



Edgar Filing: INNOVATIVE DESIGNS INC - Form 10-Q

124 Cherry Street

Pittsburgh, Pennsylvania 15223

(Address of Principal Executive Offices, Zip Code)

(412) 799-0350

(Issuer's Phone Number Including Area Code)

N/A

(Former Name or Former Address, if changed since last report)

Indicate by check mark whether the registrant (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 preceding 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 such shorter period that the registrant was required to submit and post such files). YES

NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

(Check One)

Large Accelerated Filer    Accelerated Filer

Non-accelerated Filer    Smaller reporting company

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(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

As of September 18, 2018, there were 27,334,560 shares of the Registrant's common stock, par value \$.0001 per share, outstanding.

Transitional Small Business Disclosure Format:      YES      NO

Innovative Designs, Inc.

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Form 10-Q for the Quarter Ended July 31, 2018

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**ITEM 1. CONDENSED FINANCIAL STATEMENTS****INNOVATIVE DESIGNS, INC.****CONDENSED BALANCE SHEETS****July 31, 2018 (Unaudited) and October 31, 2017****ASSETS**

	2018	2017
<b>CURRENT ASSETS</b>		
Cash	\$ 112,130	\$ 214,871
Accounts receivable - net of allowance for doubtful accounts of \$8,623 and \$0 as of July 31, 2018 and October 31, 2017, respectively	917	23,805
Inventory - net of obsolete inventory reserve of \$75,468 and \$51,000 as of July 31, 2018 and October 31, 2017, respectively	757,894	729,845
Inventory on consignment	1,625	1,625
Deposits on inventory	57,330	70,000
Prepaid expenses	13,320	14,653
Total current assets	943,216	1,054,799
<b>PROPERTY AND EQUIPMENT - NET</b>	138,486	160,862
<b>OTHER ASSETS</b>		
Advance to employees	8,200	4,000
Deposits on equipment	617,000	617,000
Total other assets	625,200	621,000
<b>TOTAL ASSETS</b>	<b>\$ 1,706,902</b>	<b>\$ 1,836,661</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 193,910	\$ 129,278
Current portion of notes payable	17,718	18,096
Accrued interest expense	56,832	44,184
Due to shareholders	146,850	118,500
Accrued expenses	10,775	25,102
Total current liabilities	426,085	335,160

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Long-term portion of notes payable	104,611	119,262
<b>TOTAL LIABILITIES</b>	<b>530,696</b>	<b>454,422</b>
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, \$0.0001 par value, 100,000,000 shares authorized, and 27,234,560 and 26,392,310 issued and outstanding as of July 31, 2018 and October 31, 2017	2,724	2,639
Additional paid-in capital	9,977,787	9,725,412
Accumulated deficit	(8,804,305)	(8,345,812)
Total stockholders' equity	1,176,206	1,382,239
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$1,706,902</b>	<b>\$1,836,661</b>

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

**INNOVATIVE DESIGNS, INC.****CONDENSED STATEMENTS OF OPERATIONS**Three and Nine Month Periods Ended July 31, 2018 and 2017 (Unaudited)

	Three Month Periods Ended July 31,		Nine Month Periods Ended July 31,	
	2018	2017	2018	2017
REVENUES - NET	\$34,149	\$41,811	\$167,515	\$250,183
OPERATING EXPENSES:				
Cost of sales	52,415	39,463	134,877	145,537
Selling, general and administrative expenses	127,604	183,868	473,303	562,080
	180,019	223,331	608,180	707,617
LOSS FROM OPERATIONS	(145,870 )	(181,520 )	(440,665 )	(457,434 )
OTHER EXPENSE				
Miscellaneous expense	—	—	1,034	2,559
Interest expense	8,351	5,446	16,794	16,099
Total other expense	8,351	5,446	17,828	18,658
NET LOSS	\$(154,221 )	\$(186,966 )	\$(458,493 )	\$(476,092 )
PER SHARE INFORMATION				
Net Loss Per Common Share	\$(0.006 )	\$(0.007 )	\$(0.017 )	\$(0.019 )
Weighted Average Number of Common Shares Outstanding	27,228,038	25,616,962	26,997,658	25,461,892

