

INNOVATIVE DESIGNS INC
Form 10-K
March 13, 2019

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

Annual report under section 13 or 15(d) of the Securities Act of 1934.
For the fiscal year ended October 31, 2018

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

Commission file number:H00-51791

Innovative Designs, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other Jurisdiction of Incorporation or Organization)

03-0465528

(I.R.S. Employer Identification Number)

124 Cherry Street Pittsburgh, Pennsylvania

(Address of Principal Executive Offices)

15223

(Zip Code)

(412) 799-0350

(Registrant's telephone number including area code)

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

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

(Title of Class)

Common Stock, \$.0001 par value per share

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

Yes No

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

Yes No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes
No

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

Yes No

The issuer's revenues for its most recent fiscal year were \$277,966.

The aggregate market value of the voting stock and non-voting stock held by non-affiliates of the issuer based on the closing price of \$0.08 on February 19, 2019, as reported by the OTCQB, was \$1,614,466.

The number of shares of the issuer's common stock outstanding, as of February 19, 2019, was 28,149,560.

Transitional Small Business Disclosure Format: Yes No

ITEM 1. DESCRIPTION OF BUSINESS.

The Company was incorporated in the State of Delaware on June 25, 2002. We operate in two separate business segments; cold weather clothing and a house wrap for the building construction industry. Both of our segment lines use products made from INSULTEX, which is a low density foamed polyethylene with buoyancy, scent block, and thermal resistant properties. We have a license agreement directly with the owner of the INSULTEX Technology. In December 2015, we took delivery of equipment capable of producing INSULTEX. Given the time and cost of bringing the equipment into production mode and our current financial condition, it is our current intention to attempt to sell the equipment. We will continue to operate under the license agreement for the manufacture of INSULTEX used in our cold weather clothing.

Other companies are free to purchase INSULTEX from us assuming that it is a company within the distribution jurisdiction that we have, which is worldwide with the exception of Korea and Japan. Other than Korea and Japan, we are the sole worldwide supplier/distributor of the INSULTEX material.

We offer the following products containing INSULTEX:

Floating Swimwear: Product under our product name "Swimeez". Our swimwear is designed to be a swim aid. The interior lining of our swimwear product is made from INSULTEX, which enhances floatability. This product was discontinued during 2010 and we are only selling from our existing inventory.

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

Arctic Armor Line: The Arctic Armor line, introduced in April of 2006, consists of a jacket, bib and gloves. The suit contains 3 layers of INSULTEX for uncompromised warmth and provides the user with guaranteed buoyancy. The gloves contain a single layer of INSULTEX and are windproof, waterproof and good to sub-zero temperatures as are the jacket and bibs.

INSULTEX House Wrap: Our house wrap product is designed for the building construction industry. This product, made from INSULTEX, provides barrier protection plus moisture vapor transmission and approximately R-3 and R-6 value insulation. We also sell a tape that is designed to be used with the INSULTEX House Wrap. In December 2016, we temporarily suspended any advertising of our House Wrap product line.

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

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

Our apparel products containing INSULTEX are manufactured, under agreement, at a facility we currently utilize in Indonesia. We assumed no material costs associated with the design, prototyping, and testing of these products because: (a) we did not utilize the services of any outside consultant or company for these purposes and (b) although we used the services of our Chief Executive Officer and Vice President of Sales and Marketing for these purposes, their efforts are part of their normal responsibilities. Our INSULTEX House Wrap product is manufactured in the United States through a third-party manufacturer.

For financial information regarding each segment, please see Note 9 of the Notes to Financial Statements appearing elsewhere in this Report.

The INSULTEX License and Manufacturing Agreement

Under the terms of the agreement between us and the Ketut Group, Ketut Group agrees to promptly deliver to Innovative Designs, Inc. within twenty-eight (28) days of receiving an order, all INSULTEX ordered by us. Under the terms of the agreement, we are required to pay a fixed amount per meter of INSULTEX. This fixed amount will not change under the agreement for a period of ten (10) years after the date of the agreement was signed, which was April 1, 2006. The agreement provides that after the ten (10) year period, the price of the INSULTEX shall be adjusted for a subsequent ten (10) year term, no more than twelve percent (12%) for the subsequent ten (10) year period. We order INSULTEX from time to time as needed and are not required to purchase any minimum amount of INSULTEX during the term of the agreement, and we are not required to make any minimum annual payment. However, should we place an order; any quantity ordered must be a minimum of 100,000 yards of INSULTEX. We are not required to pay any part of any sublicense fee that we receive from third party sub-licensees, and we are not required to pay any fees to the Ketut Group. This agreement will be in full legal force and effect for an initial term of ten (10) years from the date of its execution. We have the option to renew this agreement for up to three (3) successive terms of ten (10) years each by giving notice of our intention to so renew not less than ninety (90) days prior to the expiration of the then-current term. The Company has exercised the first ten-year renewal option. We purchased the equipment capable of producing INSULTEX from the Ketut Group.

COLD WEATHER CLOTHING PRODUCTS

Arctic Armor Line

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

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

Website and Retailers

We sell both wholesale and retail products on our web site. Our web site, located at www.idigear.com, contains information on our products, technical information on INSULTEX insulation, e-commerce capabilities with "shopping cart", wholesaler information and order forms, company contact information, and links to retailers that carry our products. We have obtained the services of BA Web Productions who assists us in designing and continually developing our website. Our web site features a "wholesaler only" area, allowing our wholesalers access to information, ordering, and reordering. Our products are offered and sold by retailers, distributors and through our web site in all states and Canada. Except for products sold through our web site, others who purchase our products do so at wholesale prices which they plan to sell at their retail prices or use within their industry.

Sales

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

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

Certain retailers buy directly from us. We have no verbal or written agreements with them. These retailers purchase our products strictly on a purchase order basis. During our last fiscal year, we sold our products to such retailers as Canadian Tire and Dick's Sporting Goods. Some of our distributors during the last fiscal year were Triple S Pro Fishing Supplies and Fleece Corner. We distribute our products to the following:

Swimeez Products

We distribute our Swimeez products through our web site.

Hunting Apparel Line

We distribute our hunting apparel through our web site.

Our hunting apparel consists of a six pocket pants, 1/2 zip pullover jacket with collar, parka jacket, fleece jacket, bib coveralls in light weight, and bib coveralls in arctic weight.

-5-

Arctic Armor Line

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

During our last fiscal year, two customers accounted for more than ten percent of our cold weather clothing products sales, Fleece Corner (27.1%) and Pro Fishing Supplies (14.5%).

HOUSE WRAP

House Wrap

In early January 2008, we announced that we had completed our research and development effort on a new use for INSULTEX as a house wrap for the building construction industry. This house wrap provides barrier protection plus moisture vapor transmission and the feature of approximately R-3 and R-6 value insulation. The INSULTEX House Wrap was designed to specifically add enhanced insulating characteristics. In addition, the house wrap is priced competitively with existing house wraps that do not provide any insulation. The development efforts were conducted by our own personnel and an outside consultant. In December 2016, we temporarily suspended any advertising for our House Wrap product line as we are currently in litigation with the Federal Trade Commission (“FTC”). Please see “Legal Proceedings” appearing elsewhere in this report.

INSULTEX House Wrap

During our last fiscal year three customers accounted for more than ten percent of our total sales of our House Wrap product, A-Team Building Supplies, LLC (38.7%), Well Done Insulation (31.1%), and Eddie’s Ace Hardware (13.2%).

Competition

Many companies offer a type of house wrap some with insulating properties. These companies have large operations and are well financed. Some of the larger companies are DuPont, Owens-Corning and Kimberly Clark. The Company expects to face intense competition with others who have much greater resources in the building construction supply industry.

