investment purposes without a view towards resale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

On June 2, 2004, we issued 100,000 shares of our stock to our consultant Bulldog Financial, Inc. in exchange for past and future investment consulting services. On July 23, 2004, these shares were cancelled for nonperformance of these services.

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On June 2, 2004, we sold 33,000 shares of our stock to Patrick E. Murphy for a price of \$0.61 per share or \$20,130. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4 (2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. Patrick E. Murphy had a pre-existing relationship with Joseph Riccelli, our Officer and Director. Patrick E. Murphy represented to us that he was purchasing the shares for investment purposes without a view towards resale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

On June 2, 2004, we sold 33,000 shares of our stock to David H. Lennox for a price of \$0.61 per share or \$20,130. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4 (2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. David H. Lennox had a pre-existing relationship with Joseph Riccelli, our Officer and Director. David H. Lennox represented to us that he was purchasing the shares for investment purposes without a view towards resale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

On June 2, 2004, we sold 33,000 shares of our stock to James J. Kearney for a price of \$0.61 per share or \$20,130. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4 (2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. James J. Kearney had a pre-existing relationship with Joseph Riccelli, our Officer and Director. James J. Kearney represented to us that he was purchasing the shares for investment purposes without a view towards resale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

On June 2, 2004, we sold 33,000 shares of our stock to Marc H. Nathan for a price of \$0.61 per share or \$20,130. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4 (2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. Marc H. Nathan had a pre-existing relationship with Joseph Riccelli, our Officer and Director. Marc H. Nathan represented to us that he was purchasing the shares for investment purposes without a view towards resale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

On July 23, 2004, 1,050,000 shares of our common stock that were previously issued to various individuals in exchange for past and future professional services were cancelled due to nonperformance of the professional services. In connection with canceling the aforementioned shares, we issued 150,000 shares of our common stock to these various individuals in exchange for professional services already performed. We valued these shares at approximately \$2.00 per share or an aggregate of \$300,000.

On October 15, 2004, we issued 15,000 shares of our stock to Anthony Fazio, in exchange for providing construction modifications and improvements to our facility. We valued these shares at approximately \$0.52 per share or an aggregate of \$7,800.

On October 15, 2004, we issued 6,000 shares of our stock to Eugene Hermanowski, in exchange for providing construction modifications and improvements to our facility. We valued these shares at approximately \$0.52 per share or an aggregate of \$3,120.

On December 12, 2004, we issued 100,000 shares of our stock to Sean W. Dills in exchange for past and future consulting services pertaining to strategic business planning. The shares to Sean W. Dills were valued at a price of \$0.75 per share, or an aggregate price of \$75,000. We

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relied upon Section 4(2) of the Act for the sale. We believed that Section 4 (2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. These shares were issued without a restrictive legend.

On December 21, 2004, we issued 10,000 shares of our stock to Anthony C. Mengine exchange for legal services rendered to us. The shares to Anthony C. Mengine were valued at a price of \$0.50 per share, or an aggregate price of \$5,000. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4 (2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. These shares were issued without a restrictive legend.

On December 21, 2004, we issued 6,000 shares of our stock to Roy S. Devine exchange for consulting services rendered to us. The shares to Roy S. Devine were valued at a price of \$0.50 per share, or an aggregate price of \$3,000. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4 (2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. These shares were issued without a restrictive legend.

On December 29, 2004, the Company cancelled 3,000 shares of our stock previously issued to Barry Douglas in exchange for sales services for nonperformance of these services. The shares were valued at \$1.20 per share or an aggregate of \$3,600.

On January 7, 2005, we issued 50,000 shares of our stock to Sean W. Dills in exchange for past and future consulting services pertaining to strategic business planning. The shares to Sean W. Dills were valued at a price of \$0.30 per share, or an aggregate price of \$15,000. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4 (2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. These shares were issued without a restrictive legend.

On April 18, 2005 the Company cancelled 30,000 shares of our stock previously issued to Anthony P. Leech in exchange for legal services for nonperformance of these services. The shares were valued at \$1.20 per share or an aggregate of \$36,000.

On April 19, 2005, the Company issued 75,000 shares of our stock to Bonnie Dake in exchange for past and future administrative and marketing services pertaining to the operation of the business. The shares to Bonnie Dake were valued at a price of \$0.15 per share, or an aggregate price of \$11,250. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4(2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

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On April 19, 2005, the Company issued 25,000 shares of our stock to Owen Dake in exchange for past and future marketing services pertaining to the operation of the business. The shares to Owen Dake were valued at a price of \$0.15 per share, or an aggregate price of \$3,750. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4(2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

On April 19, 2005, the Company issued 25,000 shares of our stock to Gary M. Tyra in exchange for past and future marketing services pertaining to the operation of the business. The shares to Gary M. Tyra were valued at a price of \$0.15 per share, or an aggregate price of \$3,750. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4(2) was available

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because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

On April 19, 2005, the Company issued 10,000 shares of our stock to Anthony Fazio in exchange for providing construction modifications and improvements to our facility. The shares to Anthony Fazio were valued at a price of \$0.15 per share, or an aggregate price of \$1,500. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4(2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

On April 19, 2005, the Company issued 10,000 shares of our stock to Gregory P. Domian in exchange for past, present and future sales and marketing services pertaining to the operation of the business. The shares to Gregory P. Domian were valued at a price of \$0.15 per share, or an aggregate price of \$1,500. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4(2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

On April 19, 2005, the Company sold 33,334 shares of our stock to Jenniffer Lee Dake for a price of \$0.15 per share or \$5,000. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4(2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

On April 19, 2005, the Company sold 33,334 shares of our stock to Anna Mae Lipski for a price of \$0.15 per share or \$5,000. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4(2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

On April 19, 2005, the Company sold 6,400 shares of our stock to Thomas Gniewkowski for a price of \$0.15 per share or \$960. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4(2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

On April 28, 2005, the Company issued 50,000 shares of our stock to David W. Lampl as additional consideration for a loan Lampl made to the Company as further described in the notes to the financial statements. The shares to David

W. Lampl were valued at a price of \$0.15 per share, or an aggregate price of \$7,500. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4(2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

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On June 14, 2005, the Company issued 6,000 shares of our stock to Charles Peterson in exchange for product development. The shares to Charles Peterson were valued at a price of \$0.40 per share, or an aggregate price of \$2,400. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4(2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. These shares were issued without a restrictive legend.

On July 19, 2005, the Company sold 2,000 shares of our stock to Jennifer Lee Dake for a price of \$0.25 per share or \$500. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4(2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

On July 19, 2005, the Company sold 2,500 shares of our stock to Edward Craft for a price of \$0.20 per share or \$500. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4(2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

On November 3, 2005, the Company issued 400,000 shares of our stock to Jose Wejebe for related future promotional services. The shares issued to Jose Wejebe were valued at a price of \$0.42 per share, or an aggregate price of \$168,000. We believed that Section 4(2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

On November 9, 2005, the Company sold 61,000 shares of stock to Alfred Czeriewski for a price of \$0.42 per share or \$25,620. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4(2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

Use of Proceeds from Registered Securities.

Not applicable

ITEM 10.

MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

The following discussion provides information that we believe is relevant to our Plan of Operations, and should be read in conjunction with our financial statements and related notes appearing elsewhere in this Form 10-KSB. This discussion contains forward-looking statements based on our current expectations, assumptions, and estimates. The words or phrases "believe," "expect," "may," "anticipates," or similar expressions are intended to identify "forward-looking statements." Actual results could differ materially from those projected in the forward-looking statements as a result of a number of risks and uncertainties pertaining to our business, including: (a) Our limited operating history and our history of losses makes it difficult for you to evaluate our current and future business and prospects and future financial results; (b) If we are unable to obtain additional financing, we will be unable to proceed with our Plan of Operations and even if we obtain additional debt or equity financing, your equity interest in our stock will be diluted; (c) If RMF Global, Inc. violates the terms of its agreement with Ko-Myung Kim or we violate our agreement with RMF Global, Inc., we may have no eliotex by which to manufacture

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our products and we will have to terminate our business, and you will lose your entire investment; (d) If our products are found to cause injury, have defects, or fail to meet industry standards, we will incur substantial litigation, judgment, product liability, and product recall costs, which will increase our losses and negatively affect our brand name reputation and product sales; (e) Because we offer only six products and our competitors have a variety of products, we may not obtain consumer acceptance of our products, which may adversely affect our ability to generate revenues; (f) We have not established the Innovative Designs brand name or the "idigear" label, and eliotex has little, if any, name recognition, which may prevent us from generating revenues and reduce the value of your investment; (g) we do not have written agreements with certain companies and persons providing us with services and instead receive such services on a per project basis; and (h) other risk factors discussed in our Form SB-2 Registration Statement which is available for review at [www.sec.gov](http://www.sec.gov). The terms "we," "our" or "us" are used in this discussion refer to Innovative Designs, Inc. Statements made herein are as of the date of the filing of this Form 10-KSB with the Securities and Exchange Commission and should not be relied upon as of any subsequent date. Unless otherwise required by applicable law, we do not undertake, and we specifically disclaim any obligation, to update any forward-looking statements to reflect occurrences, developments, unanticipated events or circumstances after the date of such statement.

We cannot continue to satisfy our current cash requirements for a period of twelve (12) months through our existing capital. We anticipate total estimated capital expenditures of approximately \$31,125 per month or an aggregate of \$373,500 over the next twelve (12) months, in the following areas:

- Hire approximately 2 additional consultants and 2 employees;
- Update and develop our web site and develop our online marketing campaign;
- Contract with manufacturer representatives to sell our products;
- Design and develop literature, displays, and media and advertising materials;
- Develop and maintain public relations campaigns;
- Develop trade show booths;
- Attend trade shows;

- 
- Develop and initiate online marketing campaign;
- 
- Establish relationships with retail chain outlets and mass merchandisers; and
- 
- Warehouse lease payments.

Our current cash of \$21,826 as of January 13, 2006 will satisfy our cash requirements for less than one month.