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

**INNOVATIVE DESIGNS, INC.****CONDENSED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**July 31, 2018 (Unaudited) and October 31, 2017**

	Common Stock	Common Stock	Additional	Accumulated	
	Number of Shares	Amount	Paid-in Capital	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	110,000	11	30,889	—	30,900
Sale of stock	732,250	74	221,486	—	221,560
Net loss	—	—	—	(458,493 )	(458,493 )
Balance at July 31, 2018	27,234,560	\$ 2,724	\$9,977,787	\$(8,804,305 )	\$ 1,176,206

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



**INNOVATIVE DESIGNS, INC.****CONDENSED STATEMENTS OF CASH FLOWS**  
**Nine Month Periods Ended July 31, 2018 and 2017 (Unaudited)**

	For the Nine Month Periods Ended	
	July 31, 2018	July 31, 2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$(458,493)	\$(476,092)
Adjustments to reconcile net loss to net cash used in operating activities:		
Allowance for doubtful accounts	8,623	—
Allowance for obsolete inventory	24,468	—
Common stock issued for services	30,900	47,700
Depreciation	26,634	22,856
(Increase) decrease from changes in:		
Accounts receivable	14,265	57,581
Inventory	(52,517 )	142,212
Deposits on inventory	12,670	—
Prepaid expenses	1,333	(376 )
Advance to employees	(4,200 )	—
Increase (decrease) from changes in:		
Accounts payable	64,632	34,497
Accrued interest expense	12,648	5,599
Accrued expenses	(14,327 )	(31,798 )
Net cash used in operating activities	(333,364)	(197,821)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditures	(4,258 )	(14,900 )
Net cash used in investing activities	(4,258 )	(14,900 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from sale of stock	221,560	40,590
Proceeds from shareholder advances	53,350	—
Payments on shareholder advances	(25,000 )	(43,900 )
Payments on notes payable	(15,029 )	(21,838 )
Net cash provided by (used in) financing activities	234,881	(25,148 )
Net decrease in cash	(102,741)	(237,869)

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CASH, BEGINNING OF YEAR	214,871	502,777
CASH, END OF THE PERIOD	\$ 112,130	\$ 264,908
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$4,146	\$ 11,001

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

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**INNOVATIVE DESIGNS, INC.**

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

Three Month and Nine Month Periods Ended July 31, 2018 and 2017 (Unaudited)

NOTE 1. In the opinion of management, the accompanying unaudited financial statements contain all adjustments necessary to present fairly Innovative Designs, Inc.'s financial position as of July 31, 2018, the changes therein for the three and nine month periods then ended and the results of operations for the three and nine month periods ended July 31, 2018 and 2017.

NOTE 2. The financial statements included in the Form 10-Q are presented in accordance with the requirements of the Form and do not include all of the disclosures required by accounting principles generally accepted in the United States of America. For additional information, reference is made to the Innovative Designs, Inc.'s annual report on Form 10-K for the fiscal year ended October 31, 2017. The results of operations for the three and nine month periods ended July 31, 2018 and 2017 are not necessarily indicative of operating results for the full year.

NOTE 3. GOING CONCERN

The Company had a net loss of \$458,493 and a negative cash flow from operations of \$333,364 for the nine month period ended July 31, 2018. In addition, the Company has an accumulated deficit of \$8,804,305. 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.

NOTE 4. ACCOUNTS RECEIVABLE

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 \$8,623 as of the quarter ended July 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.

NOTE 5. INVENTORY

Inventory consists principally of purchased apparel inventory and House Wrap which is manufactured by the Company. Inventory is stated at the lower of cost or net realizable value on a first-in, first-out basis. Innovative Designs, Inc. (the “Company”) has decided to discontinue the selling of its hunting and swimming line of apparel. The Company has booked a reserve against apparel inventory at July 31, 2018 and October 31, 2017 of \$75,468 and \$51,000, respectively. Management has determined that no allowance is currently necessary on their House Wrap Inventory. Management will continue to evaluate its obsolete inventory reserve throughout the year and make adjustments as needed.