Our marketing program consists of the following:

MARKETING COMPONENT

Website Development and Internet Marketing

We contract with marketing consultants to:

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

Sales Representatives

Our vice president of sales and marketing works to:

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

Contract with Manufacturer

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

Design and Develop

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

Establish Wholesale

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

Develop Trade Show Booth

We use our own personnel to design and develop a portable display booth, and product materials to be used in sporting goods and outdoor apparel trade shows. During the last fiscal year, we did not attend any trade shows.

-7-

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

INSULTEX is used in all our Arctic Armor finished goods, except for our headwear, and is purchased directly from the Ketut Group.

All of our cold weather clothing products, except for our gloves, which are purchased from a supplier in the U.S., are sub-manufactured by PT Lidya and Natalia located in Indonesia. Indonesia does not impose quotas that limit the time period or quantity of items which can be imported. The U.S. Customs Service imposes an importation duty of 6.5% on all our imported products.

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

The fulfillment process involved in completing wholesale orders for non-stocked Arctic Armor products and House Wrap product is described below:

- We receive a purchase order for a certain number of items from a wholesale purchaser by hand delivery, fax, courier, or mail, with an authorized signature of the purchaser. We do not accept telephone orders.

We contact our sub-manufacturers with the details of the order, including the number of units to be produced according to design or model, size, or color. The sub-manufacturer procures all materials required for the product. Our House Wrap inventory is stored in the facility that manufactures it. We use a commercially available breathable water repellent film used in the manufacturing process that we store at the seller's facility.

We complete and forward a purchase order to the manufacturer. The manufacturer approves or disapproves a purchase order.

If the purchase order is approved, the manufacturer responds with a final cost, production schedule and date the goods will be delivered to us.

- We receive finished goods and facilitate turn-around for shipment to retailers. Goods are received in our warehouse/distribution center located in Pittsburgh, Pennsylvania where they are packaged in

Master Packs, hang tags attached, and UPC/UCC codes labels applied to items for retailer distribution.

Any apparel inventory we maintain is stored at our warehousing facility. Our warehouse facility has the capacity to hold 250,000 units of finished products in inventory. Our House Wrap inventory is stored in the facility that manufactures it.

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

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

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

In December 2009, we filed a patent application, No. 12 642714, with the United States Patent and Trademark Office for our Composite House Wrap. The application is still pending. In order to obtain the broadest possible patent protection for this invention Innovative Designs, Inc. has appealed a portion of the decision of the Patent Trial and Appeal Board (PTAB) entered in Appeal 2015-006289 to the Court of Appeals for the Federal Circuit (CAFC) under 35 U.S.C. §141. The portion of the decision of the Patent Trial and Appeal Board (PTAB) entered in Appeal 2015-006289 reversing the examiner's rejection has not been appealed. Innovative Designs, Inc. expects a favorable action allowing for the broadest possible patent protection to be obtained.

We had filed a provisional application in December 2008. The patent is currently held by our Chief Executive Officer and a consultant to the Company.

In February of 2010, our Chief Executive Officer filed a patent application for a composite fabric material and apparel made therefrom. The patent has been allowed. The patent has been assigned to the Company.

In May 2016, our Chief Executive Officer and a consultant to the Compliant filed a patent application relating to INSULTEX entitled "Process for Forming Closed Cell Expanded Low Density Polyethylene Foam and Products Formed Thereby".

Our production costs are limited to the invoices we receive from our sub-manufacturer, PT Lidya and Natalia, on a per production basis and for our gloves from our supplier in the U.S and for our House Wrap product from the manufacturer.

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:

United States Customs Service

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

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

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

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

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

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

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

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

We currently have a total of 3 full time employees. We hire part-time personnel as needed.

We have no collective bargaining or employment agreements.

Reports and Other Information to Shareholders

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

ITEM 1A RISK FACTORS.

Pending Litigation

We are a defendant in a complaint brought by the FTC. While we believe we have a defense to the allegation asserted by the FTC, should there be an adverse ruling we may be forced to disgorge all revenues derived from the sale of our House Wrap product line, and we would not be able to sell the product. The result of this action would have a materially adverse effect on the Company's revenues and operations. See "Legal Proceeding" appearing elsewhere in this report.

Lack of Sufficient Operating Funds

Because we are not able to generate sufficient funds from sales and because we are unable to access commercial sources of credit, we are consistently underfunded. As a result, our growth is very limited, and we have difficulty in sustaining our current level of operations. We are not able to initiate adequate marketing programs, hire additional staff, develop new products or have flexibility in ordering products from our manufacturers. In addition, the action by the FTC has adversely affected our ability to sell our House Wrap product line. In the past, we have depended on borrowings from our CEO and other private parties, primarily shareholders and the private sale of our common stock. Should we not be able to continue to rely on these sources of funding to at least meet our current level of operations our revenue stream will be adversely affected.

Competition

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

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

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

- Ice Clam Corporation
- Vexilar
- Mustang Survival
- Frabill
- Stryker

-11-

We compete in the following ways:

A. Emphasize the Advantages of our Products.

Arctic Armor Line

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

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

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

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

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

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

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

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

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

Cyclical

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

Material Acquisition

All of the materials and items required to manufacture our cold weather clothing products are purchased by our manufacturer in Indonesia.

The Company currently has only one supplier of INSULTEX, the special material which is manufactured within the apparel of our cold weather products and our House Wrap product. Additionally, we have one manufacturer that produces the apparel on behalf of the Company, located in Indonesia. Any delays in getting INSULTEX and/or our finished products will adversely affect our revenue stream. Once we have our own equipment operating, we will be able to produce INSULTEX. We intend to use such INSULTEX for our House Wrap product.

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

Geographic Concentration

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

Management

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

Stock Price

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

Penny Stock Considerations

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

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

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

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

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

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

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

ITEM 2. PROPERTIES.

In October 2002, we arranged for the lease of warehouse space for our inventory and raw materials at 124 Cherry Street, Etna, Pennsylvania. We also use this space as our principal executive offices. This facility encompasses 13,000 square feet of storage space on the first floor and 2,000 square feet for our sales department offices located on the second floor. We have entered into a verbal agreement with the owner of the building and we pay \$3,500 per month for the space. This facility is composed of: (a) warehouse and storage areas including four (4) shipping bays and a distribution area consisting of square footage to store upward of 250,000 finished goods products; and (b) four (4) offices, one (1) conference room, with presentation area and sample display and (2) bathrooms totaling approximately 2,000 square feet located on the second floor. Mr. Frank Riccelli is the brother to our Chief Executive Officer and the owner of the property. The condition of our leased property is good.

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

ITEM 3. LEGAL PROCEEDINGS.

On November 4, 2016, the FTC filed a complaint against the Company in the U.S. District Court Western District of Pennsylvania, number 16-1669. In the complaint, the FTC alleges that, among other matters, the Company does not have substantiation of claims made by the Company regarding the R value and energy efficiency of its INSULTEX House Wrap products. The complaint asks as to redress a rescission of revenue the Company received from the sale of House Wrap and a permanent injunction. As a result of the partial federal government shutdown, a new trial date has been set for July 29, 2019.

The Company strongly denies the allegation and intends to vigorously defend itself. It is the Company's belief that the complaint is based on improper testing of the INSULTEX products using the wrong type of testing equipment.

ITEM 4. REMOVED AND RESERVED.

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

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

FY 2018	Low	High
Fourth Quarter	\$ 0.16	0.4
Third Quarter	\$ 0.22	0.48
Second Quarter	\$ 0.34	0.75
First Quarter	\$ 0.35	0.75

FY 2017	Low	High
Fourth Quarter	\$ 0.27	0.78
Third Quarter	\$ 0.26	0.44
Second Quarter	\$ 0.19	0.41
First Quarter	\$ 0.29	0.5

On February 19, 2019, the closing bid price was \$0.08.

The source of the above data is www.otcmarkets.com.

Holders

As of February 19, 2019, we had 195 holders of record of our common stock. We have one class of stock outstanding. We have no shares of our preferred stock outstanding.

Dividends

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

Recent Sales of Unregistered Securities.

