

INNOVATIVE FOOD HOLDINGS INC
Form 10-Q
November 21, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington D. C. 20549

FORM 10-Q

- Quarterly report pursuant to Section 13 or 15(d) of the Securities and Exchange Act of 1934
For the quarterly period ended September 30, 2012
- Transition report pursuant to Section 13 or 15(d) of the Exchange Act
For the transition period from _____ to _____.

Commission File Number: 0-9376

INNOVATIVE FOOD HOLDINGS, INC.
(Exact Name of Registrant as Specified in its Charter)

Florida
(State or Other Jurisdiction of Incorporation
or Organization)

20-1167761
(IRS Employer I.D. No.)

3845 Beck Blvd., Suite 805
Naples, Florida 34114
(Address of Principal Executive Offices)

(239) 596-0204
(Registrant's Telephone Number, Including Area Code)

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 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 for 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 the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Edgar Filing: INNOVATIVE FOOD HOLDINGS INC - Form 10-Q

(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 Regulation 12b-2 of the Exchange Act): YES NO

State the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 6,023,801 shares of common stock outstanding (post reverse-split) as of November 20, 2012.

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC.
TABLE OF CONTENTS TO FORM 10-Q

	Page
PART I. FINANCIAL INFORMATION	
Item 1. <u>Condensed Consolidated Financial Statements (unaudited)</u>	3
<u>Condensed Consolidated Balance Sheets</u>	3
<u>Condensed Consolidated Statements of Operations</u>	4
<u>Condensed Consolidated Statements of Cash Flows</u>	5
<u>Notes to the Condensed Consolidated Financial Statements</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations (including cautionary statement)</u>	24
Item 4. <u>Controls and Procedures</u>	31
PART II. OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	32
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	32
Item 3. <u>Defaults Upon Senior Securities</u>	32
Item 4. <u>Mine Safety Disclosures</u>	N/A
Item 5. <u>Other Information</u>	32
Item 6. <u>Exhibits</u>	33
<u>Signatures</u>	34

Pursuant to an Order issued by the Securities and Exchange Commission on November 14, 2012 in Securities Exchange Release No. 68224, the registrant is filing its Quarterly Report on 10-Q for the quarter ended September 30, 2012 on or before November 21, 2012 due to delays in filing caused by the after-effects of Hurricane Sandy which kept the registrant's legal counsel and registered accounting firm, which are both based in New York City, from accessing their respective offices for the following week. Accordingly, pursuant to such Order, this filing shall be deemed timely.

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1 - CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Innovative Food Holdings, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets

	September 30, 2012 (unaudited)	December 31, 2011
ASSETS		
Current assets		
Cash and cash equivalents	\$ 716,200	\$ 862,464
Accounts receivable, net	865,018	493,700
Inventory	503,033	42,312
Other current assets	13,753	5,420
Total current assets	2,098,004	1,403,896
Property and equipment, net	163,850	18,222
Trade name	217,000	-
Non-compete	228,750	-
Customer relationships	394,250	-
Goodwill	151,000	-
Total assets	\$ 3,252,854	\$ 1,422,118
LIABILITIES AND (DEFICIENCY IN) STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 1,098,790	\$ 925,790
Accrued liabilities - related parties	75,280	157,080
Accrued interest, net	696,947	663,691
Accrued interest - related parties, net	37,234	29,396
Notes payable, current portion, net of discount	283,698	978,982
Notes payable - related parties, current portion	130,500	130,500
Warrant liability	1,532,424	500,825
Options liability	308,544	161,884
Conversion option liability	1,284,577	1,245,761
Contingent purchase price liability	131,000	-
Total current liabilities	5,578,994	4,793,909
Note payable - long term portion, net of discount	938,552	-
Total liabilities	6,517,546	4,793,909
(Deficiency in) stockholder's equity		
Common stock, \$0.0001 par value; 500,000,000 shares authorized; 5,873,801 shares issued (post reverse-split) and 5,659,130 shares outstanding (post reverse-split) at September 30, 2012 and December 31, 2011, respectively	587	587

Edgar Filing: INNOVATIVE FOOD HOLDINGS INC - Form 10-Q

Additional paid-in capital	3,867,440	3,774,287
Common stock subscribed	68,336	61,034
Treasury stock, 304 and 304 shares outstanding (post reverse-split)	(99)	(99)
Accumulated deficit	(7,200,956)	(7,207,600)
Total (deficiency in) stockholder's equity	(3,264,692)	(3,371,791)
Total liabilities and (deficiency in) stockholders' equity	\$ 3,252,854	\$ 1,422,118

See notes to these unaudited condensed consolidated financial statements.