NOTE 6. EARNINGS PER SHARE

The Company calculates net income (loss) per share in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standard Codification (“ASC”) Topic 260 “*Earnings per Share*”. Basic earnings (loss) per share is calculated by dividing income (loss) by the weighted average number of common shares outstanding for the period. During the periods presented, the Company only has common stock outstanding. As a result, diluted earnings per share was not calculated.

**INNOVATIVE DESIGNS, INC.**

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

Three Month and Nine Month Periods Ended July 31, 2018 and 2017 (Unaudited)

NOTE 7. INCOME TAXES

The Company accounts for income taxes in accordance with 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. The Company will continue to evaluate its income tax obligation throughout the year and will record a tax provision when it is necessary.

NOTE 8. SHIPPING AND HANDLING COSTS

The Company pays shipping and handling costs on behalf of customers for purchased apparel merchandise. These costs are billed back to the customer through the billing invoice. The shipping and handling costs associated with merchandise ordered by the Company are included as part of inventory as these costs are allocated across the merchandise received. With House Wrap orders, the customer pays the shipping cost. The shipping and handling costs associated with customer orders was approximately \$13,000 and \$16,000 for the nine month periods ended July 31, 2018 and 2017, respectively.

NOTE 9. COMMON STOCK

During the nine month period ended July 31, 2018, the Company sold 732,250 shares of common stock to seven investors for total proceeds of \$221,560. The stock was issued for prices ranging from \$0.20 - \$0.32 per share. In addition, the Company issued 110,000 shares to three individuals for services performed during the period. The shares

issued were valued ranging between \$0.18 - \$0.40 per share for a total price of \$30,900. 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 nine month period ended July 31, 2017, the Company issued 160,000 shares of stock for service. The Company issued one director 30,000 shares at a price of \$0.25 per share for services valued at \$7,500. The Company issued one stockholder 100,000 shares at a price of \$0.30 per share for services valued at \$30,000. The Company also issued 30,000 shares of stock to an individual at a price of \$0.34 per share for services valued at \$10,200. 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.

**INNOVATIVE DESIGNS, INC.**

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

Three Month and Nine Month Periods Ended July 31, 2018 and 2017 (Unaudited)

Additionally, for the nine month period ended July 31, 2017, the Company sold stock for a price ranging from \$0.18-\$0.22 per share. The Company sold 217,000 shares of stock for an aggregate price of \$40,590. 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 this transaction. We placed legends on the stock certificates stated that the securities were not registered under the Securities Act and set for the restrictions on their transferability and sale.

NOTE 10. 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 which was to be paid in four installments. The first installment of \$300,000 was to be paid at the execution of the agreement. The second installment of \$200,000 was to be paid when the machinery and equipment is ready to be shipped to the United States. The third installment of \$100,000 is to be paid 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 July 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, site improvements and installation of the equipment. Due to various environmental regulations regarding propane emitted from the machine into the air and other costs to assemble the machine the Company expects to incur costs in excess of the current deposit agreement. Management of the Company currently can not reasonably estimate the costs.

NOTE 11. SEGMENT INFORMATION

We have organized our operations into two segments. We rely on an internal management reporting process that provides segment information for purposes of making financial decisions and allocating resources.





**INNOVATIVE DESIGNS, INC.**

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

Three Month and Nine Month Periods Ended July 31, 2018 and 2017 (Unaudited)

The following tables present our business segment information for the nine month periods ended July 31, 2018 and 2017:

	2018	2017
Revenues:		
Apparel	\$96,971	\$161,015
House Wrap	70,544	89,168
Total Revenues	\$167,515	\$250,183
Assets:		
Apparel	\$498,341	\$680,465
House Wrap	1,208,561	1,202,835
Total	\$1,706,902	\$1,883,300
Capital Expenditures:		
Apparel	\$4,258	\$—
Housewrap	—	\$14,900
Total	\$4,258	\$14,900
Depreciation:		
Apparel	\$8,962	\$5,184
House Wrap	17,672	17,672
Total	\$26,634	\$22,856

NOTE 12. LEGAL PROCEEDINGS

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. A trial date has been set for January 22,

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.