Edgar Filing: INNOVATIVE DESIGNS INC - Form 10-K

During the quarter ended January 31, 2018, the Company issued 50,000 shares of common stock to one individual for services performed during December 2017 valued at \$20,000. The stock was issued at a price of \$0.40 per share. In addition, the Company sold 351,000 shares of common stock to three individuals for total proceeds of \$111,560. The stock was issued at a price ranging from \$0.30-\$0.32 per share.

During the quarter ended April 30, 2018, the Company issued 55,000 shares of common stock to two individuals for services performed in April 2018 valued at \$9,900. The stock was issued at a price of \$0.18 per share. In addition, the Company sold 356,250 shares of common stock to three individuals for total proceeds of \$105,000. The stock was issued at a price ranging from \$0.25-\$0.32 per share.

-16-

During the quarter ended July 31, 2018, the Company issued 5,000 shares of common stock to one individual for services performed in May 2018 valued at \$1,000 in total. The stock was issued at a price of \$0.20 per share. In addition, the Company sold 25,000 shares of common stock to one individual for total proceeds of \$5,000. The stock was issued at a price of \$0.20 per share. We believe that Section 4(2) of the Securities Act of 1933, as amended, was available because these transactions and the transaction cited above did not involve a public offering and there was no general solicitation or general advertising involved in these transactions. 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.

During the quarter ended October 31, 2018, the Company issued 130,000 shares of common stock to two shareholders for services performed in September and October 2018 valued at \$39,000 in total. The stock was issued at a price of \$0.30 per share. Additionally, for the quarter ended October 31, 2018, the Company sold 425,000 shares of common stock for total proceeds of \$90,000. The stock was issued at a price ranging from \$0.20 - \$0.25 per share to three stockholders. We believe that Section 4(2) of the Securities Act of 1933, as amended, was available because these transactions did not involve a public offering and there was no general solicitation or general advertising involved in these transactions. 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.

During January 2019, the Company sold 360,000 shares of stock to five individuals for total proceeds of \$61,200. The stock was issued for \$0.17 per share. Each Unit consisted of 60,000 shares of common stock and a warrant to purchase 60,000 shares of common stock. The strike price of the warrant was \$.17 per share. The term was three years. The Company also agreed to register the shares and the shares underlying the warrants. Each Unit was priced at \$10,200. Each purchaser was an "accredited investor". We believe that Section 4(2) of the Securities Act of 1933, as amended, was available because these transactions did not involve a public offering and there was no general solicitation or general advertising involved in these transactions. 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.

ITEM 6. SELECTED FINANCIAL DATA.

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

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

General

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

Disclosure Regarding Forward-Looking Statements

Certain statements made in this report, and other written or oral statements made by or on behalf of the Company, may constitute “forward-looking statements” within the meaning of the federal securities laws. When used in this report, the words “believes,” “expects,” “estimates,” “intends,” and similar expressions are intended to identify forward-looking statements. Statements regarding future events and developments and our future performance, as well as our expectations, beliefs, plans, intentions, estimates or projections relating to the future, are forward-looking statements within the meaning of these laws. Examples of such statements in this report include descriptions of our plans and strategies with respect to developing certain market opportunities, and our overall business plan. All forward-looking statements are subject to certain risks and uncertainties that could cause actual events to differ materially from those projected. We believe that these forward-looking statements are reasonable; however, you should not place undue reliance on such statements. These statements are based on current expectations and speak only as of the date of such statements. We undertake no obligations to publicly update or revise any forward-looking statement, whether as a result of future events, new information or otherwise.

Background

Innovative Designs, Inc. (hereafter referred to as the “Company”, “we” or “our”) was formed on June 25, 2002. We market and sell cold weather clothing products called “Arctic Armor” that are, except for our headwear, made from INSULTEX, a material with buoyancy, scent block and thermal resistant properties. We offer our House Wrap product line which is also made from INSULTEX. We obtain INSULTEX for our cold weather clothing products through a license agreement with the owner and manufacturer of the material. In December 2015, we took delivery of equipment capable of producing our own INSULTEX. We intend to use the INSULTEX from this equipment in the production of our House Wrap product and for the sale of INSULTEX to others.

Results of Operations

Comparison of the fiscal year ended October 31, 2018, with the fiscal year ended October 31, 2017.

The following table shows a comparison of the results of operations between the fiscal years ended October 31, 2018 and October 31, 2017:

	Fiscal Year Ended October 31, 2018	% of Sales		Fiscal Year Ended October 31, 2017	% of Sales	Increase (Decrease)	% Change
REVENUE	\$ 249,682	100.00 %		\$ 367,955	100.00 %	\$(118,273)	-32.14 %

Edgar Filing: INNOVATIVE DESIGNS INC - Form 10-K

OPERATING EXPENSES

Cost of sales	160,534	64.30 %	216,250	58.77 %	(55,716)	-25.76%
Selling, general and administrative expenses	648,363	254.37 %	755,836	205.42 %	(120,717)	-15.97%

Loss from operations	\$559,215	-218.67%	(604,131)	-164.19%	58,160	-9.63 %
----------------------	-----------	----------	------------	----------	--------	---------

OTHER INCOME/(EXPENSE)

Other income (expense)	27,250	10.91 %	(4,846)	-1.32 %	32,096	0.00 %
Interest expense	(22,660)	-9.08 %	(24,078)	-6.54 %	1,418	-5.89 %

Net loss	\$ (554,625)	-216.83%	\$(633,055)	-172.05%	\$91,674	17.86 %
----------	---------------	----------	--------------	----------	----------	---------

Common shares outstanding	27,789,560		26,392,310			
---------------------------	------------	--	------------	--	--	--

Loss per common share	\$ (0.029)		\$(0.024)			
-----------------------	-------------	--	------------	--	--	--

Results of Operations

Revenues for the fiscal year ended October 31, 2018, were \$249,682 compared to revenues of \$367,955 for the comparable period ending October 31, 2017. House Wrap product revenue totaled \$184,294 last year compared to \$132,535 for Fiscal Year ended October 31, 2018. Nearly all of the remaining revenues were derived from our Arctic Armor product line which totaled \$117,147 for Fiscal Year ended October 31, 2018 compared to revenues of \$183,661 for the Fiscal Year ended October 31, 2017. The decrease in revenue is attributable to the FTC matter with regard to our House Wrap products as we no longer advertise the insulating quality of these products. The decrease in revenue for our apparel product line is attributable to the fact that we are devoting significant portion of our limited resources to the FTC matter. Revenues are net of returns and discounts. We estimate that approximately sixty percent of our cold weather apparel products are sold to outdoor sportsmen, primarily those engaged in ice fishing.

Selling, general and administrative expense decreased from \$755,836 in fiscal year 2017, to \$648,363 in fiscal year ending October 31, 2018. This decrease reflects, in part, a decreased cost of commissions of \$24,989 and professional fees of \$81,175. The professional fees which totaled \$235,831 are primarily related to the FTC matter.

Our cost of sales decreased from \$216,250 as of October 31, 2017 to \$160,534 as of October 31, 2018.

Liquidity and Capital Resources

During the fiscal year ended October 31, 2018, we funded our operations from revenues and private sales of our common stock. We will continue to fund our operations from these sources until we are able to produce sales sufficient to cover our cost structure or to secure commercial lending arrangements.

On July 12, 2015 the Company reached an agreement with Ketut Jaya to purchase machinery and equipment utilized to produce the INSULTEX material. The purchase price is \$700,000 and to be made in four installments. The first installment of \$300,000 is to be made at the execution of the agreement. The second installment of \$200,000 is to be made when the machinery and equipment is ready to be shipped to the United States. The third installment of \$100,000 is to be made once the machinery and equipment is producing INSULTEX, and the fourth and final installment of \$100,000 is to be made after the first commercial production run of INSULTEX is completed. As of October 31, 2016, the Company has made payments of \$600,000. In addition to the final payments, the Company will have to have the equipment and machines installed and ensure that the machine can be operated in compliance with environmental regulations. The Company has not made an estimate of the costs required for bringing the machine into compliance, but it is considered to be substantial. Given the expected time and cost of bringing the equipment into production mode and our current financial condition, it is our intention to attempt to sell the equipment.