Table of Contents

Innovative Food Holdings, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations
(UNAUDITED)

	For the Three Months Ended September 30, 2012	For the Three Months Ended September 30, 2011	For the Nine Months Ended September 30, 2012	For the Nine Months Ended September 30, 2011
Revenue	\$ 5,130,418	\$ 2,892,204	\$ 12,768,596	\$ 8,140,010
Cost of goods sold	3,872,444	2,404,888	9,645,040	6,335,738
Gross profit	1,257,974	487,316	3,123,556	1,804,272
Selling, general and administrative expenses	908,235	573,798	2,690,044	1,502,517
Total operating expenses	908,235	573,798	2,690,044	1,502,517
Operating income	349,739	(86,482)	433,512	301,755
Other (income) expense:				
Interest expense	67,282	117,427	166,033	503,526
(Gain) from the extinguishment of debt	-	-	-	(165,325)
Cost of warrant extension	-	-	842,100	-
(Gain) loss from change in fair value of warrant liability	(652,644)	(64,032)	(383,467)	(363,500)
(Gain) loss from change in fair value of conversion option liability	(665,802)	1,769	(197,798)	(264,032)
Total other (income) expense	(1,251,164)	55,164	426,868	(289,331)
Income (Loss) before income taxes	1,600,903	(141,646)	6,644	591,086
Income tax expense	-	-	-	-
Net income (loss)	\$ 1,600,903	\$ (141,646)	\$ 6,644	\$ 591,086
Net income (loss) per share - basic	\$ 0.282	\$ (0.032)	\$ 0.001	\$ 0.141
Net income (loss) per share - diluted	\$ 0.097	\$ (0.032)	\$ (0.012)	\$ 0.040
Weighted average shares outstanding - basic	5,673,844	4,421,192	5,673,844	4,193,478
Weighted average shares outstanding - diluted	10,391,635	4,421,192	10,391,635	14,934,775

See notes to these unaudited condensed consolidated financial statements.

Table of Contents

Innovative Food Holdings, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(UNAUDITED)

	For the Nine Months Ended September 30, 2012	For the Nine Months Ended September 30, 2011
Cash flows from operating activities:		
Net income	\$ 6,644	\$ 591,086
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	69,313	10,938
Amortization of discount on notes payable	6,408	292,546
Amortization of discount on accrued interest	62,085	118,764
Interest capitalized to note payable	13,551	
Value of shares issued in settlement	7,302	-
Value of options issued to officer and directors	186,299	-
Value of extension of term of warrants	842,100	-
Gain on the extinguishment of debt and accrued interest	-	(165,325)
Allowance for bad debt	-	136,550
Change in fair value of warrant liability	(383,467)	(363,500)
Change in fair value of option liability	(39,937)	(77,660)
Change in fair value of conversion option liability	(197,798)	(264,032)
Changes in assets and liabilities:		
Accounts receivable, net	90,923	27,235
Inventory and other current assets, net	(174,369)	20,734
Accounts payable and accrued expenses - related party	(73,962)	(128,522)
Accounts payable and accrued expenses	(366,393)	71,356
Net cash provided by operating activities	48,699	270,170
Cash flows from investing activities:		
Payment to acquire Artisan Specialty Foods, net of cash received	(1,176,605)	-
Proceeds received on loan	-	1,500
Purchase of treasury stock	-	(99)
Acquisition of property and equipment	(40,747)	(8,468)
Net cash used in investing activities	(1,217,352)	(7,067)
Cash flows from financing activities:		
Proceeds from issuance of notes payable	1,080,000	-
Principal payments on debt	(57,611)	(177,112)
Principal payments on notes payable - related parties	-	(50,000)
Net cash provided by (used in) financing activities	1,022,389	(227,112)
(Decrease) increase in cash and cash equivalents	(146,264)	35,991
Cash and cash equivalents at beginning of period	862,464	518,082

Cash and cash equivalents at end of period	\$	716,200	\$	554,073
--	----	---------	----	---------

See notes to these unaudited condensed consolidated financial statements.