NOTE 13. SUBSEQUENT EVENTS

The Company has evaluated subsequent events in accordance with ASC Topic 855, "*Subsequent Events*", through September 20, 2018, which is the date financial statements were available to be issued. The Company identified the below subsequent event.

On August 2, 2018, the Company sold 100,000 shares of stock for total proceeds of \$25,000 or \$0.25 per share.

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## **INNOVATIVE DESIGNS, INC.**

### **ITEM 2. 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 and in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended October 31, 2017.

#### **Forward-Looking Statements**

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of the Private Securities Reform Act of 1995. All statements other than statements of historical fact, including statements regarding future results of operation, made in this Quarterly Report on Form 10-Q are forward-looking statements. We use words such as expects, believes, intends, and similar expressions to identify forward-looking statements. Forward looking-looking statements reflect management's current expectations and are inherently uncertain. Actual results could differ materially for a variety of reasons, including, among others, an adverse outcome in our legal matter with the Federal Trade Commission, competition in our cold weather markets, our inability to secure sufficient funding to maintain and/or expand our current level of operations and the seasonality of our cold weather product line. These risks and uncertainties, as well as other risks and uncertainties that could cause our actual results to differ significantly from management's expectations, are described in greater detail in our Annual Report on Form 10-K for the fiscal year ended October 31, 2017. The Company undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise except as required by law.

#### **Background**

Innovative Designs, Inc. (hereinafter referred to as the "Company", "we" or "our") was formed on June 25, 2002. We market and sell clothing products such as outdoor apparel, and cold weather gear called "Arctic Armor" that are made from INSULTEX, a material with buoyancy, scent block and thermal resistant properties. We also market our House Wrap product line which is a building material with thermal qualities. House Wrap is also made from INSULTEX. We obtain INSULTEX through a license agreement with the owner and manufacturer of the material. Since our formation we have devoted our efforts to:

Completing the development, design and prototypes of our products,

Obtaining retail stores or sales agents to offer and sell our products,

Developing our website to sell more of our products.

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**INNOVATIVE DESIGNS, INC.****Results of Operations**Comparison of the Three Month Period Ended July 31, 2018 with the Three Month Period Ended July 31, 2017.

	Three Month Period Ended July 31, 2018	% of Sales	Three Month Period Ended July 31, 2017	% of Sales	Increase (Decrease)	% Change
REVENUE - NET	\$34,149	100.00 %	\$41,811	100.00 %	\$ (7,662 )	-18.33 %
<b>OPERATING EXPENSES</b>						
Cost of sales	52,415	153.49 %	39,463	94.38 %	12,952	32.82 %
Selling, general and administrative expenses	127,604	373.67 %	183,868	439.76 %	(56,264 )	-30.60 %
Loss from operations	(145,870)	-427.16 %	(181,520)	-434.14 %	35,650	-19.64 %
<b>OTHER EXPENSE</b>						
Interest expense	8,351	24.45 %	5,446	13.03 %	2,905	53.34 %
Net loss	\$(154,221)	-451.61 %	\$(186,966)	-447.17 %	\$ 38,555	-20.62 %

Revenues for the three month period ended July 31, 2018 were \$34,149 compared to revenues of \$41,811 for the three month period ended July 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 products is attributable, in part, to the fact that we are devoting significant portion of our limited resources to the FTC matter and the fact that this period is normally a slow period for apparel sales on account of the season. See Note 11 of the Notes to the Condensed Financial Statements appearing elsewhere in this Report for a description of our segment products sales. Our net loss for the three month period ended July 31, 2018 was (\$154,221).