Short Term: We funded our operations with revenues from sales, private sales of our common stock and from loans from our Chief Executive Officer and others. We could not access commercial lines of credit during our last fiscal year.

-19-

Our existing debt obligations consist of the following:

US SBA Loan. The amount was \$280,100. This was a disaster loan assistance program. The date of the loan was July 12, 2005. The interest rate is 2.9% yearly. Payments are \$1,186 per month for thirty years. The loan is guaranteed by our CEO and he and his spouse have pledged certain assets as collateral for the loan. The loan was modified on January 23, 2006. The new loan amount is \$430,500. The monthly payments are \$1,820 and the loan matures in July 2035. As the loan was for a specific disaster assistance program, we cannot obtain any additional funds. As of October 31, 2018, \$119,486 in principal plus accrued interest was still outstanding.

Note Payable \$8,000 - Roberta Riccelli. Interest is at 10% for 120 days. The principal and interest were due on June 17, 2012 but was extended through a verbal agreement with no set maturity date. As of October 31, 2018, \$5,000 in principal plus accrued interest was still outstanding.

Note Payable \$20,000 - Corinthian Development. Interest is at 10%. The principal and interest of \$22,000 was due May 15, 2013 but was extended through a verbal agreement with no set maturity date. As of October 31, 2018, \$10,000 in principal plus accrued interest was still outstanding.

Note Payable \$27,500 - Sol & Tina Waxman Family Foundation. Interest is at 10%. The principal and interest is due on demand on January 5, 2018. As of October 31, 2018, \$30,250 in principal plus accrued interest was still outstanding.

Note Payable \$90,000 - Joseph Riccelli. Interest is at 10% for 180 days. The principal and interest is due on demand on November 22, 2013 but was extended through a verbal agreement with no set maturity date. As of October 31, 2018, \$13,500 in principal plus accrued interest was still outstanding.

Note Payable \$40,672 – Riccelli Properties. Interest is 10% per six months. The principal and interest is due on February 7, 2018 but was extended through a verbal agreement with no maturity date. As of October 31, 2018, \$36,600 in principal plus accrued interest was still outstanding.

Note Payable \$50,000 – Lawrence Fraser. Interest is at 10%. The principal and interest is due June 1, 2019. As of October 31, 2018, \$50,000 in principal plus accrued interest was still outstanding.;

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

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

-20-

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

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

ITEM 8. FINANCIAL STATEMENTS.

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

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

None

ITEM 9A. (T) CONTROLS AND PROCEDURES.

Disclosure Controls and Procedures

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

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

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

Our Chief Executive Officer is also our Chief Financial Officer.

-21-

Management's Annual Report on Internal Control over Financial Reporting

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

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

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

Our management assessed the effectiveness of our internal control over financial reporting as of October 31, 2018. This evaluation was based on criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO, Internal Control-Integrated Framework. Based upon such assessment, our Chief Executive Officer/Chief Financial Officer concluded that our internal controls over financial reporting were not effective as of October 31, 2018. In particular, our controls over financial reporting were not effective in the specific areas described in the paragraphs below.

As of October 31, 2018, our Chief Executive Officer/Chief Financial Officer identified the following specific material weaknesses in the Company's internal controls over its financial reporting processes:

Policies and Procedures for the Financial Close and Reporting Process – Currently there are no policies or procedures that clearly define the roles in the financial close and reporting process. The various roles and responsibilities related to this process should be defined, documented, updated and communicated. Not having such policies and procedures in place amounts to a material weakness in the Company's internal controls over its financial reporting processes.

Representative with Financial Expertise – For the year ended October 31, 2018, the Company did not have an employee with the requisite knowledge and expertise to review the financial statements and disclosures at a sufficient

level to monitor the financial statements and disclosures to the Company. All of our financial reporting is carried out by one individual and the use of an external accounting firm. This lack of accounting staff results in a lack of segregation of duties, timeliness in closing the books and records, delays in filing quarterly and annual financial information, numerous post-closing adjusting journal entries, and accounting technical expertise necessary for an effective system of internal control. Failure to have a representative with such knowledge and expertise amounts to a material weakness to the Company's internal controls over its financial reporting processes.

There have been no significant changes in our internal control over financial reporting during the fiscal year ended October 31, 2018 and 2017, or subsequent to October 31, 2018, that has materially affected or is reasonably likely to materially affect, our internal control over financial reporting, except as discussed above.

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

Directors and Executive Officers

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

Our directors and executive officers are as follows:

Name	Age	Position	Term
Joseph Riccelli	68	Chief Executive Officer, Chief Financial Officer, Principal Accounting Officer, Chairman	1 year
Dean P. Kolocouris	48	Director	1 year
Daniel P. Rains	66	Director	1 year

Joseph Riccelli has been our Chief Executive Officer and Chairman of the Board since our inception in June 2002. Mr. Riccelli was the owner of Pittsburgh Foreign and Domestic, a sole proprietor car dealership located in Glenshaw, Pennsylvania. He 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 December, Mr. Kolocouris was a Loan Officer and Assistant Vice President at Eastern Savings Bank located in Pittsburgh, Pennsylvania. Since that time, he has been in private lending. In June 1993, Mr. Kolocouris received a bachelor's degree in Finance from Duquesne University located in Pittsburgh, Pennsylvania. Mr. Kolocouris has been in banking for over fifteen years and his knowledge of finance and business experience is helpful to the Company.

Daniel P. Rains has been a director since March 2007. Mr. Rains is currently Vice President of business development at McCarl's, Inc., a mechanical contracting firm. He has held this position for over fifteen years. From 1981 through 1987, Mr. Rains was a professional football player for the Chicago Bears. He is a graduate of the University of Cincinnati. Mr. Rains has been in professional sports and in business for over twenty years. His experience and knowledge of these fields are helpful to the Company. As the Company enters the building construction market with its House Wrap product, Mr. Rains' experience in that industry will be especially helpful.

Audit Committee

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

Nominating and Compensation Committees

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

Board of Directors Meetings

During the last full fiscal year, there were no meetings of the Board of Directors.

Code of Ethics

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

ITEM 11. EXECUTIVE
COMPENSATION.

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

Summary Compensation Table

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
Joseph Riccelli CEO, Chairman	2018	\$ 49,8760	0	0	0	0	0	0	\$ 49,876
Joseph Riccelli CEO, Chairman	2017	\$ 49,8760	0	0	0	0	0	0	\$ 49,876

During 2018, we paid our Chief Executive Officer \$49,876 in compensation.

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

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

Director Compensation

Name

Edgar Filing: INNOVATIVE DESIGNS INC - Form 10-K

	Fees Paid or Paid in Cash (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
Dean P. Kolocouris Kolocouris	0	0	0	0	0	0	0
Daniel P. Rains Rains	0	0	0	0	0	0	0
Joseph Riccelli Riccelli	0	0	0	0	0	0	0

Securities Authorized for Issuance under Equity Compensation Plans.

Equity Compensation Plan Information

Number of securities that have been 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 those reflected in column (a))
(a)	(b)	(c)
Equity compensation plans approved by security holders	\$0.90(1)	400,000

Weighted average price was based on market value of the shares on or about the date the service was performed. Market value of the price per share ranged from \$1.90 to \$0.76 per share over the period of time in which the various services were performed.

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

Use of Proceeds from Registered Securities

Not Applicable

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

The following table sets forth the ownership as of February 19, 2019 (a) by each person known by us to be the beneficial owner of more than five percent (5%) of our outstanding common stock, and/or (b) by each of our directors, by all executive officers and our directors and executive officers as a group.