Table of Contents

Innovative Food Holdings, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(UNAUDITED) (continued)

	For the Nine Months Ended September 30, 2012	For the Nine Months Ended September 30, 2011
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$ 34,652	\$ 31,501
Taxes	\$ -	\$ -
Conversion of notes payable and accrued interest to common stock	\$ -	\$ 32,355
Conversion of notes payable and accrued interest to common stock subscribed	\$ -	\$ 210,494
Commitment to issue shares charged to common stock subscribed	\$ 7,302	\$ 114,377

See notes to these unaudited condensed consolidated financial statements.

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2012
(Unaudited)

1. BASIS OF PRESENTATION

Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements of Innovative Food Holdings, Inc., and its wholly owned subsidiaries, Artisan Specialty Foods, Inc. (“Artisan”), Food Innovations, Inc. (“FII”), Food New Media Group, Inc. (“FNM”), Gourmet Foodservice Group, Inc. (“GFG”), and 4 The Gourmet, Inc (d/b/a For The Gourmet, Inc.) (“Gourmet”) (collectively, the “Company, or “IVFH”), have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. FNM currently holds the Company’s intellectual property rights related to its private label brand. All material intercompany transactions have been eliminated upon consolidation of these entities.

The accompanying unaudited interim condensed consolidated financial statements have been prepared by the Company, in accordance with generally accepted accounting principles pursuant to Regulation S-X of the Securities and Exchange Commission and with the instructions to Form 10-Q. Certain information and footnote disclosures normally included in audited consolidated financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. Accordingly, these interim financial statements should be read in conjunction with the Company’s financial statements and related notes as contained in Form 10-K for the year ended December 31, 2011. In the opinion of management, the interim unaudited condensed consolidated financial statements reflect all adjustments, including normal recurring adjustments, necessary for fair presentation of the interim periods presented. The results of the operations for the three and nine months ended September 30, 2012 are not necessarily indicative of the results of operations to be expected for the full year.

2. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Business Activity

FII is in the business of providing premium white tablecloth restaurants with the freshest origin-specific perishables and specialty food products direct from its network of vendors to the end users (restaurants, hotels, country clubs, national chain accounts, casinos, and catering houses) within 24 - 72 hours. For The Gourmet Inc., through its website www.forthegourmet.com, and through additional sales channels, provides the highest quality gourmet food products to the retail consumer market under the For The Gourmet line.

We currently sell the majority of our products through a distributor relationship between FII and Next Day Gourmet, L.P., a subsidiary of U.S. Foods (“USF”), a \$20 Billion broad line distributor. On May 18, 2012, the Company executed a Stock Purchase Agreement to acquire all of the issued and outstanding shares of Artisan Specialty Foods, Inc., an Illinois corporation (“Artisan”), Artisan was previously a supplier to the Company. Artisan Specialty Foods is a supplier of over 1,500 niche gourmet products to over 500 customers in the Chicago area.

Use of Estimates

The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. These estimates include certain assumptions related to doubtful accounts receivable, stock-based services, valuation of

financial instruments, and income taxes. On an on-going basis, we evaluate these estimates, including those related to revenue recognition and concentration of credit risk. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We believe our estimates have not been materially inaccurate in past years, and our assumptions are not likely to change in the foreseeable future.

On August 25, 2005, the Company entered into contracts which obligated the company under certain circumstances to issue shares of common stock in excess of the number of shares of common stock authorized. Under accounting guidance provided by FASB ASC 815-40-05, effective August 25, 2005 the Company began to account for all derivative financial instruments, including warrants, conversion features embedded in notes payable, and stock options, via the liability method of accounting. Accordingly, all these instruments are valued at issuance utilizing the Black-Scholes valuation method, and are re-valued at each period ending date, also using the Black-Scholes valuation method. Any gain or loss from revaluation is charged to operations during the period.