Accordingly, we will be unable to fund our expenses for our entire one year plan of operations through our existing assets or cash. Our Chief Executive Officer and President have each verbally agreed to loan us up to \$400,000 for our operational needs which will be sufficient to meet our Plan of Operations or Alternative Plans of Operation. We may still need additional financing through traditional bank financing or a debt or equity offering; however, because we are a development stage company with no operating history and a poor financial condition, we may be unsuccessful in obtaining such financing or the amount of the financing may be minimal and therefore inadequate to implement our Plan of Operations. In addition, if we only have nominal funds by which to conduct our operations, we may have to curtail advertising or be unable to conduct any advertising, both of which will negatively impact development of our brand name and reputation. As further described in the notes to the financial statements, we were successful in obtaining financing from several sources including individuals, financial institutions and government agencies. Although this has relieved some of the burden of funding our operations, we continue to seek additional financing. In the event that we do not receive additional financing or our financing is inadequate, we may have to liquidate our business and undertake any or all of the following actions:

- 
- Sell or dispose of our assets, if any;
- 
- Pay our liabilities in order of priority, if we have available cash to pay such liabilities;
- 
- If any cash remains after we satisfy amounts due to our creditors, distribute any remaining cash to our shareholders in an amount equal to the net market value of our net assets;
- 
- File a Certificate of Dissolution with the State of Delaware to dissolve our corporation and close our business;

•

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

•

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

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

If we have any liabilities that we, or our President and/or Chief Executive Officer on our behalf, are unable to satisfy and we qualify for protection under the U.S. Bankruptcy Code, we may voluntarily file for reorganization under Chapter 11 or liquidation under Chapter 7. Our creditors may also file a Chapter 7 or Chapter 11 bankruptcy action against us. If our creditors or we file for Chapter 7 or Chapter 11 bankruptcy, our creditors will take priority over our shareholders. If we fail to file for bankruptcy under Chapter 7 or Chapter 11 and we have creditors; such creditors may institute proceedings against us seeking forfeiture of our assets, if any.

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

#### Our Plan of Operations to Date

We have accomplished the following in our Plan of Operations from our inception of June 2002 to date:

#### Reviewing Professional Marketing Organizations

From June 2002 to December 2002, our Chief Executive Officer, Joseph Riccelli, interviewed and considered approximately 10 professional marketing organizations for marketing, sales distribution, product endorsements and promotion of our products. In October 2002, MCM Communications, Inc., a marketing and advertising firm located in Pittsburgh, Pennsylvania, informed us that it would provide us with marketing and advertising services. This firm has developed and designed our initial web site, product literature, and the graphic design of "Point of Sale" displays.

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During 2004, the Company entered into a formalized agreement for the manufacture representation services of Evernham & Anderson Associates, Inc. Evernham & Anderson Associates, Inc. is an Indianapolis, Indiana based company which maintains a reputable presence in the hunting industry through client/buyer contacts. They sell primarily to a customer base consisting of dealers, distributors, mass merchants, and buying groups consisting of but not limited to law enforcement distributors, Cabelas, Bass Pro Shops, Gander Mountains, Galyans, Jay s and Dunham s. They cover the following states: Illinois, Indiana, Iowa, Kansas, Kentucky, Michigan, Minnesota, Missouri, Nebraska, North Dakota, South Dakota, Ohio, South Dakota, Wisconsin, and California.

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

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

### Leased Warehousing Space

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

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

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

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

### Retailers

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In November 2002, the website retailer, Woodlandsoutdoorworld.com, began ordering our sleeping bag and wind shirt products on a wholesale basis for their retail sale. In addition, Woodlands Outdoor World, a retail store, located in Farmington, Pennsylvania, began carrying our sleeping bag product and our wind shirt products and Nemaocolin Woodlands Resort and Spa's retail store located in Farmington, Pennsylvania began carrying our wind shirt product in its retail store. As of December 2003, Nemaocolin Woodlands Resort and Spa began featuring our i.d.i.gear products on their "online" catalogue at [www.nemaocolin.com](http://www.nemaocolin.com).

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

- 

Pool Nation located in Pittsburgh, Pennsylvania;

- 

B and R Pools located in Pittsburgh, Pennsylvania;

- 

Knabes Swim Shop located in Monroeville, Pennsylvania; and

- 

Ross and Sons Pools located in Punxsutawney, Pennsylvania.

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

During 2005, the following retail stores have been and continue carrying our products:

- Woodlands Outdoor World, a retail store, located in Farmington, Pennsylvania, sells our sleeping bag and our windshirt products;
- Nemacolin Woodlands Resort and Spa's retail store located in Farmington, Pennsylvania, sells our windshirt product; their online catalogue at [www.nemacolin.com](http://www.nemacolin.com) offers our i.d.i.gear products;
- Dick Sporting Goods, a Pittsburgh-based retail chain, carries the Bill Maas Hunting Line;
- Dunham's Sports, headquartered in Waterford, Michigan, carries the Bill Maas Hunting Line in the states of Pennsylvania, Ohio, Delaware, Michigan, and Wisconsin;
- Sportsman's Warehouse, headquartered in Midvale, Utah, carries the Bill Maas Hunting Line in stores across the contiguous United States as well as Alaska;
- Kittery Trading Post, located in Kittery, Maine, has submitted a purchase order to carry the Bill Maas Hunting Line in 2006;
- Vern's Archery, located in Silverton, Oregon, carries the Bill Maas Hunting Line;
- Andrew's Archery, located in Frackville, Pennsylvania, carries the Bill Maas Hunting Line;
- M & M Sportshop, located in New Lisbon, Wisconsin, carries the Bill Maas Hunting Line;
-

H-B Sportsman's Club, located in Elmira, New York, carries the Bill Maas Hunting Line;

•

Gibson's Discount Store, located in Kerrville, Texas, carries the Bill Maas Hunting Line;

•

Gassman's Archery, located in San Antonio, Texas, carries the Bill Maas Hunting Line;

•

Sierra Trading Post, located in Cheyenne, Wyoming, carries our sleeping bags and stadium packs;

•

Pennington Seed, located in Greenfield, Missouri, carries the stadium packs;

•

Bob's Army and Navy Store located in Clearfield, Pennsylvania carries our sleeping bags and stadium packs; and

•

the following retailers carry our sleeping bags: (a) Hunters Headquarters located in Sunbury, Ohio; (b) Sportmens Den located in Shelby, Ohio; (c) Fin, Feather, Fur Outfitters located in Ashland, Ohio; (d) Buckeye Outdoors, Inc. located in Hebron, Ohio; and (e) Southern Ohio Trading located in Nelsonville, Ohio.

#### Contract with Manufacturer Representative Group

We entered into a formalized agreement for the manufacture representation services of Evernham & Anderson Associates, Inc. Evernham & Anderson Associates, Inc. is an Indianapolis, Indiana based company which maintains a reputable presence in the hunting industry through client/buyer contacts. They sell primarily to a customer base consisting of dealers, distributors, mass merchants, and buying groups consisting of but not limited to law enforcement distributors, Cabela's, Bass Pro Shops, Gander Mountains, Galyans, Jays and Dunham's.

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### Additional Hiring

From March 2003 to May 2003, we hired our Vice Presidents, Joseph A. Riccelli, Jr. and Michelle Griffith, on a full time, salaried position basis. Michelle Griffith resigned from the Company during the fourth quarter of 2004. From March 2003 to present, we hired two part time employees for clerical and warehouse duties at the rate of \$7.00 per hour.

During May 2005, we hired our Vice President of Sales and Marketing, Gregory Domian on a full time basis.

### Manufacturers Agreement

On June 16, 2003, we completed an agreement with Haas Outdoors, Inc. located in West Point, Mississippi, which grants a non-exclusive license in North America to manufacture or sell camouflage fabric or to have manufactured, and to sell Haas Outdoors licensed Mossy Oak camouflage fabric. In conjunction with the rights conferred to us in this agreement, we plan to use Haas Outdoors Mossy Oak fabric on the outside portion of our Stadium Pillow products using the trademarked and registered "Mossy Oak" pattern and "Mossy Oak" hang tags. On December 16, 2003 we received from Haas Outdoors, Inc. an addendum to this agreement which extended the existing license to us to manufacture hunting apparel with the Mossy Oak camouflage patterns under our i.d.i.gear label, all of which contain eliotex.

### Packaging Design and Manufacture

During September 2003, we arranged with Packaging Specialists, Inc., a box manufacturing firm located in Pittsburgh, Pennsylvania, to design and manufacture the boxes for all of our products. On October 1, 2003, Packaging Specialists provided us with 2400 boxes for our various products.

### Hired Marketing Employee on an Hourly Basis

On October 13, 2003, we hired Gina Leone to draft brand and advertising related marketing materials. Until the end of November 2003, Ms. Leone was compensated on an hourly basis for approximately 20 hours per week. On December 1, 2003, Ms. Leone began working for us on a full-time basis for 40 hours a week and continues to be compensated on an hourly basis. As of January 20, 2004, Ms. Leone has completed the following:

- advertising billboard layout and design;
- Stadium Pack hang tag design;
- design and layout for our new eliotex hang tag design that is hung on all of our "idi" gear products;
- Shot Show directory listing layout;
- booth signage;
- letter of invitation to the press to visit booth;
- drafting a mailer for retailers to visit the Shot Show;
- press kit for Shot Show;
- updating salesman's kits; and
- revising our web site.

As of December 31, 2005, Miss Leone is no longer employed by the Company.



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Summary of Costs Affiliated with our Plan of Operations

Based on the above Plan of Operations, we will have total estimated costs of \$376,200, composed of the following:

<u>PLAN OF OPERATIONS TASK</u>	<u>ESTIMATED COST</u>
	\$
Utilize Consultants for Management and Operations	50,000
Increase the Utility of our Web Site	20,000
Travel expenses affiliated with contracting with manufacturing representatives	500
Design and development of literature and media materials	60,000
Develop and maintain public relations campaigns	3,000
Develop trade booth for trade shows	5,000
Attending trade shows	6,500
Hiring of professionals for our online marketing campaign	19,500
Establishing sales campaigns, relationships, and agreements with retailers and affiliate marketers which will include travel expenses, lodging, business lunches, dinners and telephone charges.	18,000
Print advertising	30,000
Product design and development	12,500
Warehouse lease	31,200
Salaries	<u>120,000</u>
Total Costs	<u>\$ 376,200</u>

\*

Estimated salaries consist of: (a) \$40,000 annual salary to Joseph A. Riccelli, our Vice President; (b) \$55,000 annual salary to our Vice President of Sales and Marketing; and (c) \$25,000 annual salary to our Director of Finance. This estimate does not include commission costs paid to manufacturer representatives based on total purchase order amount which cannot be determined at this time. This estimate does not include hourly wages, the specific amount of which can not be determined at this time.