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

Security Ownership of Management

Title of Class	Name and Address	Amount	Nature	Percent
Common Stock	Joseph Riccelli Chief Executive Officer	7,355,000	Direct	26.47%
	Chairman of the Board of Directors c/o Innovative Designs, Inc. 124 Cherry St. Pittsburgh, Pa 15223	(1) 421,478	Indirect	1.52%
Common Stock	Dean P. Kolocouris Director c/o Innovative Designs, Inc. 124 Cherry St. Pittsburgh, Pa 15223	67,000	Direct	*
Common Stock	Daniel P. Rains c/o Innovative Designs, Inc. 124 Cherry St. Pittsburgh, Pa 15223	110,000	Direct	*
All Directors and Executive Officers as a Group		7,953,478		28.62%

* Represents less than one percent.

(1) Represents 421,478 shares of common stock held in the Gino A. Riccelli Trust. The Trust is for a son of our Chief Financial Officer. Mr. Joseph Riccelli is the trustee of the trust.

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

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

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

-27-

Our officers and directors have the following conflicts of interests:

We lease our warehouse space from the brother of our Chief Executive Officer. We pay \$3,500 per month for a total of \$42,000 per year.

Independence of Board Members

The Company has adopted the NASDAQ Listing Rules; Rule 5605 and 5605 (a) (20), for determining the independence of its directors. Directors are deemed independent only if the Board affirmatively determines that the director has no material relationship with the Company directly or as an officer, share owner or partner of an entity that has a relationship with the Company or any other relationship which, in the opinion of the Board, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

Audit Fees

The aggregate fees billed for the fiscal years ended October 31, 2018 and 2017 for professional services rendered by the principal accountant for the audit of our annual financial statements and review of the financial statements included in our Form 10-K or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for these fiscal periods were as follows: (a) during fiscal year ended October 31, 2018 and 2017, our current auditors, Louis Plung & Company billed the Company \$18,000 for professional services, respectively.

Audit Related Fees

None.

Tax Fees

None.

All Other Fees

None.

-28-

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

Exhibit Number	Description
<u>3.1</u>	<u>Revised Certificate of Incorporation****</u>
<u>3.2</u>	<u>Bylaws*</u>
<u>4</u>	<u>Specimen Stock Certificate*</u>
<u>10.1</u>	<u>Exclusive License and Manufacturing Agreement by and between Ko-Myung Kim, Ketut Jaya and Innovative Designs, Inc. [Confidential Treatment Requested] **</u>
<u>10.2</u>	<u>Authorization dated April 1, 2008 by and between Jordan Outdoor Enterprises, Ltd and Innovative Designs, Inc.***</u>
<u>10.3</u>	<u>License Agreement effective May 30, 2005 by and between Haas outdoors, Inc. and Innovative Designs, Inc.***</u>
<u>10.4</u>	<u>Loan Authorization Agreement, dated July 12, 2005 between the U. S. Small Business Administration and Innovative Designs, Inc.***</u>
<u>10.6</u>	<u>Motor Vehicle Installment Sale Contract dated September 26, 2005. ***</u>
<u>10.7</u>	<u>Machinery Purchase Agreement *****</u>
<u>31.1</u>	<u>Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
<u>31.2</u>	<u>Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
<u>32.1</u>	<u>Certification Pursuant To 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
<u>32.2</u>	<u>Certification Pursuant To 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
<u>99</u>	<u>Test Results from Vartest Lab.*</u>
<u>100</u>	<u>Test Results from Texas Research Institute Austin, Inc.*</u>
<u>101</u>	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Statement of Operations for the years ended October 31, 2011 and 2010, (ii) the Balance Sheets at October 31, 2011 and 2010, (iii) the Statements of Cash Flows for the years ended October 31, 2011 and 2010 and (iv) the notes to the Financial Statements.

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

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

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

**** Previously filed as exhibit to Form 10-K filed February 12, 2015

***** Previously filed as exhibit to Form 10-K filed January 28, 2016

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: March 13, 2019 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: March 13, 2019 By: /s/ Joseph Riccelli
Joseph Riccelli
Chief Executive Officer,
Chief Financial Officer, Principal
Accounting Officer, and Chairman
of the Board of Directors

Date: March 13, 2019 By: /s/ Dean P. Kolocouris
Dean P. Kolocouris
Director

Date: March 13, 2019 By: /s/ Daniel Rains
Daniel Rains
Director

INNOVATIVE DESIGNS, INC.

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

October 31, 2018 and 2017

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors

Innovative Designs, Inc.

Opinion on the Financial Statements

We have audited the accompanying balance sheets of Innovative Designs, Inc. (the Company) as of October 31, 2018 and 2017, and the related statements of operations, stockholders' equity, and cash flows for each of the fiscal years then ended, and the related notes to the financial statements. In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of October 31, 2018 and 2017 and the results of its operations and its cash flows for each of the years in the two-year period ended October 31, 2018 and 2017, in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 13 to the financial statements, the Company has suffered recurring losses from operations and has a net capital deficiency that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 13. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Pittsburgh, Pennsylvania

March 13, 2019

Innovative Designs Inc.
Balance Sheet
For the Years Ended October 31, 2018 and 2017

ASSETS

	2018	2017
CURRENT ASSETS		
Cash and cash equivalents	\$ 112,203	\$ 214,871
Accounts receivable - Net of allowance for doubtful accounts of \$9,320 as of October 31, 2018 and \$0 as of October 31, 2017	13,455	23,805
Inventory - net of inventory reserve of \$75,468 as of October 31, 2018 and \$51,000 as of October 31, 2017, respectively	749,519	729,845
Inventory on consignment	1,625	1,625
Deposits on inventory	57,330	70,000
Prepaid expenses	11,669	14,653
Total current assets	945,801	1,054,799
PROPERTY AND EQUIPMENT - NET	131,532	160,862
OTHER ASSETS		
Advance to employee	8,200	4,000
Deposit on equipment	617,000	617,000
TOTAL OTHER ASSETS	625,200	621,000
TOTAL ASSETS	\$ 1,702,533	\$ 1,836,661
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 194,963	\$ 129,278
Current portion of notes payable	18,628	18,096
Accrued interest expense	22,885	44,184
Due to stockholders	145,350	118,500
Accrued expenses	10,775	25,102
Total current liabilities	392,601	335,160
LONG TERM LIABILITIES		
Long-term portion of notes payable	100,858	119,262
TOTAL LIABILITIES	493,459	454,422
STOCKHOLDERS' EQUITY		
Common stock, \$0.0001 par value, 100,800,000 and 100,000,000 shares authorized as of October 31, 2018 and 2017, and 27,789,560 and 26,392,310 issued and outstanding as of October 31, 2018 and 2017, respectively	2,780	2,639

Edgar Filing: INNOVATIVE DESIGNS INC - Form 10-K

Additional paid-in capital	10,106,731	9,725,412
Accumulated deficit	(8,900,437)	(8,345,812)
Total stockholders' equity	1,209,074	1,382,239
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$1,702,533	\$1,836,661

-33-

Innovative Designs Inc.
Statement of Operations
For the Years Ended October 31, 2018 and 2017

	2018	2017
REVENUES - NET OF RETURNS AND ALLOWANCES	\$ 249,682	\$ 367,955
OPERATING EXPENSES		
Cost of sales	160,534	216,250
Selling, general and administrative expenses	648,363	755,836
LOSS FROM OPERATIONS	(559,215)	(604,131)
OTHER EXPENSE		
Other income	28,284	—
Other expense	(1,034)	(4,846)
Interest expense	(22,660)	(24,078)
TOTAL OTHER EXPENSE	4,590	(28,924)
NET LOSS	\$(554,625)	\$(633,055)
PER SHARE INFORMATION		
Basic		
Net Loss Per Common Share	\$(0.020)	\$(0.025)
Weighted Average Number of Common Shares Outstanding	27,122,315	25,582,984

Innovative Designs Inc.
Statement of Shareholders' Equity
For the Years Ended October 31, 2018 and 2017