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC.
 NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 September 30, 2012
 (Unaudited)

Going Concern

The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Company as a going concern. The Company's current liabilities exceeded its current assets by \$3,480,990 as of September 30, 2012.

The Company is working to manage its current liabilities while it continues to make changes in operations to further improve its cash flow and liquidity position. Management believes the Company will generate sufficient capital from operations and from debt and equity financing in order to satisfy current liabilities in the succeeding twelve months. Management's belief is based on the Company's operating plans, which in turn is based on assumptions that may prove to be incorrect.

If the Company's cash flow from operations is insufficient, the Company may require additional financing in order to execute its operating plan and continue as a going concern. The Company cannot predict whether this additional financing will be in the form of equity or debt, or be in another form. The Company may not be able to obtain the necessary additional capital on a timely basis, on acceptable terms, or at all. In any of these events, the Company may be unable to implement its current plans for expansion, repay its debt obligations as they become due or respond to competitive pressures, any of which circumstances would have a material adverse effect on its business, prospects, financial condition and results of operations. The Company has not made any adjustments to the unaudited condensed consolidated financial statements which would be necessary should the Company not be able to continue as a going concern.

Significant Recent Accounting Pronouncements

Management does not believe that any recently issued, but not yet effective, accounting standards if currently adopted would have a material effect on the accompanying unaudited condensed consolidated financial statements.

3. ACQUISITION OF ARTISAN SPECIALTY FOODS, INC.

On May 18, 2012, the Company executed a Stock Purchase Agreement to acquire all of the issued and outstanding shares of Artisan Specialty Foods, Inc., an Illinois corporation ("Artisan"), from its owner, Mr. David Vohaska. The purchase price was \$1.2 million, with up to another \$300,000 (with a fair value of \$131,000) payable in the event certain financial milestones are met over the next one or two years. The purchase price was primarily financed via a loan from Alpha Capital Aktiengesellschaft (see note 10) in the principal amount of \$1,200,000. Prior to the acquisition, Artisan was a vendor and had sold products to the Company.

The total purchase price was allocated to Artisan's net tangible assets, with the residual allocated to intangible assets:

Closing cash payment	\$ 1,200,000
Contingent purchase price	131,000
Total purchase price	\$ 1,331,000
Tangible assets acquired	\$ 918,515

Edgar Filing: INNOVATIVE FOOD HOLDINGS INC - Form 10-Q

Liabilities assumed	614,515(*)
Net tangible assets	304,000
Trade name	217,000
Non-compete agreement	244,000
Customer relationships	415,000
Goodwill	151,000
Total purchase price	\$ 1,331,000

(*) excluding the Line of Credit paid off with closing cash payment

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2012
(Unaudited)

Pro forma results

The following tables set forth the unaudited pro forma results of the Company as if the acquisition of Artisan had taken place on the first day of the periods presented. These combined results are not necessarily indicative of the results that may have been achieved had the companies always been combined.

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Total revenues	\$5,130,418	\$3,787,512	\$15,325,509	\$7,852,082
Net income attributable to Innovative Food Holdings, Inc.	1,600,903	(175,045)	141,587	879,787
Basic net income (loss) per common share	\$0.279	\$(0.04)	\$0.025	\$0.210
Diluted net income (loss) per common share	\$0.147	\$(0.040)	\$0.013	\$0.059
Weighted average shares - basic	5,673,844	4,421,192	5,673,844	4,193,478
Weighted average shares - diluted	10,768,969	4,421,192	10,768,969	14,934,775

4. ACCOUNTS RECEIVABLE

At September 30, 2012 and December 31, 2011, accounts receivable consists of:

	September 30, 2012	December 31, 2011
Accounts receivable from customers	\$ 899,731	\$ 504,744
Allowance for doubtful accounts	(34,713)	(11,044)
Accounts receivable, net	\$ 865,018	\$ 493,700