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Alternative Plan of Operations With Funding of less than \$376,200 Should we receive funding of less than \$376,200, our alternative Plan of Operations, based on funding of \$250,700, will consist of the following costs and tasks that have been described above:

<u>PLAN OF OPERATIONS TASK</u>	<u>ESTIMATED COST</u>
	\$
Salaries	120,000
Warehouse lease	31,200
Establish sales campaign to be conducted by our Chief Executive Officer and VP of Sales	18,000
Attending trade shows	6,500
Develop trade show booth	5,000
Travel expenses affiliated with contracting with manufacturers representatives to our product line and thus eliminate the need to hire additional in-house full-time salaried personnel	500
Increase the utility of our website	20,000
Print advertising	30,000
Hiring of website and advertising consultants for online marketing campaign	<u>19,500</u>
Total Costs	<u>\$ 250,700</u>

Should we receive funding of less than \$250,700, we will require funding of at least \$181,200 to continue our operations under an alternative Plan of Operations, as follows:

<u>PLAN OF OPERATIONS TASK</u>	<u>ESTIMATED COST</u>
Salaries	\$

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	120,000
Warehouse lease	31,200
Establish sales campaign to be conducted by our Chief Executive Officer and VP of Sales	18,000
Attending trade shows	6,500
Develop trade show booth	5,000
Travel expenses affiliated with contracting with manufacturers representatives to our product line and thus eliminate the need to hire additional in-house full-time salaried personnel	<u>500</u>
Total Costs	<u>\$ 181,200</u>

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Source of Funds to Fund our Plan of Operations

We plan to fund our total costs of \$376,200, or if necessary \$250,700 or \$181,200 under Alternative Plans of Operations through the following:

- 

Our existing cash of \$21,826 as of January 13, 2006;

- 

Possible revenue generated from our sale of products; and

- 

If necessary, loans from our Chief Executive Officer and/or our President.

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

Liquidity and Capital Resources (October 31, 2005 and 2004)

Cash at October 31, 2005 and 2004 amounted to \$42,434 and \$27,384, respectively. We have experienced significant losses from our operations. For the years ended October 31, 2005 and 2004, we incurred a net loss of \$122,844 and \$1,933,630, respectively. In addition, we had an accumulated deficit of \$5,032,704 and \$4,909,860 and a working capital (deficit) of \$50,144 and (\$678,664) at October 31, 2005 and 2004, respectively. Our ability to continue as a going concern is contingent upon our ability to expand our operations and secure additional financing. During 2005, we were successful in obtaining a purchase order from a major retail sporting good chain in the amount of approximately \$226,030 of which approximately \$200,000 was shipped and recorded as revenue as of October 31, 2005. Although we are pursuing financing to expand our operations, there are no assurances that we will be successful in obtaining such financing. Our failure to secure additional financing or expand our operations may result in our not being able to continue as a going concern.



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**CERTIFICATIONS**

I, Joseph Riccelli, certify that:

1.

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

2.

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

3.

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

4.

The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a)

designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b)

evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the Evaluation Date); and

c)

presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

1.

The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a)

all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b)

any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

1.

The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date:

January 13, 2006

By:

/s/ Joseph Riccelli

Chief Executive Officer

- # -

**CERTIFICATIONS**

I, Anthony Fonzi, certify that:

1.

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

2.

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

3.

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

4.

The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a)

designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b)

evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the Evaluation Date); and

c)

presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5.

The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a)

all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b)

any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6.

The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date:

January 13, 2006

By:

/s/ Anthony Fonzi

Chief Financial Officer

PART F/S

**INNOVATIVE DESIGNS, INC.**

**(A Development Stage Company)**

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS REPORT**

**October 31, 2005 and 2004**

- # -

INDEPENDENT AUDITORS REPORT

To the Shareholders and Board of Directors

Innovative Designs, Inc.

(A Development Stage Company)

Sharpsburg, Pennsylvania

We have audited the accompanying balance sheets of Innovative Design, Inc. (a development stage company) as of October 31, 2005 and 2004 and the related statements of operations, stockholders' (deficit), and cash flows for the 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Innovative Design, Inc. (a development stage company) as of October 31, 2005 and 2004, and the results of its operations, and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has incurred significant losses from operations and has working capital and stockholder deficiencies. These factors raise substantial doubt about the



Company's ability to continue as a going concern. Management's plans in regard to this matter are also discussed in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Louis Plung & Company, LLP

LOUIS PLUNG & COMPANY, LLP

Pittsburgh, Pennsylvania

January 13, 2006 (January 24, 2006 as to Note 14)

- # -

**INNOVATIVE DESIGNS, INC.**

**(A Development Stage Company)**

BALANCE SHEETS

October 31, 2005 and 2004

ASSETS

2005

2004

CURRENT ASSETS:

Cash

\$

42,434

\$

27,384

Accounts receivable

270,739

30,355

Other receivables

-

5,000

Inventory

316,706

286,310

Other assets

48,875

-

Total current assets

678,754

349,049

PROPERTY AND EQUIPMENT, NET

27,489

26,118

TOTAL ASSETS

\$

706,243

\$

375,167

LIABILITIES AND STOCKHOLDERS' DEFICIT

CURRENT LIABILITIES:

Accounts payable

\$

55,712

\$

138,842

Accounts payable - related party

28,220

-

Current portion of notes payable

119,941

102,000

Current portion of related party debt

374,000

727,275

Due to shareholders

40,500

46,000

Accrued expenses

1,916

13,596

Accrued interest expense

8,321

-

Total current liabilities

628,610

1,027,713

LONG TERM LIABILITIES:

Long-term portion of note payable - related party

-

236,364

Long-term portion of notes payable

294,738

71,000

Total long term liabilities

294,738

307,364

TOTAL LIABILITIES

923,348

1,335,077

STOCKHOLDERS' DEFICIT:

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Preferred stock, \$.0001 par value, 100,000,000 shares authorized

Common stock, \$.0001 par value, 500,000,000 shares

authorized, 17,315,193 and 16,903,625 shares

issued and outstanding, respectively

1,732

1,691

Additional paid in capital

4,813,867

3,948,259

(Deficit) accumulated during the development stage

(5,032,704)

(4,909,860)

Total stockholders' (deficit)

(217,105)

(959,910)

TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT

\$

706,243

\$

375,167

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



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

STATEMENTS OF OPERATIONS

For the Years Ended October 31, 2005 and 2004, and  
Period from Inception (June 25, 2002) to October 31, 2005

Inception to

October 31,

2005

2004

2005

REVENUE

\$

312,486

\$

71,999

\$

439,901

OPERATING EXPENSES:

Cost of sales

29,226

102,779

155,206

Non-cash stock

compensation

82,550

1,146,000

3,657,580

Selling, general and

administrative expenses

298,033

417,291

1,116,812

409,809

1,666,070

4,929,598

Loss from operations

(97,323)

(1,594,071)

(4,489,697)

OTHER INCOME AND (EXPENSE):

Grant revenue

11,138

-

11,138

Interest expense

(31,659)

(222,611)

(432,197)

Other expense

(5,000)

-

(5,000)

(25,521)

(222,611)

(426,059)

Loss before extraordinary items

(122,844)

(1,816,682)

(4,915,756)

Extraordinary item - casualty loss from flooding,

net of insurance proceeds

-

116,948

116,948

NET LOSS

\$

(122,844)

\$

(1,933,630)

\$

(5,032,704)

Per share information -

basic and fully diluted

Weighted Average

Shares Outstanding

17,178,135

15,882,296

15,564,142

Net loss per share

(0.01)

(0.12)

(0.32)

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

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

STATEMENTS OF STOCKHOLDERS (DEFICIT)

For the Years Ended October 31, 2005 and 2004

(Deficit)

Accumulated

Common Stock

Additional

During the

Shares

Amount

Paid in Capital

Development Stage

Total

Balance at October 31, 2003

16,067,175

\$



1,607

\$ 2,604,003

\$ (2,976,230)

\$

(370,620)

Shares issued for cash

during October 2003

at \$2.00 per share

10,000

1

19,999

-

20,000

Shares issued for cash

during November 2003

at \$2.00 per share

12,950

1

25,899

-

25,900

Shares issued for services

during November 2003

at \$2.00 per share

140,000

14

279,986

-

280,000

Shares issued for services

during November 2003

at \$2.00 per share

380,000

38

759,962

-

760,000

Shares issued for cash

during December 2003

at \$2.00 per share

5,500

1

10,999

-

11,000

Shares issued for services

during December 2003

at \$2.00 per share

805,000

81

1,609,919

-

1,610,000

Shares issued for cash

during April 2004

at \$1.00 per share

50,000

5

49,995

-

50,000

Shares issued for services

during April 2004

at \$1.20 per share

80,000

8

95,992

-

96,000

Shares issued for cash

during May 2004

at .61 per share

132,000

13

80,507

-

80,520

Shares issued for services

during July 2004

at \$2.00 per share

100,000

10

199,990

-

200,000

Shares returned for

nonperformance of

services during July 2004

At \$2.00 per share

(1,050,000)

(105)

(2,099,895)

-

(2,100,000)

Shares issued for services

during July 2004

at \$2.00 per share

150,000

15

299,985

-

300,000

Shares issued for services



during October 2004

at \$.52 per share

21,000

2

10,918

-

10,920

Net loss for the year

          -

\_\_\_\_\_ -

\_\_\_\_\_ -

(1,933,630)

(1,933,630)