	Common Stock Number of Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Total
Balance at October 31, 2016	25,370,310	\$ 2,537	\$9,455,674	\$(7,712,757)	\$1,745,454
Shares issued for services	300,000	30	97,670	—	97,700
Sale of stock	722,000	72	172,068	—	172,140
Net loss	—	—	—	(633,055)	(633,055)
Balance at October 31, 2017	26,392,310	2,639	9,725,412	(8,345,812)	1,382,239
Shares issued for services	240,000	24	69,876	—	69,900
Sale of stock	1,157,250	117	311,443	—	311,560
Net loss	—	—	—	(554,625)	(554,625)
Balance at October 31, 2018	27,789,560	\$ 2,780	\$10,106,731	\$(8,900,437)	\$1,209,074

Innovative Designs Inc.
Statement of Cash Flows
For the Years Ended October 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$(554,625)	\$(633,055)
Adjustments to reconcile net loss to net cash used in operating activities:		
Allowance for doubtful accounts	9,320	—
Allowance for obsolete inventory	24,468	11,000
Common stock issued for services	69,900	97,700
Depreciation	33,588	30,963
(Increase) decrease from changes in:		
Accounts receivable	1,030	48,338
Inventory	(44,142)	195,742
Deposits on inventory	12,670	(70,000)
Prepaid expense	2,984	2,832
Advance to employee	(4,200)	—
Increase (decrease) from changes in:		
Accounts payable	65,685	12,766
Accrued interest expense	(21,299)	(5,701)
Accrued expenses	(14,327)	(68,231)
Net cash used in operating activities	(418,948)	(377,646)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(4,258)	(14,900)
Net cash used in investing activities	(4,258)	(14,900)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from sale of stock	311,560	172,140
Proceeds from stockholder advances	53,350	—
Payments on stockholder advances	(26,500)	(43,672)
Payments on notes payable	(17,872)	(67,000)
Net cash provided by financing activities	320,538	104,640
Net decrease in cash and cash equivalents	(102,668)	(287,906)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	214,871	502,777
CASH AND CASH EQUIVALENTS, END OF THE YEAR	\$112,203	\$214,871
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$43,959	\$29,779

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

We operate two reportable segments: Apparel and House Wrap. Our apparel segment offers a wide variety of extreme cold weather apparel and related items. Our House Wrap segment offers our INSULTEX House Wrap which has an R-value of 3 and an R-value of 6 and our own seam tape.

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

Fiscal Year End - The Company’s fiscal year ends on October 31. The fiscal years ending October 31, 2018 and 2017 are referred to as 2018 and 2017, respectively, throughout the Company’s financial statements.

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

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

Revenue Recognition - The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable and collectability is probable. Revenue is derived from sales of the Company’s recreational products, such as Arctic Armor, and our house wrap line of products. Sales of these items are recognized when the items are shipped. The Company offers a 5-day return policy and no warranty on all of its products. All sales outside the United States are entered into using the U.S. dollar as its functional currency. During 2018 and 2017, the Company took back certain products from customers that accounted for \$683 and \$5,165, respectively in revenue. The Company was not required to accept these returns but made a business decision to do so.

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

Estimated Uncollectable Accounts - Management evaluates its receivables on a quarterly basis to assess the validity of remaining receivables. Management has determined that there is significant doubt regarding the receivable balance over 90 days of \$9,320 as of the fiscal year ended October 31, 2018 and an allowance is applied on this receivable balance over 90 days. No allowance was deemed necessary for the fiscal year ended October 31, 2017.

Inventory - Inventory consists primarily of finished goods. Inventory is stated at the lower of cost or net realizable value and is valued based on first-in-first-out. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation.

During the fiscal year ended October 31, 2010, the Company discontinued its hunting and swimming lines of apparel. A reserve balance of approximately \$75,000 and \$51,000 was recorded as of October 31, 2018 and 2017, respectively. The reserve is evaluated on a quarterly basis and adjusted accordingly.

Deposits on Inventory - The Company only has one manufacturer that produces the apparel on behalf of the Company, located in Indonesia. The Company will send deposits to the manufacturer for future production of the apparel based on approved purchase orders between the Company and the manufacturer. Once finished purchase orders are received by the Company, the deposits associated with those purchase orders are transferred into inventory. The Company had a on deposit for the INSULTEX in the amount of \$57,330 and \$70,000 as of October 31, 2018 and 2017, respectively.

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

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

Deposits on Equipment - On July 12, 2015, the Company reached an agreement with Ketut Jaya to purchase the machinery and equipment utilized to produce the INSULTEX material. The purchase price is \$700,000 and to be made in four installments. The first installment of \$300,000 is to be made at the execution of the agreement. The second installment of \$200,000 is to be made when the machinery and equipment is ready to be shipped to the United States. The third installment of \$100,000 is to be made once the machinery and equipment is producing INSULTEX, and the fourth and final installment of \$100,000 is to be made after the first commercial production run of INSULTEX is completed. As of October 31, 2018, the Company has made payments of \$500,000 in accordance with the agreement and made a \$100,000 pre-payment as the machine is not yet producing INSULTEX. Additionally, the Company has incurred \$17,000 of additional expenses related to shipping. Given the expected time and cost of bringing the equipment into production mode and the Company's current financial condition, it is the Company's intention to attempt to sell the equipment.

Impairment of Long-lived Assets - Management of the Company considers the valuation and depreciation of property and equipment. Management considers both the current and future levels of undiscounted cash flow generated by the Company and the continuing value of property and equipment to determine when and if an impairment has occurred. Any write-downs due to impairment are charged to operations at the time the impairment is identified. No such write-downs due to impairment have been recorded in 2018 and 2017.

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

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

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

The Company is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Concentration of Credit Risk - The Company maintains its cash and cash equivalents with a financial institution which management believes to be of high credit quality. Their accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 in coverage. The balances in these accounts may, at times, exceed the federally insured limits. The Company has not experienced any losses on the deposits and management believes the Company is not exposed to any significant credit risk related to these accounts. The Company had no uninsured cash balances as of October 31, 2018 and 2017, respectively.

Shipping and Handling - Shipping costs associated with acquiring inventories are charged to cost of goods sold when incurred. The Company pays shipping and handling costs on behalf of customers for purchased merchandise. These costs are billed back to the customer through the billing invoice and are included in revenue at the time the merchandise is shipped. The shipping and handling costs associated with customer orders was \$16,247 and \$18,825 for the fiscal years ended October 31, 2018 and 2017, respectively.

Net Income Per Common Share - The Company calculates net income per share in accordance with ASC Topic 260 “*Earnings per Share*”. Basic earnings per share are calculated by dividing net income by the weighted average number of common shares outstanding for the period. The Company only has common stock outstanding for 2018 and 2017. As a result, diluted earnings per share was not calculated.

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

Recent Accounting Standards Update - Recently, various new Accounting Standards Updates (“ASUs”) were issued by the Financial Accounting Standards Board (FASB). Management has determined, based on their review, the following ASUs issued recently that will be applicable to the Company. Management will continue to monitor the issuance of updates throughout the year to determine if the update will have an impact on the Company’s financial statements and should it have an impact, the update will be disclosed in the notes to the financial statements.

In February 2016, the FASB issued ASU 2016-02, “Leases”, which added a requirement than an entity, when acting as a lessee, should recognize in the balance sheet a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term. For public business entities, ASU 2016-02 is effective for fiscal years beginning after December 15, 2019 including interim periods within fiscal years beginning after December 15, 2020. Early application is permitted. Management is determining if the adoption of this guidance will have any impact on the financial statements and notes thereto.

2.

PROPERTY AND EQUIPMENT

Property and equipment are summarized by major classifications as follows:

	2018	2017
Equipment	\$221,835	\$217,577
Containers	14,900	14,900
Furniture and fixtures	11,083	11,083
Leasehold improvements	4,806	4,806
Automobile	9,121	9,121
	261,745	257,487
Less accumulated depreciation	130,213	96,625
Property and equipment - net	\$131,532	\$160,862

Depreciation expense for the fiscal years ended October 31, 2018 and 2017 was \$33,588 and \$30,963, respectively.