5. INVENTORY

Inventory consists of specialty products which are warehoused in Naples, Florida and Lyons, Illinois, and other products held by Company's vendors. At September 30, 2012 and December 31, 2011, finished goods inventory is as follows:

	September 30, 2012	December 31, 2011
Finished goods inventory	\$ 503,033	\$ 42,312

6. PROPERTY AND EQUIPMENT

A summary of property and equipment at September 30, 2012 and December 31, 2011, is as follows:

	September 30, 2012	December 31, 2011
Computer Equipment	\$ 425,352	\$ 321,716
Warehouse Equipment	7,733	-

Edgar Filing: INNOVATIVE FOOD HOLDINGS INC - Form 10-Q

Furniture and Fixtures	109,184	74,850
Vehicles	33,238	-
	575,507	396,566
Less accumulated depreciation and amortization	(411,657)	(378,344)
Total	\$ 163,850	\$ 18,222

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2012
(Unaudited)

Depreciation and amortization expense for property and equipment amounted to \$18,627 and \$3,086 for the three months ended September 30, 2012 and, 2011, respectively. Depreciation and amortization expense amounted to \$33,313 and \$10,938 for the nine months ended September 30, 2012 and, 2011, respectively.

7. INTANGIBLE ASSETS

The Company acquired certain intangible assets pursuant to the acquisition of Artisan Specialty Foods (see note 3). The following is the net book value of these assets:

	Gross	September 30, 2012 Accumulated Amortization	Net
Trade Name	\$ 217,000	\$ -	\$ 217,000
Non-Compete Agreement	244,000	(15,250)	228,750
Customer Relationships	415,000	(20,750)	394,250
Goodwill	151,000	-	151,000
	\$ 1,027,000	\$ (36,000)	\$ 991,000

The trade name is not considered a finite-lived asset, and is not being amortized. The non-competes agreement is being amortized over a period of 48 months; during the three and nine months ended September 30, 2012, the Company recognized amortization expense in the amount of \$15,250 on the non-competes agreement. The customer relationships acquired in the Artisan acquisition –are being amortized over a period of 60 months; during the three and nine months ended September 30, 2012, the Company recognized amortization expense in the amount of \$20,750 on the customer relationships. The Company periodically evaluates the amount of goodwill acquired in the Artisan acquisition, and will charge to operations any impairment in this value should an impairment exist. At September 30, 2012, the Company did not recognize an impairment in the value of its goodwill..

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at September 30, 2012 and December 31, 2011 are as follows:

	September 30, 2012	December 31, 2011
Trade payables	\$ 1,095,644	\$ 891,785
Accrued payroll and commissions	3,146	34,005
Total accounts payable and accrued liabilities - non-related parties	\$ 1,098,790	\$ 925,790

At September 30, 2012 and December 31, 2011, accrued liabilities to related parties consisted of accrued payroll and payroll related benefits.

9. ACCRUED INTEREST

Accrued interest on the Company's convertible notes payable is convertible at the option of the note holders into the Company's common stock at \$0.25 (post reverse-split). There is a beneficial conversion feature embedded in the convertible accrued interest, which can be exercised at any time by the note holders. The Company is amortizing this beneficial conversion feature over the life of the related notes payable. Certain of the notes payable have exceeded their stated terms, and are still outstanding; in those instances, the Company expenses the value of the beneficial conversion feature on the accrued interest immediately.

Certain of the accrued interest are convertible in to shares of the Company's common stock at \$0.25 per share (post reverse-split). At September 30, 2012, convertible accrued interest was \$734,181 (including \$37,234 to a related party), which is convertible into 2,918,673 shares (post reverse-split) of common stock; at December 31, 2011, convertible accrued interest was \$693,087 (including \$29,396 to a related party) which was convertible into 2,772,348 shares (post reverse-split) of common stock.