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

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	Common Stock		Additional	(Deficit) Accumulated	
	<u>Shares</u>	<u>Amount</u>	<u>Paid in</u>	<u>During the</u>	<u>Total</u>
			<u>Capital</u>	<u>Development Stage</u>	
Balance at October 31, 2004		\$	\$	\$	\$
	<u>16,903,625</u>	<u>1,691</u>	<u>3,948,259</u>	<u>(4,909,860)</u>	<u>(959,910)</u>
Shares issued for services during December 2004 at \$.52 per share	116,000	12	82,988	-	83,000
Shares returned for nonperformance of services during December 2004 at \$1.20 per share	(3,000)	(0)	(3,600)	-	(3,600)
Shares issued for services during January 2005 at \$.30 per share	50,000	5	14,995	-	15,000
Shares issued for settlement of portion of note payable- related party	-	0	763,639	-	763,639
Shares issued for services during April 2005 at .15 per share	145,000	15	21,736	-	21,750
Shares issued for loan fee during April 2005 at .15 per share	50,000	5	7,495	-	7,500
Shares returned for Nonperformance of services during April 2005 at .1.20 per share	(30,000)	(3)	(35,997)	-	(36,000)
Shares issued for cash during April 2005 at .15 per share	73,068	7	10,953	-	10,960
Shares issued for services					

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during June 2005					
at \$.40 per share	6,000	0	2,399	-	2,400
Shares issued for cash					
during July 2005 at					
\$.25 per share	2,000	0	500	-	500
Shares issued for cash					
during July 2005 at					
\$.20 per share	2,500	0	500	-	500
Net loss for the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>( 122,844)</u>	<u>(122,844)</u>
Balance at October 31,	<u>17,315,193</u>	\$	\$	\$	\$
2005		<u>1,732</u>	<u>4,813,867</u>	<u>(5,032,704)</u>	<u>(217,105)</u>

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

- # -

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

STATEMENTS OF CASHFLOW

For the Years Ended October 31, 2005 and 2004 and  
Period from Inception (June 25, 2002) to October 31, 2005

Inception to

October 31,

2005

2004

2005

CASH FLOWS FROM OPERATING ACTIVITIES

Net loss

\$

(122,844)

\$

(1,933,630)

\$ (5,032,704)

Adjustments to reconcile net loss to cash

(used in) operating activities:

Common stock issued to founders

-

-

1,405

Common stock returned for noncompliance services

(39,600)

(1,600,000)

(1,639,600)

Common stock issued for services

122,150

2,756,920

5,306,695

Depreciation and amortization

15,548

8,325

31,962

Interest added to related party note

-

218,184

395,494

Interest added to note payable

22,000

-

22,000

Loss from extraordinary item

-

173,830

173,830

Other receivables

5,000

-

5,000

Changes in operating assets and liabilities:

Accounts receivable

(240,383)

(25,535)

(270,738)

Inventory

(30,396)

(124,128)



(439,778)

Deposits

(47,000)

-

(47,000)

Other receivables

-

3,500

(5,000)

Accounts payable

(83,130)

134,556

55,712

Accounts payable - related party

28,219

-

28,219

Accrued expenses

(11,680)

15,596

3,916

Accrued interest on notes payable

8,321

-

8,321

Net cash (used in) operating activities

(373,795)

(372,382)

(1,402,266)

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Purchase of property and equipment

(11,294)

(6,014)

(59,584)

Insurance proceeds from casualty loss

-

38,202

38,202

Insurance proceeds used to pay off vehicle loans

-

(38,202)

(38,202)

Net cash (used in) investing activities

(11,294)

(6,014)

(59,584)

CASH FLOWS FROM FINANCING ACTIVITIES:

Payments on note payable

(10,344)

-

(14,228)

Payment on related party note

(15,000)

-

(65,000)

Shareholder advances

(5,500)

15,000

358,375

Common stock issued for cash

11,960

187,420

676,230

Proceeds from short term debt

-

58,884

58,884

Proceeds from loan payable to related party

58,000

71,000

129,000

Proceeds from notes payable

361,023

-

361,023

Net cash provided by financing activities

400,139

332,304

1,504,284

Net increase (decrease) in cash

15,050

(46,092)

42,434

Cash - beginning

27,384

73,476

-

Cash - ending

\$

42,434

\$

27,384

\$ 42,434

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

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	<u>2005</u>	<u>2004</u>	Inception to October 31, <u>2005</u>
Supplemental cash flow information:			
Cash paid for interest	\$	\$	\$
	-	2,427	616
Non-cash investing and financing activities:			
License agreement	\$	\$	\$
	-	-	618,145
Interest expense converted to principal	\$	\$	\$
	22,000	-	-
Property and equipment acquired with note payable	\$	\$	\$
	10,294	-	55,294
Settlement of related party debt for equity	\$	\$	\$
	763,639	-	-

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

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



NOTES TO FINANCIAL STATEMENTS

1.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations - Innovative Designs, Inc., (the Company) was incorporated in Delaware on June 25, 2002 to provide unique recreational products that are made of eliotex, a material with buoyancy, scent block and thermal resistant properties, such as sleeping bags, floating swimwear products, hunting apparel, and stadium packs.

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

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

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

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

Revenue Recognition - The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable and collectibility is probable. Revenue is derived from sales of the Company's recreational products such as sleeping bags, stadium packs, floating swimwear and hunting apparel. Sales of these items are recognized when the items are shipped. The Company offers a 5 day return policy and no warranty on all of its products.

Financial Instruments - Fair value estimates discussed herein are based upon certain market assumptions and pertinent information available to management as of October 31, 2005 and 2004. The respective carrying value of certain on-balance-sheet financial instruments approximated their fair values. These financial instruments include cash, accounts receivable, accounts payable and notes payable. Fair values were assumed to approximate carrying values for these financial instruments because they are short term in nature and their carrying amounts approximate fair values. The carrying value of the Company's long-term debt approximated its fair value based on the current market conditions for similar debt instruments.

Allowance for Bad Debts - The Company considers all accounts receivable balances to be fully collectable at October 31, 2005 and 2004, accordingly, no allowance for doubtful accounts is provided. If amounts become uncollectible, they will be charged to operations when the determination is made.

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

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

- # -

**INNOVATIVE DESIGNS, INC.**

**(A Development Stage Company)**

NOTES TO FINANCIAL STATEMENTS

Property and equipment are summarized by major classification as follows:

Equipment

7 years

Furniture and fixtures

7 years

Leasehold improvements

5 years

Automobiles

5 years

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

Impairment of Long-Lived Assets - The Company reviews the carrying value of its long-lived assets annually or whenever events or changes in circumstances indicate that the historical cost-carrying value of an asset may no longer be appropriate. The Company assesses recoverability of the carrying value of the asset by estimating the future net cash flows expected to result from the asset, including eventual disposition. If the future net cash flows are less than the carrying value of the asset, an impairment loss is recorded equal to the difference between the asset's carrying value and fair value. There was no impairment of long-lived assets during 2005 or 2004.

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

Net Income (Loss) Per Common Share - The Company calculates net income (loss) per share as required by Statement of Financial Accounting Standards (SFAS) 128, "Earnings per Share." Basic earnings (loss) per share is calculated by dividing net income (loss) by the weighted average number of common shares outstanding for the period. Diluted

earnings (loss) per share is calculated by dividing net income (loss) by the weighted average number of common shares and dilutive common stock equivalents outstanding. During periods in which the Company incurs losses common stock equivalents, if any, are not considered, as their effect would be anti dilutive.

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

- # -

**INNOVATIVE DESIGNS, INC.**

**(A Development Stage Company)**

NOTES TO FINANCIAL STATEMENTS

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

#### Recent Pronouncements

In November 2004, the FASB issued SFAS 151, "Inventory Costs - an amendment of ARB 43, Chapter 4 . SFAS 151 amends guidance within ARB No. 43, Chapter 4 Inventory Pricing . The Statement clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs, wasted material (spoilage). The adoption of SFAS 151 by the Company is not expected to have a material impact on the Company's financial position, results of operations, or cash flows.

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS 153, "Exchange of Nonmonetary Assets - an Amendment of APB Opinion No. 29 . SFAS 153 addresses the measurement of exchange of nonmonetary assets. The Statement eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets and replaces it with an exception for exchange that does not have commercial substance. As specified in the Statement, nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The adoption of SFAS 153 by the Company is not expected to have a material impact on the Company's financial position, results of operations, or cash flows.

In December 2004, FASB issued SFAS No. 123 (Revised 2004) Share-Based Payment. This Statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. This Statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. This Statement does not change the accounting guidance for share-based payment transactions with parties other than employees provided in Statement 123 as originally issued and EITF Issue No. 96-18, Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services. This Statement does not address the accounting for employee share ownership plans, which are subject to AICPA Statement of Position 93-6, *Employers' Accounting for Employee Stock Ownership Plans*. The adoption of SFAS 123 (Revised 2004) by the Company is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

In May 2005, FASB issued SFAS 154, Accounting Changes and Error Corrections - a replacement of APB Opinion No. 20 and FASB Statement No. 3. This Statement replaces APB Opinion No. 20, *Accounting Changes*, and FASB Statement No. 3, *Reporting Accounting Changes in Interim Financial Statements*, and changes the requirements for the accounting for and reporting of a change in accounting principle. This Statement applies to all voluntary changes in accounting principle. It also applies to changes required by an

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**INNOVATIVE DESIGNS, INC.**

**(A Development Stage Company)**

**NOTES TO FINANCIAL STATEMENTS**

accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. When a pronouncement includes specific transition provisions, those provisions should be followed.

Opinion 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. This Statement requires retrospective application to prior periods financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. When it is impracticable to determine the period-specific effects of an accounting change on one or more individual prior periods presented, this Statement requires that the new accounting principle be applied to the balances of assets and liabilities as of the beginning of the earliest period for which retrospective application is practicable and that a corresponding adjustment be made to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) for that period rather than being reported in an income statement. When it is impracticable to determine the cumulative effect of applying a change in accounting principle to all prior periods, this Statement requires that the new accounting principle be applied as if it were adopted prospectively from the earliest date practicable.

This Statement defines *retrospective application* as the application of a different accounting principle to prior accounting periods as if that principle had always been used or as the adjustment of previously issued financial statements to reflect a change in the reporting entity. This Statement also redefines *restatement* as the revising of previously issued financial statements to reflect the correction of an error.

This Statement requires that retrospective application of a change in accounting principle be limited to the direct effects of the change. Indirect effects of a change in accounting principle, such as a change in nondiscretionary profit-sharing payments resulting from an accounting change, should be recognized in the period of the accounting change.