Our selling, general and administrative expenses were \$127,604 for the three month period ended July 31, 2018 compared to \$183,868 for the three month period ended July 31, 2017. Professional fees for the three month period

ended July 31, 2018 were \$22,944 compared to \$82,258 for the three month period ended July 31, 2017. The majority of our professional fees relate to the legal fees incurred in connection to the FTC matter. We expect our professional fees to continue to be substantial during the course of this legal matter.

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**INNOVATIVE DESIGNS, INC.**Comparison of the Nine Month Period Ended July 31, 2018 with the Nine Month Period Ended July 31, 2017.

The following table shows a comparison of the results of operations between the nine month periods ended July 31, 2018 and July 31, 2017:

	Nine Month Period Ended July 31, 2018	% of Sales	Nine Month Period Ended July 31, 2017	% of Sales	Increase (Decrease)	% Change
REVENUE - NET	\$167,515	100.00 %	\$250,183	100.00 %	\$ (82,668 )	-33.04 %
<b>OPERATING EXPENSES</b>						
Cost of sales	134,877	80.52 %	145,537	58.17 %	(10,660 )	-7.32 %
Selling, general and administrative expenses	473,303	282.54 %	562,080	224.67 %	(88,777 )	-15.79 %
Loss from operations	(440,665)	-263.06 %	(457,434)	-182.84 %	16,769	-3.67 %
<b>OTHER EXPENSE</b>						
Miscellaneous expense	1,034	0.62 %	2,559	1.02 %	(1,525 )	-59.59 %
Interest expense	16,794	10.03 %	16,099	6.43 %	695	4.32 %
Net loss	\$(458,493)	-273.70 %	\$(476,092)	-190.30 %	\$ 17,599	-3.70 %

Revenues for the nine month period ended July 31, 2018 were \$167,515 compared to revenues of \$250,183 for the nine month period ended July 31, 2017. The decrease is caused, by the decrease in our apparel sales and the sales in our House Wrap product line. The apparel sales were adversely affected by warm weather. In December 2016, we voluntarily ceased advertising our House Wrap products as a result of the legal action brought by the Federal Trade Commission ("FTC"). See Note 11 of the Notes to the Condensed Financial Statements appearing elsewhere in this Report for a description of our segment product sales. During the nine month period ended July 31, 2018 House Wrap sales totaled \$70,544 in comparison with \$89,168 during the nine month period ended July 31, 2017. Our net loss for the nine month period ended July 31, 2018 was (\$458,493).

Our selling, general and administrative expenses were \$473,303 for the nine months ended July 31, 2018 compared to \$562,080 for the nine month period ended July 31, 2017. The decrease was a result, in part, by lower seasonal help expense and less advertising and promotional expense and a significant decrease in professional fees. We do not expect our seasonal help expense or advertising and promotional expenses to increase in the current fiscal year ending October 31, 2018.

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**INNOVATIVE DESIGNS, INC.**

**Liquidity and Capital Resources**

During the period ended July 31, 2018, we funded our operations from revenues from sales and sale of our common stock. During the three month period ended July 31, 2018, we sold our common stock in private transactions and raised \$5,000 from the sales. Also, in May 2018, we entered into a loan agreement for \$50,000.

Subsequent to the period, in August 2018 we sold our common stock in a private transaction and raised \$25,000. See Note 13 of the Notes to the Financials Statements appearing elsewhere in this Report.

**Short Term:** We will continue to fund our operations from sales and the sale of our securities. We continue to pay our creditors when payments are due. We will require more funds to be able to order the material for our INSULTEX products and to purchase equipment needed for the manufacture of the INSULTEX product. The Company reached an agreement with the manufacturer of the INSULTEX material to purchase a machine capable of producing the INSULTEX material. Also included in the proposed agreement will be the propriety formula that creates INSULTEX. The Company took delivery of the equipment in December 2015. The Company will have to have the machine installed and ensure that it can be operated in compliance with all environmental rules and regulations. The Company has not made an estimate of the cost required for bringing the operation of the machine into compliance with the environmental regulations but it is considered to be a substantial amount. We are in the permitting stage relating to environmental issues necessary to begin the installation of the equipment. However, given our current limited financial resources we are not devoting the resources needed to complete the permitting process. The Company has currently made deposits of \$600,000 on the equipment. The Company has incurred \$17,000 of additional expenses related to shipping. The Company will produce INSULTEX under its own brand name. See Note 10 of the Notes to the Condensed Financial Statements.