3. BORROWINGS

Borrowings at October 31, 2018 and 2017 consisted of the following:

	2018	2017
Due to Stockholders		
Note Payable \$8,000 - Roberta Riccelli, February 2012. Due June 17, 2012; interest is 10% for 120 days. Note was extended through a verbal agreement with no set maturity date.	\$5,000	\$5,000
Note Payable \$20,000 - Corinthian Development, January 15, 2013. Due May 15, 2013; payable on demand; interest is 10%; Note was extended through a verbal agreement with no set maturity date.	10,000	10,000
Note Payable \$25,000 - Sol & Tina Waxman Family Foundation, March 2015. Amended January 15, 2018 for \$30,250; Due January 5, 2019; interest is 10%.	30,250	27,500
Note Payable \$90,000 - Joseph Riccelli, Sr., May 2013. Due November 22, 2013; interest is 10% for 180 days. Note was extended through a verbal agreement with no set maturity date.	13,500	40,000
Note Payable \$50,000 - Lawrence Fraser, May 29, 2018. Due June 1, 2019; interest is 10% annually.	50,000	—
Note Payable \$40,672 - Riccelli Properties, August 7, 2017. Due February 7, 2018; interest is 10%.	36,600	36,000
Total Due to Stockholders	\$145,350	\$118,500
Notes Payable		
Note Payable - U.S. Small Business Administration. Due July 2035; payable in monthly installments of \$1,820 including interest at 2.9% annum.	\$119,486	\$137,358
Total Borrowings	264,836	255,858
Less Due to Stockholders	145,350	118,500
Less Current Portion of Notes Payable	18,628	18,096
Total Long Term Portion of Notes Payable	\$100,858	\$119,262

Maturities of long-term debt are as follows:

Year Ending	Stockholders	Notes Payable	Amount Due
October 31			
2019	\$ 145,350	18,628	\$ 163,978
2020	—	19,168	19,168
2021	—	19,739	19,739
2022	—	20,319	20,319
2023	—	20,916	20,916
Thereafter	—	20,716	20,716
Total	\$ 145,350	\$ 119,486	\$ 264,836

DUE TO STOCKHOLDERS

In February 2012, the Company entered into a note payable with Roberta Riccelli for \$8,000. This loan was to be used to fund operations of the Company. This loan is due on demand, including interest at 10% for 120 days. This note was extended through a verbal agreement. The loan balance as of October 31, 2018 and 2017 was \$5,000.

In January 2013, the Company entered into a note payable with Corinthian Development for \$20,000. This loan was to be used to fund operations of the Company. This loan is due on demand, including interest at 10% with an original repayment date of May 2013. This note was extended through a verbal agreement. The loan balance at October 31, 2018 and 2017 was \$10,000.

In May 2013, the Company entered into a note payable with the Sol & Tina Waxman Family Foundation for \$100,000. This loan was to be used to fund operations of the Company. The Company's CEO has pledged 250,000 shares of his stock, as collateral. This note is also personally guaranteed by the Company's CEO. There have been various subsequent amendments to the original note agreement. The most recent amendment was made in January 2018 for the balance of \$30,250. Interest is payable at 10% and total payment is due by January 5, 2019. The loan balance at October 31, 2018 and 2017 was \$30,250 and \$27,500, respectively.

In May 2013, the Company entered into a note payable with its CEO, Joseph Riccelli, for \$90,000. This loan was to be used to fund operations of the Company. This loan is due on demand, including interest at 10% with an original repayment date of November 2013. This note was extended through a verbal agreement. The loan balance at October 31, 2018 and 2017 was \$13,500 and \$40,000, respectively.

During May 2018, the Company entered into a note payable agreement with Lawrence Fraser for \$50,000. This loan was used to fund the operations of the Company. This loan is due on June 1, 2019, including interest at 10%. The loan balance at October 31, 2018 was \$50,000.

During August 2017, the Company entered into a note payable agreement with Riccelli Properties, which is wholly owned and operated by the Company's CEO, Joseph Riccelli, in the amount of \$40,672. This amount reflects payments made by Riccelli Properties on the Small Business Association promissory note. Riccelli Properties sold the real estate

that was collateral on the promissory note. The note has a term of 6 months and an interest rate of 10%. This loan balance at October 31, 2018 and 2017 was \$36,600 and \$36,000, respectively.

-42-

NOTES PAYABLE

In July 2005, the Company was approved for a low interest promissory note from the U.S. Small Business Administration in the amount of \$280,100. In January 2006 the Company amended the promissory note with the Small Business Administration increasing the principal balance to \$430,500. The note bears an annual interest rate of 2.9% and matures on July 13, 2035. Monthly payments, including principal and interest, of \$1,820 are due monthly. A payment was made on the note of \$40,672 during the year ended October 31, 2017 due to the sale of real estate by Riccelli Properties that was collateral on the promissory note. The loan balance was \$119,486 and \$137,358 at October 31, 2018 and 2017, respectively. This note is guaranteed by the Company's CEO.

4. EXCLUSIVE LICENSING AND MANUFACTURING AGREEMENT

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

5.

CONCENTRATIONS

Revenues from three customers were approximately 51% and 34% of the Company's revenues for the fiscal years ended October 31, 2018 and 2017, respectively.

Three customers accounted for approximately 86% and 71% of the Company's accounts receivable as of October 31, 2018 and 2017, respectively.

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

6.

INCOME TAXES

In prior years the Company incurred net operating losses and, accordingly, no provision for income taxes has been recorded. In addition, no benefit for income taxes has been recorded due to the uncertainty of the realization of any tax assets. For the 2017 tax year, fiscal year end October 31, 2018, the Company had net operating loss carryforwards of approximately \$5,700,000 for tax purposes. The carryforwards are available to offset taxable income of future periods and begin to expire after the Company's 2037 tax year, fiscal year end October 31, 2038. Effective for tax years ending in 2018 or later, net operating losses cannot be carried back but can be carried forward to future tax years indefinitely. Realization of the deferred tax benefit related to the carryforward is dependent upon the Company generating sufficient taxable income in the future, against which the loss can be offset, which is not guaranteed

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

	2018	2017
Net operating loss carryforward	\$2,554,625	\$2,000,000
Depreciation	—	—
Net deferred tax assets before valuation allowance	2,554,625	2,000,000
Less: Valuation allowance	(2,554,625)	(2,000,000)
Net deferred tax assets	\$—	\$—

For financial reporting purposes, the Company has incurred losses in previous years. Based on the available objective evidence, including the Company's previous losses, management believes it is more likely than not that the net deferred tax assets will not be fully realizable. Accordingly, the Company provided for a full valuation allowance against its net deferred tax assets as of October 31, 2018 and 2017, respectively.

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

	2018	2017
Federal statutory rate	21 %	34 %
Effect of net operating losses	(21 %)	(34 %)
Effective income tax rate	—	—

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

On December 22, 2017, the President signed into law the Tax Cuts and Jobs Act (H.R.1) (the "Act"). The Act includes a number of changes to existing tax law impacting businesses including, among other things, a permanent reduction in the corporate income tax rate from 34% to 21%. The rate reduction applies to tax years beginning on or after January 1, 2018.

As a result of the reduction in the corporate income tax rate under the Act, the Company had to revalue its net deferred tax liability, for the fiscal year ended October 31, 2017. The did not change the Company's net income for the fiscal year ended October 31, 2018.

7. COMMITMENTS

The Company leases its executive offices/warehouse space from Frank Riccelli, a stockholder and brother of our Chief Executive Officer, for \$3,500 per month. The lease is based on a verbal agreement with month to month terms. For the fiscal years ended October 31, 2018 and 2017 rent expense totaled \$42,000.

8. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

2018	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Revenue	\$ 116,203	\$ 17,163	\$ 34,149	\$ 82,167	\$ 249,682
Loss from operations	\$(138,990)	\$(155,805)	\$(145,870)	\$(118,550)	\$(559,215)
Net loss	\$(146,249)	\$(158,023)	\$(154,221)	\$(96,132)	\$(554,625)
Weighted average shares outstanding	26,732,245	27,033,872	27,228,038	27,492,223	27,122,315
Basic loss per share	(0.005)	(0.006)	(0.006)	(0.003)	(0.020)
2017	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Revenue	\$ 169,210	\$ 39,162	\$ 41,811	\$ 117,772	\$ 367,955
Loss from operations	\$(110,754)	\$(157,147)	\$(181,520)	\$(154,710)	\$(604,131)
Net loss	\$(119,240)	\$(160,751)	\$(186,966)	\$(166,098)	\$(633,055)
Weighted average shares outstanding	25,370,310	25,396,265	25,616,962	25,942,310	25,582,984
Basic loss per share	(0.005)	(0.006)	(0.007)	(0.006)	(0.025)

9. SEGMENT INFORMATION

We have organized our operations into two segments as discussed in Note 1 to the financial statements. We rely on an internal management reporting process that provides segment information for purposes of making financial decisions and allocating resources.

The following tables present our business segment information for the fiscal years ending October 31, 2018 and 2017:

	2018	2017
Revenues:		
Apparel	\$ 117,147	\$ 183,661
Housewrap	132,535	184,294
Total Revenues	\$ 249,682	\$ 367,955
Assets:		
Apparel	\$ 500,208	\$ 677,566
Housewrap	1,202,325	1,159,095
Total	\$ 1,702,533	\$ 1,836,661
Capital Expenditures:		
Apparel	\$ 4,258	\$ —
Housewrap	—	14,900
Total	\$ 4,258	\$ 14,900
Depreciation:		
Apparel	\$ 9,961	\$ 7,336
Housewrap	23,627	23,627
Total	\$ 33,588	\$ 30,963

10. COMMON STOCK

During the quarter ended January 31, 2017, there was no stock sold or issued.

During the quarter ended April 30, 2017, the Company issued 30,000 shares of common stock to one director for services performed during February 2017 valued at \$7,500. The stock was issued at a price of \$0.25 per share. Pursuant to Rule 12b-15 under the Securities and Exchange Act of 1934, as amended, this Form 10-Q includes new certifications by our principal executive officer and principal financial officer under Sections 302 and 906 of the Sarbanes-Oxley Act of 2002.

During the quarter ended July 31, 2017, the Company issued 130,000 shares of common stock to two shareholders for services performed in April and May 2017 valued at \$40,200 in total. The stock was issued at a price of \$0.30 and \$0.34 per share. Pursuant to Rule 12b-15 under the Securities and Exchange Act of 1934, as amended, this Form 10-Q includes new certifications by our principal executive officer and principal financial officer under Sections 302 and 906 of the Sarbanes-Oxley Act of 2002.

-46-

Additionally, for the quarter ended July 31, 2017, the Company sold 217,000 shares of common stock to three previous stockholders for total proceeds of \$40,590. The stock was issued at a price ranging from \$0.18-\$0.22 per share. We believe that Section 4(2) of the Securities Act of 1933, as amended, was available because these transactions did not involve a public offering and there was no general solicitation or general advertising involved in these transactions. 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.

During the quarter ended October 31, 2017, the Company issued 140,000 shares of common stock to one shareholder and one individual for services performed in September and October 2017 valued at \$50,000 in total. The stock was issued at a price of \$0.25 and \$0.40 per share. Pursuant to Rule 12b-15 under the Securities and Exchange Act of 1934, as amended, this Form 10-Q includes new certifications by our principal executive officer and principal financial officer under Sections 302 and 906 of the Sarbanes-Oxley Act of 2002.

Additionally, for the quarter ended October 31, 2017, the Company sold 505,000 shares of common stock for total proceeds of \$131,950. The stock was issued at a price ranging from \$0.25 - \$0.40 per share to three new investors and three stockholders. We believe that Section 4(2) of the Securities Act of 1933, as amended, was available because these transactions did not involve a public offering and there was no general solicitation or general advertising involved in these transactions. 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.

During the quarter ended January 31, 2018, the Company issued 50,000 shares of common stock to one individual for services performed during December 2017 valued at \$20,000. The stock was issued at a price of \$0.40 per share. In addition, the Company sold 351,000 shares of common stock to three individuals for total proceeds of \$111,560. The stock was issued at a price ranging from \$0.30-\$0.32 per share.

During the quarter ended April 30, 2018, the Company issued 55,000 shares of common stock to two individuals for services performed in April 2018 valued at \$9,900. The stock was issued at a price of \$0.18 per share. In addition, the Company sold 356,250 shares of common stock to three individuals for total proceeds of \$105,000. The stock was issued at a price ranging from \$0.25-\$0.32 per share.

During the quarter ended July 31, 2018, the Company issued 5,000 shares of common stock to one individual for services performed in May 2018 valued at \$1,000 in total. The stock was issued at a price of \$0.20 per share. In addition, the Company sold 25,000 shares of common stock to one individual for total proceeds of \$5,000. The stock was issued at a price of \$0.20 per share. We believe that Section 4(2) of the Securities Act of 1933, as amended, was available because these transactions and the transaction cited above did not involve a public offering and there was no general solicitation or general advertising involved in these transactions. 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.

During the quarter ended October 31, 2018, the Company issued 130,000 shares of common stock to two shareholders for services performed in September and October 2018 valued at \$39,000 in total. The stock was issued at a price of \$0.80 per share. Additionally, for the quarter ended October 31, 2018, the Company sold 425,000 shares of common stock for total proceeds of \$90,000. The stock was issued at a price ranging from \$0.20 - \$0.25 per share to three stockholders. We believe that Section 4(2) of the Securities Act of 1933, as amended, was available because these transactions did not involve a public offering and there was no general solicitation or general advertising involved in these transactions. 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.

11. RELATED PARTY TRANSACTIONS

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

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

12. LITIGATION

On November 4, 2016, the Federal Trade Commission (FTC) filed a complaint against the Company in the U.S. District Court Western District of Pennsylvania, number 16-1669. In the complaint, the FTC alleges that, among other matters, the Company does not have substantiation of claims made by the Company regarding the R value and energy efficiency of its INSULTEX House Wrap products. The complaint asks as redress of rescission of revenue the Company received from the sale of House Wrap and a permanent injunction. The parties are currently in the expert discovery phase. As a result of the partial federal government shutdown, a new trial date has been set for July 29, 2019.

The Company strongly denies the allegation and intends to vigorously defend itself. It is the Company's belief that the complaint is based on improper testing of the INSULTEX products using the wrong type of testing equipment.

13. GOING CONCERN

The Company had a net loss of \$554,625 and a negative cash flow from operations of \$418,948 for the year ended October 31, 2018. In addition, the Company has an accumulated deficit of \$8,900,437. Management of the Company has represented that they will be able to continue to support the Company's cash needs through sales, sales of Company stock, and borrowings from private parties.

14. SUBSEQUENT EVENTS

In accordance with ASC Topic 855, "*Subsequent Events*", the Company evaluated subsequent events through March 13, 2019, the date these financial statements were available to be issued. During their evaluation, the following subsequent events were identified.

During January 2019, the Company sold 360,000 shares of stock to five individuals for total proceeds of \$61,200. The stock was issued for \$0.17 per share. Each Unit consisted of 60,000 shares of common stock and a warrant to purchase 60,000 shares of common stock. The strike price of the warrant was \$.17 per share. The term was three years. The Company also agreed to register the shares and the shares underlying the warrants. Each Unit was priced at \$10,200. Each purchaser was an "accredited investor". The Company believes that Section 4(2) of the Securities Act of 1933, as amended, was available because these transactions did not involve a public offering and there was no general solicitation or general advertising involved in these transactions. The Company has 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.