This Statement also requires that a change in depreciation, amortization, or depletion method for long-lived, nonfinancial assets be accounted for as a change in accounting estimate effected by a change in accounting principle.

This Statement carries forward without change the guidance contained in Opinion 20 for reporting the correction of an error in previously issued financial statements and a change in accounting estimate. This Statement also carries forward the guidance in Opinion 20 requiring justification of a change in accounting principle on the basis of preferability.

The adoption of SFAS 154 by the Company will be evaluated when the Company encounters accounting changes or when it is required to implement new authoritative accounting pronouncements. Currently the Company does not expect the adoption of SFAS 154 to have a material impact on the Company's financial position, results of operations or cash flows.

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**INNOVATIVE DESIGNS, INC.**

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NOTES TO FINANCIAL STATEMENTS

2.

BASIS OF REPORTING

The Company's financial statements are presented on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business.

The Company has experienced significant losses from operations. For years ended October 31, 2005 and 2004, the Company incurred a net loss of \$122,844 and \$1,933,630, respectively. In addition, the Company has an accumulated deficit of \$5,032,704 at October 31, 2005.

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

The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the possible inability of the Company to continue as a going concern.

3.

INVENTORIES

Inventories consist of the following at October 31:

2005

2004

Work-in-process

\$

23,000

\$

-

Finished goods

293,706

286,310

\$

316,706

\$

286,310

4.

PROPERTY AND EQUIPMENT

Property and equipment are summarized by major classifications as follows:

2005

2004

Equipment

7 yr.

\$

14,827

\$

5,558

Furniture and fixtures

7 yr.

11,092

7,104

Leasehold improvements

5 yr.

4,806

18,331

Automobile

5 yr

10,294

       -

41,019

30,993

Less accumulated depreciation

(13,530)

( 4,875)

\$

27,489

\$

26,118

Depreciation expense for the years ended October 31, 2005 and 2004 was \$9,923 and \$8,325.

1.

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**INNOVATIVE DESIGNS, INC.**

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**NOTES TO FINANCIAL STATEMENTS**

2.

BORROWINGS

Borrowings at October 31, 2005 and 2004 consisted of the following:

	<u>2005</u>	<u>2004</u>
Related Party Borrowings		
Note Payable - Related party; RMF Global, Inc.; Note Payable is non-interest bearing with no payment terms.	\$	\$
Loan Payable - Related party; RMF Global Riccelli 200,000 Properties. Loan Payable is non-interest bearing with no payment terms.		963,639
Note Payable - Related party - David W. Lampl, Esq.; due March 31, 2006; interest is 12% per annum.	114,000	71,000
Note Payable - Related party; Bonnie Dake; there are no terms and is due upon demand.		
Note Payable - Related party; Gregory P. Domian; there are no terms and is due upon demand.	50,000	-
Total Related Party Borrowings		

	5,000	-
--	-------	---

	<u>5,000</u>	<u>-</u>
--	--------------	----------

	\$	\$
--	----	----

	<u>374,000</u>	<u>1,034,639</u>
--	----------------	------------------

Other Borrowings

Note Payable - James Kearney; interest is flat rate of \$9,120; principal and interest due and payable in full at any time after December 10, 2005.

Loan payable - Citizens National Bank - due March \$ 26, 2009; interest is 8% per annum; payable in monthly installments of \$193.27	114,000	\$ 102,000
--	---------	------------

Note Payable - Redevelopment Authority of Allegheny County; due June 2010; payable in monthly installments of \$290. This is a non-interest bearing note.

Subtotal	6,656	-
----------	-------	---

Subtotal from page 61

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Note Payable - U.S. Small Business Administration; <u>13,923</u> due December 2035; payable in monthly installments of \$1,186 including interest at 2.9% per annum.		<u>          -</u>
	\$	\$
	<u>134,579</u>	<u>102,000</u>
Total Other Borrowings		
	<u>2005</u>	<u>2004</u>
Total Borrowings		
	\$	\$
	134,579	102,000
Less current portion of Related Party Borrowings		
Less current portion of Other Borrowings		
Total Long-Term Borrowings		
	<u>280,100</u>	<u>          -</u>
	\$	\$
	<u>414,679</u>	<u>102,000</u>
	\$	\$
	788,679	1,136,639
	(374,000)	( 727,275)
	<u>(119,941)</u>	<u>( 102,000)</u>



\$	\$
<u>294,738</u>	<u>307,364</u>

Maturities of debt for the next five years after October 2005 are as follows:

Related Party

Other

Year Ending October 31,

Borrowings

Borrowings

Total

2006

\$

374,000

\$

119,941

\$

493,941

2007

-

11,743

11,743

2008

-

12,103

12,103

2009

-

10,821

10,821

2010 and thereafter

      -

260,071

260,071

\$

374,000

\$

414,679

\$

788,679

The Company was indebted to a financial institution pursuant to a note payable secured by automotive equipment in the amount of \$41,166 at October 31, 2003. This amount was paid in full as part of the insurance proceeds for the casualty loss caused by the flood as further explained in Note 11, CASUALTY LOSS OF PROPERTY DUE TO FLOOD.

In April 2005, the Company entered into discussions with David W. Lampl, Esq. ( Lampl ), a related party shareholder, regarding the terms of a potential loan from Lampl to the Company. Lampl disclosed the potential conflict of interest to the Company and followed the Pennsylvania Rules of Professional Conduct with regard to conflict of interest matters. Joseph Riccelli, the Company's Chief Executive Officer, executed, on behalf of the Company, a letter dated April 19, 2005, which outlined the terms of the loan. Mr. Riccelli also executed a Disclosure Statement stating that he understood the terms of the loan and consented to Lampl's role as both counselor to the Company and as payee of the loan. On April 28, 2005, the Company entered into a Secured Term Promissory Note (the Note ) with Lampl, whereby Lampl loaned and the Company agreed to pay Lampl the principal amount

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of fifty thousand and 00/100 dollars (\$50,000.00) plus interest at a rate of twelve percent (12%) per annum on or before December 31, 2005. On December 21, 2005, the note was amended to extend the maturity date to March 31, 2006. In connection with extending the maturity date of the note, the Company was required to pay Lampl \$4,000 representing accrued interest through December 31, 2005. The Company paid Lampl on December 23, 2005. Lampl is a member of the law firm of Leech Tishman Fuscaldo & Lampl, LLC which represents the Company with regard to various corporate matters.

To secure the indebtedness the Company granted a security interest to Lampl in and to all presently owned and after acquired personal property of the Company, including, but not limited to, Accounts Receivable, Equipment, Raw Materials, Inventory, Contract Rights and Proceeds and all General Intangibles. The Company also issued two (2) twenty-five thousand (25,000) share blocks of Rule 144 Common stock of the Company as additional consideration (the Additional Consideration). If all sums due under the Note have been paid on or before December 31, 2005, and if the closing price on the one (1) year anniversary date of the issuance of the Company stock to Lampl is equal to or greater than \$1.00 per share, then Lampl will return one (1) twenty-five thousand (25,000) share block to the Company. Otherwise, Lampl will retain the entire fifty thousand (50,000) shares of the Company stock free and clear of any claims or obligations.

If the Company defaults under the terms of the Note, the payment of the indebtedness will be accelerated and the interest rate will accrue on any remaining principal balance at a rate of eighteen percent (18%) from the date of default forward. The Note also contains a Confession of Judgment provision.

In July 2005, the Company entered into a 90 day note with a related party shareholder, Stephen H. Dake, for \$10,000. The note bears interest of ten percent (10%) and was payable on or before the 90 day due date of October 15, 2005. This was paid in full as of October 31, 2005.

In July 2005, the Company entered into a loan with a related party shareholder, Bonnie Dake, for \$5,000. The loan has no terms, bears no interest and is due upon demand. Accordingly, no interest has been reflected within the financial statements.

In July 2005, the Company entered into a loan with a related party shareholder and employee Gregory P. Domian, for \$5,000. The loan has no terms, bears no interest and is due upon demand. Accordingly, no interest has been reflected within the financial statements.

In July 2005, the Company received a no interest loan with Redevelopment Authority of Allegheny County in the amount of \$13,923. The Company qualified for a loan due to the significant loss of inventory, raw materials, and equipment when its leased warehouse, in which it maintained these items, was flooded by the remnants of Hurricane Ivan in September 2004. The loan is to be repaid over a forty-seven month period in equal payments of \$290.06, commencing July 1, 2006.

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

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**NOTES TO FINANCIAL STATEMENTS**

Ivan in September 2004. The note bears interest at an annual rate of 2.9%. Monthly installment payments, including principal and interest, will be \$1,186 beginning five months from the date of the promissory note. The note will be payable over 30 years. Certain guarantees of collateral were made by the Company's Chief Executive Officer and shareholder, Joseph Riccelli to service the note. The Company is to use the loan proceeds to repair or replace the following: approximately \$6,200 for machinery and equipment; approximately \$80,100 for furniture and fixtures; approximately \$148,700 for inventory; and approximately \$45,100 for working capital. The Company has received the full amount of this loan at October 31, 2005.

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

In September 2005, the Company signed a new loan agreement with James Kearney for a note payable. This new agreement is for a prior note payable of \$100,000, dated July 2004, in addition to accrued interest of \$14,000. This note bears interest at a flat rate of \$9,120. The principal of \$114,000 and interest are payable in full at any time after December 10, 2005. The note reflected in the financial statements reflects \$3,289 of accrued interest.

6.

#### CONVERSION OF NOTES PAYABLE RELATED PARTY TO EQUITY

Due to cash flow problems currently being experienced by the Company, on January 31, 2005, the holder of the note payable, RMF-Global Inc., a company solely owned by the Chief Executive Officer of Innovative Designs, Inc., Joseph Riccelli, agreed to accept 1,909,098 shares of the Company's \$.0001 par value common stock in settlement of \$763,639 of the Company's obligation. The Company still has \$200,000 outstanding of a note payable related party at October 31, 2005.

7.

#### CONCENTRATIONS

Earned revenues for the fiscal year ending October 31, 2005 include earned revenue to one major customer. The major customer accounted for approximately 72% of total Company earned revenue for the fiscal year. Accounts receivable from this customer totaled 83% as of October 31, 2005. There were no major concentrations during 2004.

The Company only has one supplier of eliotex, 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.