**Long Term:** The Company will continue to fund its operations from revenues, borrowings from private parties and the possible sale of our securities. Should we not be able to rely on the private sources for borrowing and /or increased sales, our operations would be severely affected as we would not be able to fund our purchase orders to our suppliers for finished goods and our efforts to produce our own INSULTEX would be delayed.

**INNOVATIVE DESIGNS, INC.**

**PART II – OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDING**

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. A trial date has been set for January 22, 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 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

During the nine month period ended July 31, 2018, the Company sold 732,250 shares of common stock to seven investors for total proceeds of \$221,560. The stock was issued for prices from \$0.20 - \$0.32 per share. In addition, the Company issued 110,000 shares to three individuals for services performed during the period. The shares issued were valued between \$0.18 - \$0.40 per share for a total price of \$30,900. 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 nine month period ended July 31, 2017, the Company issued 160,000 shares of stock for service. The Company issued one director 30,000 shares at a price of \$0.25 per share for services valued at \$7,500. The Company issued one stockholder 100,000 share at a price of \$0.30 per share for services valued at \$30,000. The Company also issued 30,000 shares of stock to an individual at a price of \$0.34 per share for services valued at \$10,200.

Additionally, for the nine month period ended July 31, 2017, the Company sold stock for a price ranging from \$0.18-\$0.22 per share. The Company sold 217,000 shares of stock for an aggregate price of \$40,590. 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 this transaction. We placed legends on the stock certificates stated that the securities were not registered under the Securities Act and set for the restrictions on their transferability and sale.

On August 2, 2018, the Company sold 100,000 shares of stock for total proceeds of \$25,000 or \$0.25 per share. We believe that Section 4(2) of the Securities Act of 1933, as amended, was available because this transaction did not involve a public offering and there was no general solicitation or general advertising involved in this transaction. We placed legends on the stock certificates stated that the securities were not registered under the Securities Act and set for the restrictions on their transferability and sale.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a smaller reporting company, we are not required to provide the information otherwise required by this Item.

### ITEM 4T. CONTROLS AND PROCEDURES

Management has developed and implemented a policy and procedures for reviewing, on a quarterly basis, our disclosure controls and procedures. During the period ended July 31, 2018, our principle executive/financial officer concluded that these controls and procedures were ineffective. 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. During the first, second, and third quarter of 2018, the Company was not able to close the books and records in a timely fashion. Consequently, the Company was unable to file its Form 10-Q for the periods ended January 31, 2018 and July 31, 2018 within the timeline established by the SEC and was required to seek an extension for filing the form.

**INNOVATIVE DESIGNS, INC.**

Changes in Internal Control Over Financial Reporting

During the most recent fiscal quarter, there were no changes in the Company's internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13(a)-15 or 15d-15 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Until the Company has the financial resources to employ a financial staff with accounting and financial expertise, to be able to properly account for internal financial reporting, errors that may have a material effect on the financial statements have the potential to occur.

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**INNOVATIVE DESIGNS, INC.**

ITEM 6. EXHIBITS

\*3.1 Revised Certificate of Incorporation

\*\*3.2 By-Laws

31.1 Rule 13a - 14a Certification of Chief Executive Officer and Chief Financial Officer

32.1 Section 1350 Certification of Chief Executive Officer and Chief Financial Officer

\* Incorporated by reference to the Company's Form 10-K filed February 12, 2015

\*\* Incorporated by reference to the Company's registration statement on Form SB-2, filed March 11, 2003

99\*\*\* Incorporated by reference to the Company's Current Report on Form 8-k, filed November 4, 2016

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Innovative Designs, Inc.  
Registrant

Date: September 20, 2018 by: /s/ Joseph Riccelli  
Joseph Riccelli, Chief Executive Officer  
and Chief Financial Officer