8.

GRANT INCOME

In July 2005, the Company received a grant from the Redevelopment Authority of Allegheny County in the amount of \$13,923. The Company qualified for the grant 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 grant is not a loan and will not be paid back to Allegheny County. The proceeds of the grant were used to purchase replacement equipment and/or inventory damaged in the flooding.

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**INNOVATIVE DESIGNS, INC.**

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NOTES TO FINANCIAL STATEMENTS

9.

COMMON STOCK

In June 2002, four founders were issued a total of 14,050,000 shares of Innovative Designs common stock valued at par or \$1,405.

In June 2002, the Company sold 20,500 shares of common stock for \$.75 per share or \$15,375.

In June 2002, the Company issued 623,500 shares of common stock for services valued at \$.75 per share or \$467,625.

In July 2002, the Company sold 31,000 shares of common stock for \$1 per share or \$31,000.

In August 2002, the Company sold 26,000 shares of common stock for \$1 per share or \$26,000.

In August 2002, the Company sold 49,000 shares of common stock for \$2 per share or \$98,000.

In August 2002, the Company issued 5,000 shares of common stock for services valued at \$2 per share or \$10,000.

In September 2002, the Company sold 48,500 shares of common stock for \$2 per share or \$97,000.

In October 2002, the Company sold 25,250 shares of common stock for cash at \$2 per share or \$50,500.

During February 2003 the Company issued 525,000 shares of common stock for services valued at \$2 per share or \$1,050,000 and 175,125 shares of common stock for cash at \$2 per share or \$350,250. In addition, 25,000 shares previously issued were cancelled.

During September 2003 the Company issued 450,000 shares of common stock for services valued at \$2 per share or \$900,000.



During October 2003 the Company sold 63,300 shares of common stock for cash at \$2 per share or \$126,000.

During October 2003 the Company issued 10,000 shares of common stock for cash at \$2 per share or \$20,000.

During November 2003 the Company sold 12,950 shares of common stock for cash at \$2 per share or \$25,900.

During November 2003 the Company issued 380,000 shares of common stock for services valued at \$2.00 per share or \$760,000.

During November 2003 the Company issued 140,000 shares of common stock for services valued at \$2.00 per share or \$280,000.

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During December 2003 the Company sold 5,500 shares of common stock for cash at \$2 per share or \$11,000.

During December 31, 2003 the Company issued 805,000 shares of common stock for services valued at \$2 per share or \$1,610,000.

During February 2004, the Company issued 30,000 shares of common stock for services valued at \$2.00 per share or \$60,000.

During March 2004 the Company issued 80,000 shares of common stock for services valued at \$1.20 per share or \$96,000.

During April 2004 the Company sold 50,000 shares of common stock for cash at \$1 per share or \$50,000.

During June 2004 the Company sold 132,000 shares of common stock for cash at \$0.61 per share or \$80,520.

During July 2004 the Company issued 100,000 shares of common stock for services valued at \$2 per share or \$200,000.

During July 2004 the Company reacquired for non-performance 1,050,000 shares valued at \$2 per share or \$(2,100,000).

During July 2004 the Company issued 150,000 shares of common stock for services valued at \$2 per share or \$300,000.

During October 2004 the Company issued 21,000 shares of common stock for services valued at \$0.52 per share or \$10,920.

During December 2004 the Company issued 100,000 shares of common stock for services valued at \$0.75 per share or \$75,000.

During December 2004 the Company issued 16,000 shares of common stock for services valued at \$0.50 per share or \$8,000.

During December 2004 the Company cancelled for non-performance 3,000 shares valued at \$1.20 per share or \$(3,600).

During January 2005 the Company issued 50,000 shares of common stock for services valued at \$0.30 per share or \$15,000.

During April 2005 the Company issued 145,000 shares of common stock for services valued at \$0.15 per share or \$21,750.

During April 2005 the Company issued 50,000 shares of common stock for additional consideration for a loan at \$0.15 per share or \$7,500.

During April 2005 the Company cancelled for non-performance 30,000 shares valued at \$1.20 per share or \$(36,000).

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**INNOVATIVE DESIGNS, INC.**

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During April 2005 the Company sold 33,334 shares of common stock for cash at \$0.15 per share or \$5,000.

During April 2005 the Company sold 33,334 shares of common stock for cash at \$0.15 per share or \$5,000.

During April 2005 the Company sold 6,400 shares of common stock for cash at \$0.15 per share or \$960.

During June 2005 the Company issued 6,000 shares of common stock for services valued at \$0.40 per share or \$2,400.

During July 2005 the Company sold 2,000 shares of common stock for cash at \$0.25 per share or \$500.

During July 2005 the Company sold 2,500 shares of common stock for cash at \$0.20 per share or \$500.

10.

#### INCOME TAXES

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

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

2005

2004

Income tax provision at

the federal statutory rate

34 %

34 %

Effect of operating losses

(34)%

(34)%

—

—

The Company's deferred tax asset is as follows:

2005

2004

Deferred tax assets

\$

65,009

\$

286,000

Less: valuation allowance

(65,009)

(286,000)

Net deferred taxes

\$

— -

\$

— -

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**NOTES TO FINANCIAL STATEMENTS**

The Company has a net operating loss of approximately \$1,912,020 and \$842,000 at October 31, 2005 and 2004, respectively, which can be carried forward through October 31, 2025. The principal difference between the net operating loss for book purposes and income tax purposes results from common shares issued for services aggregating of \$3,657,580 and \$3,575,030 at October 31, 2005 and 2004, respectively.

11.

#### COMMITMENTS

The Company currently maintains two offices which are leased pursuant to an oral agreement on a month-to-month basis for approximately \$3,300 per month. For the years ended October 31, 2005 and 2004, rent expense totaled approximately \$39,600 for each year.

12.

#### CASUALTY LOSS OF PROPERTY DUE TO FLOOD

On September 18, 2004, the Company suffered a significant loss of its inventory, raw material, and automotive equipment when the leased warehouse in which it maintained these items was flooded by the remnants of Hurricane Ivan. The combined book value of the lost inventory, raw material, and automotive equipment is \$173,830. Additionally, the Company issued 21,000 shares of its common stock to various individuals, in exchange for moving and cleaning services. The Company valued these shares at approximately \$0.52 per share or an aggregate of \$10,920. The Company received total proceeds from the insurance companies of \$67,802, resulting in a net casualty loss of \$116,948.

13.

#### CONTINGENCIES AND UNCERTAINTIES

The Company became aware, by virtue of communication from certain of its customers and/or prospective customers, of their receipt of a letter from attorneys purporting to represent Elio Cattan, informing said parties that the Company was infringing on a patent held by Mr. Cattan in its manufacture and use of products containing Eliotex. Said letter went on to threaten unspecified reprisals against any party that continued to so infringe, and further actively solicited the purchase of Eliotex from Mr. Cattan. No legal action was instituted by Mr. Cattan to support said allegations; the letters were mere recitations that the Company strongly believes are false, fraudulent and malicious.

In response, the Company caused to be filed a Declaratory Judgment Action in the United States District Court for the Western District of Pennsylvania at Case No. Cv04-0593 on April 20, 2004. In said Action, in which the Company was joined by RMF Global, Inc., the Company seeks:

(1)

a declaration that it did not infringe on U.S. Patent No. 6,083,999;

(2)

a declaration that said patent is invalid and unenforceable;

(3)

a declaration that the plaintiffs have not infringed on the Eliotex trademark;

(4)

an injunction prohibiting any further tortious interference with the Company's business and contractual relations; and

(5)

an injunction prohibiting any further engaging in unfair competition.

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Without answering or denying any of the Company's allegations, Mr. Cattan sought to stay the District Court proceedings, pending an arbitration proceeding to determine the merits of the dispute among the parties. That Motion was granted by the Court. A subsequent Motion was filed by the Company, seeking to dismiss any claims the Court might find to be arbitrable, and lift the stay with respect to the remaining claims so that Mr. Cattan's allegations may be subject to the scrutiny of a court of law. That Motion was denied by the Court.

The Company is of the strong opinion and belief, as is its counsel, that the District Court has erred in its interpretation of both the facts and the law in this case, and is in the process of taking an appeal of Judge Schwab's Orders before the Third Circuit Court of Appeals of the United States District Court. The Company is confident of its position, and the likelihood of its success on the merits, and views the actions of Mr. Cattan as desperate delay tactics designed to enable him to attempt the perpetuation of a fraud upon both the Company and its customers and prospective customers.

Subsequent to October 31, 2005, the Company learned that *Elio Cattan and Eliotex s.r.l.* obtained an arbitration award against the Company in the amount of \$4,176,000.00, on May 6, 2005 from an Italian Arbitration Tribunal. The Company was later informed that Defendant's counsel filed a subsequent motion in the District Court to confirm and enforce the Tribunal's award against the Company and to add Joseph Riccelli as a part to the litigation. As of the date of this filing, no ruling had been made on the above motion.

The Company has also instructed its counsel to take all actions necessary and proper to protect the interests of both the Company, its shareholders and all other entities and individuals with which it conducts business.

14.

#### SUBSEQUENT EVENTS

Through January 9, 2006 the Company issued 461,000 shares of common stock. 400,000 shares were valued at \$0.42 per share for services and 61,000 were valued at \$0.42 for cash.

On January 24, 2006, Frank Riccelli, acting President of Innovative Designs, Inc. (the Company), delivered his letter of resignation to the Company's Chief Executive Officer resigning his position as President effective January 24, 2006.

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ITEM 8.

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS AND FINANCIAL DISCLOSURE.

On June 29, 2004, we reported in a Form 8-K, that:

(a)

on June 1, 2004, Innovative Designs, Inc. ( the Registrant ) engaged Louis Plung & Company, LLP to act as the Registrant s independent certified public accountant. Louis Plung & Company, LLP replaces Stark Winter Schenkein & Co., LLP who resigned on May 6, 2004.

(a)

Stark Winter Schenkein & Co., LLP reports on the financial statements were not subject to an adverse or qualified opinion or a disclaimer of opinion and were not modified as to uncertainty, audit scope or accounting principles during the year ended October 31, 2003 and the interim period through May 6, 2004, except that the report on the financial statements for the year ended October 31, 2003 contained a going concern qualification.

(b)

The decision to change accountants was approved by the Registrant s Board of Directors; and

(c)

We did not consult with Louis Plung & Company, LLP, our new independent accountants, regarding any matter prior to its engagement.

(d)

During the year ended October 31, 2003 and the interim period through May 6, 2004 there were no disagreements with Stark Winter Schenkein & Co., LLP related to accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of Stark Winter Schenkein & Co., LLP, would have caused Stark Winter Schenkein & Co., LLP, to make reference to the subject matter of the disagreement in connection with its report.

ITEM 8A.

CONTROLS AND PROCEDURES

As of October 31, 2005 and 2004, an evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, our management, including our Chief Executive Officer and Principal Financial Officer, concluded that our disclosure controls and procedures were effective as of October 31, 2005 and 2004.

There have been no significant changes in our internal control over financial reporting during the fiscal year ended October 31, 2005 and 2004, or subsequent to October 31, 2005, that have materially affected or are reasonably likely to materially affect, our internal control over financial reporting.

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**INNOVATIVE DESIGNS, INC.**

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## PART III

## ITEM 9.

DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

## 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 above will serve until the next annual meeting of our shareholders which is held within sixty (60) days of our fiscal year end, or until a successor is elected and has accepted the position.

None of our directors hold directorships in any Securities and Exchange Commission reporting companies. Our directors and executive officers are as follows:

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Term</u>
Frank Riccelli	45	President/Director	1 year
Joseph Riccelli	55	Chief Executive Officer/Chairman	1 year
Dean P. Kolocouris	33	Director	1 year
Robert D. Monsour	51	Director	1 year
Anthony Fonzi	57	Chief Financial Officer/Director	1 year
Joseph A. Riccelli	24	Vice President	Not Applicable

## Family Relationships

Frank Riccelli, our President and Director, and Joseph Riccelli, our Chief Executive Officer and Chairman of the Board, are brothers. Joseph A. Riccelli, our Vice President, is the son of our Chief Executive Officer, Joseph Riccelli, and the nephew of our President, Frank Riccelli.

Frank Riccelli has been our President and a Director since our inception in June 2002. Frank Riccelli dedicates only approximately 30 hours per week to our business and operations. From April 1989 to present, Frank Riccelli has been the owner and president of Exceptional Motor Cars, a car dealership located in Glenshaw, Pennsylvania. Additionally, since March 1981 to present, Frank Riccelli has been the owner of Pittsburgh Foreign Domestic, a car dealership located in Glenshaw, Pennsylvania. Frank Riccelli attended the Community College of Allegheny County from 1979 to 1981.

Joseph Riccelli has been our Chief Executive Officer and Chairman of the Board since our inception in June 2002. Joseph Riccelli now spends approximately 40 hours per week to implement our Plan of Operations; however, upon completion of our Plan of Operations, if ever, he plans to spend only half time to our operations and the other half of his time to our affiliated entity, RMF Global. From February 1999 to present, Joseph Riccelli has been the President, Owner and Chief Executive Officer of RMF Global, our licensor/eliotex distributor

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**INNOVATIVE DESIGNS, INC.**

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located in Pittsburgh, Pennsylvania. From February 1999 to our inception, Mr. Riccelli worked full time at RMF Global; however, since our inception, he has devoted only 10 hours per week to RMF Global's operations. From March 1984 to November 1998, Joseph Riccelli was the owner of Pittsburgh Foreign and Domestic, a sole proprietor car dealership located in Glenshaw, Pennsylvania. Joseph Riccelli attended Point Park College located in Pittsburgh, Pennsylvania from 1971 to 1972.

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

Robert D. Monsour has been one of our Directors since our inception in June 2002. From July 1984 to November 1997, Mr. Monsour was the owner and founder of his own law firm, Robert D. Monsour, Esq., P.C., located in Pittsburgh, Pennsylvania. From November 1997 to present, Mr. Monsour has been the Administrator of RGM Medical Management, a medical management firm headquartered in Pittsburgh, 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.

Anthony Fonzi has been one of our Directors and our Chief Financial Officer and Chief Accounting Officer since our inception in June 2002. From our inception to April 14, 2003, Mr. Fonzi spent approximately 10 hours a week as our Chief Financial Officer and Chief Accounting Officer. Since April 15, 2003, Mr. Fonzi has spent approximately 20 hours a week as our Chief Financial Officer and Chief Accounting Officer. From June 1995 to present, Mr. Fonzi has been a Tax Director at D. Cerniglia and Associates, a Certified Public Accounting firm located in Monroeville, Pennsylvania. As Tax Director, Mr. Fonzi is responsible for all tax functions on behalf of D. Cerniglia and Associates. In May 1985, Mr. Fonzi received a Masters Degree in Taxation from Robert Morris College located in Pittsburgh, Pennsylvania. In May 1970, Mr. Fonzi received a Bachelors Degree in Accounting from Robert Morris College.

Joseph A. Riccelli, Jr., 23, has been our Vice President since May 15, 2003. From November of 2002 until May 14, 2003, Mr. Riccelli was our Vice President on a consultant basis. As Vice President, Mr. Joseph A. Riccelli assists our Chief Executive Officer on a full-time basis by overseeing our daily operations and our distribution center. From June 2002 to October 2002, Joseph A. Riccelli was our outside consultant to assist in overseeing our daily operations. From June 2001 to June 2002, Mr. Riccelli was the Vice President of RMF Global. Mr. Riccelli has no other employment experience. Joseph A. Riccelli has been attending the University of Pittsburgh since September 2001 and is majoring in Business Administration.

- # -

**INNOVATIVE DESIGNS, INC.**

**(A Development Stage Company)**



## Significant Employees

We have the following additional significant employees:

Dave Shondeck, 37, has been our Director of Finance since April 15, 2003, and spends approximately 30 hours per week regarding this position. From January 2003 until April 14, 2003, Mr. Shondeck was our Director of Product Development Research on a consultant basis. During only June 2002, Mr. Shondeck was our consultant to assist in formulating our business plan. From June 2000 to November 2002, Mr. Shondeck was employed as a Marketing and Financial Consultant by Fonzi and Associates, an accounting and financial services firm located in Pittsburgh, Pennsylvania. From May 1996 to February 2001, Mr. Shondeck was employed as a Sales and Marketing Product Manager with Dt Technologies, Inc., a manufacturing technology firm located in Pittsburgh, Pennsylvania. In May 1987, Mr. Shondeck obtained a BSBA Degree in accounting from Duquesne University located in Pittsburgh, Pennsylvania.

Gregory P. Domian, 50, has been our Vice President of Sales and Marketing since May 2005 and spends approximately 45 hours per week regarding this position. Gregory manages the sales force across the United States and Canada, attends all major trade shows for Innovative Designs, Inc. and performs inventory control. Prior to this, Mr. Domion was employed with 84 Lumber performing analysis of product sales. From April 2000 to September 2003, Mr. Domion also worked at Dicks Sporting Goods performing assortment planning, purchasing, and advertising from 1994 to 1996. Mr. Domion has an Associates Degree from Duquesne University located in Pittsburgh, Pennsylvania.

## Committees of the Board Of Directors

We presently do not have an audit committee, compensation committee, nominating committee, an executive committee of our board of directors, stock plan committee or any other committees. However, our board of directors is considering establish various committees during the current fiscal year.

## Audit Committee Financial Expert

We have no financial expert. We believe the cost related to retaining a financial expert at this time is prohibitive. Further, because of our start-up operations, we believe the services of a financial expert are not warranted.

## Code of Ethics

We have not yet adopted a corporate code of ethics. Our board of directors is considering, over the next year, establishing a code of ethics to deter wrongdoing and promote honest and ethical conduct; provide full, fair, accurate, timely and understandable disclosure in public reports; comply with applicable laws; ensure prompt internal reporting of code violations; and provide accountability for adherence to the code.

- # -

**INNOVATIVE DESIGNS, INC.**

**(A Development Stage Company)**

Legal Proceedings

None of our officers, directors, or persons nominated for such position, significant employees, or promoters have been involved in legal proceedings that would be material to an evaluation of their ability or integrity, including:

- involvement in any bankruptcy;
- conviction in a criminal proceeding;
- being the subject of a pending criminal proceeding;
- being the subject of any order or judgment, decree permanently or temporarily enjoining, barring, suspending or otherwise limiting their involvement in any type of business, securities or banking activities; and
- being found by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission or the Commodity Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended, or vacated.

ITEM 10.

EXECUTIVE COMPENSATION

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

- # -

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

Summary Compensation Chart

Annual Compensation

Long-Term Compensation

Name and Position

Year

Sales (\$)

Bonus (\$)

Other (\$)

Restricted (\$)

Stock Options (\$)

Awards (\$)

Frank Riccelli

2002

-

-

-

2,050,000

-

-

President/Director

Frank Riccelli

2003

-

-

President/Director

Frank Riccelli

2004

-  
-  
-  
-  
-  
-  
-  
-  
-  
-  
-

President/Director

Frank Riccelli

2005

-

-

-

-

-

-

President/Director

Joseph Riccelli

2002

-

	-
	-
	10,100,000
	-
	-
Chief Executive	
Officer Chairman	
Joseph Riccelli	

2003

-  
-  
-  
-



Chief Executive

Officer Chairman

Joseph Riccelli

2004

Chief Executive

-

-

-

-

-

-

-

-

Officer Chairman

Joseph Riccelli

2005

-

-

-

-

-

-

Chief Executive

Officer Chairman

Joseph A. Riccelli

2002

-

-

-

750,000

-

-

Vice President

Joseph A. Riccelli

2003

-

-

-

-

-

-

Vice President

Joseph A. Riccelli

2004

-

-

-

-

-

-

Vice President

Joseph A. Riccelli

2005

-

-

-

-

-

-

Vice President

- # -

**INNOVATIVE DESIGNS, INC.**

**(A Development Stage Company)**

There are no employment agreements between us and our executive officers, Frank Riccelli or Joseph Riccelli. We have a May 2003 verbal agreement with Michelle Griffith, our Vice President of Sales and Marketing, which provides that we pay Ms. Griffith a \$55,000 annual salary for the period from May 2003 to May 2004. On October 30, 2004, she resigned as an employee of the Company. We have a May 2003 verbal agreement with Joseph A. Riccelli, our Vice President, which provides that we pay Joseph A. Riccelli a \$31,000 annual salary for the period from May 2003 to May 2004. This verbal agreement was renewed through May of 2007 to continue the same annual salary of \$31,000. 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.

- # -

**INNOVATIVE DESIGNS, INC.**

**(A Development Stage Company)**

## ITEM 11.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following tables set forth the ownership as of January 7, 2005 (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, our directors as a group, or related party shareholders.

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 Beneficial Owners

<u>Title of Class</u>	<u>Name and Address</u>	<u>Amount</u>	<u>Nature</u>	<u>Percent</u>
Common Stock	Joseph Riccelli Chief Executive Officer Chairman of the Board of Directors 142 Loire Valley Drive Pittsburgh, PA 15209	10,500,000	Direct	60.62%
Common Stock	Frank Riccelli President and Director 152 Wedgewood Drive Gibsonia, PA 15044	2,050,000	Direct	11.84%
Common Stock	Joseph A. Riccelli Trust Vice President 223 N. Main Street Apartment 6 Pittsburgh, PA 15215	750,000	Direct	4.33%
Common Stock	Gino M. Riccelli	740,000	Direct	4.27%



221 N. Main Street  
Apartment 1  
Pittsburgh, PA 15215

Total	14,040,000.00	81.06%
-------	---------------	--------

- # -

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

## Security Ownership of Management

<u>Title of Class</u>	<u>Name and Address</u>	<u>Amount</u>	<u>Nature</u>	<u>Percent</u>
Common Stock	Joseph Riccelli Chief Executive Officer Chairman of the Board of Directors 142 Loire Valley Drive Pittsburgh, PA 15209	10,500,000	Direct	60.62%
Common Stock	Frank Riccelli President and Director 152 Wedgewood Drive Gibsonia, PA 15044	2,050,000	Direct	11.84%
Common Stock	Robert D. Monsour Director 6131 Saltzburg Road Murrysville, PA 15668	40,500	Direct	0.23%
Common Stock	Dean P. Kolocouris Director 120 Timberglen Drive Imperial, PA 15126	27,000	Direct	0.16%
Common Stock	Anthony Fonzi Director/Chief Financial Officer 2912 Bryer-Ridge Ct. Export, PA 15632	20,000	Direct	0.12%
C o m m o n Stock	Gregory P. Domian Vice President of Sales 1929 Main Street			

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	Pittsburgh, PA 15215	10,000	Direct	0.06%
Common Stock	Joseph A. Riccelli Trust	750,000	Direct	4.43%
	Vice President 223 N. Main Street Apartment 6 Pittsburgh, PA 15215			
Total		13,397,500		77.46%

- # -

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

ITEM 12.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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

Our officers and directors have the following conflicts of interests:

•

Our Chief Executive Officer and Chairman of the Board, Joseph Riccelli, is the owner of RMF Global, our sublicensor, upon which our entire business is wholly dependent;

•

Our sublicense agreement with RMF Global requires us to pay a total of \$1,250,000 for the grant of a license to sell RMF Global's three products and other products we develop using eliotex, to be paid as follows: (i) 50,000 down payment which has been paid; (ii) 1,909,098 shares of the Company s \$.0001 par value common stock in settlement of \$763,639 of the obligation which has been paid; and (iii) \$200,000 which is due on demand since Joseph Riccelli, our Chief Executive, is the owner of RMF Global, he will personally benefit from our payment of these license payments to RMF Global;

•

We lease warehouse space that is owned by our President, Frank Riccelli, at a rate of \$2,600 per month;

•

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. RMF Global shares our executive offices rent-free; and

•

Our officers, directors and key consultants have the following family relationships: (a) Joseph Riccelli, our Chief Executive Officer/Chairman of the Board, is the brother of Frank Riccelli, our President/Director; and (b) Joseph A. Riccelli, Vice President, is the son of our Chief Executive Officer, Joseph Riccelli, and the nephew of Frank Riccelli, our President/Director.

- # -

**INNOVATIVE DESIGNS, INC.**

**(A Development Stage Company)**

Agreement Between us and RMF Global

On November 25, 2002, we entered into a written agreement with RMF Global. The agreement provides that:

•

RMF Global grants an exclusive license to us to manufacture and market RMF's three products made from eliotex and grants us a license to develop our own products using eliotex;

•

RMF Global assures us of an adequate and timely supply of eliotex to meet our product orders;

•

RMF Global will offer eliotex to us at a price equal to the lowest price it charges any other RMF Global customer;

•

RMF Global will transfer all of its rights, title and interest in all promotional materials, advertisements, marketing strategies, and the like for which it has contracted to us, and we will have the unfettered right to use the same in any manner we see fit; and

•

We must pay to RMF Global, as follows: (i) \$50,000 down payment which has been paid; (ii) 1,909,098 shares of the Company's \$.0001 par value common stock valued at \$763,639, which has been paid; and (iii) and owes \$200,000 which is due on demand.

Other than the above transactions, we have not entered into any material transactions with any director, executive officer, and nominee for director, beneficial owner of five percent (5%) or more of our stock, or family members of such persons where the amount of the transaction or chain of transactions exceeds \$60,000. We are not a subsidiary of any company.

- # -

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

ITEM 13.

EXHIBITS AND REPORTS ON FORM 8-K

Exhibit

Number

Description

3.1

Certificate of Incorporation\*

3.2

Bylaws\*

4

Specimen Stock Certificate\*

5

Opinion of Hamilton, Lehrer and Dargan, P.A.\*\*\*

10.1

Agreement between us and RMF Global, Inc.\*

10.2

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

31.1

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

32.1

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

99

Test Results from Vartest Lab\*

100



Test Results from Texas Research Institute Austin, Inc.

\*

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

\*\*

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

\*\*\*

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

\*\*\*\*

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

We hereby incorporate the following additional documents by reference: (a) our Registration Statement on Form SB-2 and all amendments thereto which was filed on March 11, 2003, and amended on May 22, 2003, July 8, 2003, August 7, 2003, and September 9, 2003; (b) our Form 8-K filed on September 29, 2003 and amended on October 27, 2003; (c) our Form 8-K filed on June 29, 2004; and (d) our Form 8-K filed on September 23, 2004.

Reports on Form 8-K

On June 29, 2004, the registrant filed a Form 8-K under item 4 Changes in Registrant's Certifying Account.

On September 23, 2004, the registrant filed a Form 8-K under item 8 Other Events. Other events consisted of the Company losing various inventory vehicles and other items from flooding caused by the remnants of Hurricane Ivan.

On May 3, 2005, the registrant filed a Form 8-K under item I Entry into a Material Definitive Agreement.

On September 16, 2005, the registrant filed a Form 8-K under item 5 Departure of Directors or Principal Officers; Election of Directors; Appointment of Principal Officers.

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On October 19, 2005, the registrant filed a Form 8-K under item I Entry into a Material Definitive Agreement.

- # -

**INNOVATIVE DESIGNS, INC.**

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On January 27, 2005, the registrant filed a Form 8-K under item 5 Departure of Directors or Principal Officers; Election of Directors; Appointment of Principal Officers.

ITEM 14.

PRINCIPAL ACCOUNTANT FEES AND SERVICES

Audit Fees

The aggregate fees billed for the fiscal years ended October 31, 2005 and 2004 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-KSB 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, 2005 and 2004, our current auditors, Louis Plung & Company billed the Company \$5,500 and \$5,000 for professional services, respectively. In addition, during the year ended October 31, 2004, we paid our principal accountants Stark Winter Schenkein & Co., LLP \$7,500 for services related to the audit of the October 31, 2003 financial statements.

Audit Related Fees

None.

Tax Fees

None.

All Other Fees

None.



SIGNATURES

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

INNOVATIVE DESIGNS, INC.

(Registrant)

Date:

January 13, 2006

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 13, 2006

By:

/s/ Joseph Riccelli

Joseph Riccelli

Chief Executive Officer

Chairman of the Board of Directors

Date:

January 13, 2006

By:

/s/ Anthony Fonzi

Anthony Fonzi

Chief Financial Officer,

Principle Accounting Officer,

and Director

Date:

January 13, 2006

By:

s/s Frank Riccelli

Frank Riccelli

Director

Date:

January 13, 2006

By:

s/s Dean P. Kolocouris

Dean P. Kolocouris

Director

Date:

January 13, 2006

By:

s/s Robert D. Monsour

Robert D. Monsour

Director

- # -

EXHIBIT 31.1

INNOVATIVE DESIGNS, INC.

CERTIFICATIONS

I, Joseph Riccelli, certify that:

1.

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

2.

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

3.

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

4.

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

(a)

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



(b)

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

(c)

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

(d)

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

5.

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

- # -

(a)

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

(b)

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

Date:

January 13, 2006

By:

/s/ Joseph Riccelli

Joseph Riccelli

Chief Executive Officer

- # -

EXHIBIT 31.2

INNOVATIVE DESIGNS, INC.

CERTIFICATIONS

I, Anthony Fonzi, certify that:

1.

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

2.

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

3.

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

4.

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

(a)

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

(b)

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

(c)

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

(d)

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

5.

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

- # -

(a)

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

(b)

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

Date:

January 13, 2006

By:

/s/ Anthony Fonzi

Anthony Fonzi

Chief Financial Officer,

Principal Accounting Officer,

and Director

- # -

EXHIBIT 32.1

SECTION 906 CERTIFICATION

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO SECTION 906 OF THE

SARBANES-OXLEY ACT OF 2002

In connection with the Form 10-KSB Annual Report of Innovative Designs, Inc. (the "Company") for the period ended October 31, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

•

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

•

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

Date:

January 13, 2006

By:

/s/ Joseph Riccelli

Joseph Riccelli

Chief Executive Officer

- # -

EXHIBIT 32.2

SECTION 906 CERTIFICATION

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO SECTION 906 OF THE

SARBANES-OXLEY ACT OF 2002

In connection with the Form 10-KSB Annual Report of Innovative Designs, Inc. (the "Company") for the period ended October 31, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

•

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

•

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

Date:

January 13, 2006

By:



/s/ Anthony Fonzi

Anthony Fonzi

Chief Financial Officer,

Principal Accounting Officer,

and Director

- # -