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2012
(Unaudited)

10. NOTES PAYABLE AND NOTES PAYABLE TO RELATED PARTIES

	September 30, 2012	December 31, 2011
<p>Convertible secured note payable in the original amount of \$350,000 originally payable to Alpha Capital Anstalt (f/k/a/ Alpha Capital Aktiengesellschaft) (“Alpha Capital”), dated February 25, 2005. This note consists of \$100,000 outstanding under a previous note payable which was cancelled on February 25, 2005, and \$250,000 of new borrowings. We did not meet certain of our obligations under the loan documents relating to this issuance. These lapses include not reserving the requisite number of treasury shares, selling subsequent securities without offering a right of first refusal, not complying with reporting obligations, not having our common shares quoted on the OTC:BB and not timely registering certain securities. This note entered technical default status on May 16, 2005. The note originally carried interest at the rate of 8% per annum, and was due in full on February 24, 2007. Upon default, the note’s interest rate increased to 15% per annum, and the note became immediately due. This note contains a cross default provision. The note is convertible into common stock of the Company at a conversion price of \$0.25 (post reverse-split) per share. A beneficial conversion feature in the amount of \$250,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2005. Accrued interest is convertible into common stock of the Company at a conversion price of \$.25 (post reverse-split) per share. Interest in the amount of \$5,313 and \$6,532 was accrued on this note during the three months ended September 30, 2012 and 2011, respectively. Interest in the amount of \$15,284 and \$19,996 was accrued on this note during the nine months ended September 30, 2012 and 2011, respectively. During the twelve months ended December 31, 2006 the note holder converted \$5,000 into shares of common stock. During the twelve months ended December 31, 2006 the holder of the note converted \$27,865 of accrued interest into common stock. In April 2009, the noteholder agreed to waive the default interest rate of 15%, and the note resumed accruing interest at the rate of 8% per annum. During the year ended December 31, 2011, the note holder converted \$81,500 of principal and \$46,793 of accrued interest into 513,172 (post reverse-split) shares of common stock. This note was initially past due at December 31, 2008. This note was previously extended until January 1, 2010. During the three months ended June 30, 2010, the note holder agreed to further extend the maturity date of this note until April 15, 2011. During the three months ended June 30, 2012, the note holder agreed to further extend the maturity date of this note until October 3, 2013.</p>	\$263,500	\$263,500
<p>Reference is made to the convertible note in the amount of \$38,000 originally payable to Whalehaven Capital Fund, Ltd. (“Whalehaven”), dated December 21, 2006, disclosed in prior reports. On September 21, 2011, a portion of that note was sold to Alpha Capital in the amount of \$21,478 of principal and accrued interest in the amount of \$13,938. Interest in the amount of \$433 and \$42 was accrued on this note</p>	21,478	21,478

during the three months ended September 30, 2012 and 2011, respectively. Interest in the amount of \$1,290 and \$42 was accrued on this note during the nine months ended September 30, 2012 and 2011, respectively. During the three months ended June 30, 2012, the note holder agreed to further extend the maturity date of this note until October 3, 2013.

Reference is made to the convertible note in the amount of \$38,000 originally payable to Whalehaven, dated December 21, 2006, disclosed in prior reports. On September 21, 2011, a portion of that note was sold to Osher Capital Partners LLC in the amount of \$9,638 of principal and accrued interest in the amount of \$6,254. Interest in the amount of \$193 and \$19 was accrued on this note during the three months ended September 30, 2012 and 2011, respectively. Interest in the amount of \$575 and \$19 was accrued on this note during the nine months ended September 30, 2012 and 2011, respectively. During the three months ended June 30, 2012, the note holder agreed to further extend the maturity date of this note until October 3, 2013. 9,638 9,638

Reference is made to the convertible note in the amount of \$38,000 originally payable to Whalehaven, dated December 21, 2006, disclosed in prior reports. On September 21, 2011, a portion of that note was sold to Assameka Capital Inc. in the amount of \$6,884 of principal and accrued interest in the amount of \$4,467. Interest in the amount of \$139 and \$14 was accrued on this note during the three months ended September 30, 2012 and 2011, respectively. Interest in the amount of \$414 and \$14 was accrued on this note during the nine months ended September 30, 2012 and 2011, respectively. During the three months ended June 30, 2012, the note holder agreed to further extend the maturity date of this note until October 3, 2013. 6,884 6,884

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2012
(Unaudited)

	September 30, 2012	December 31, 2011
Reference is made to the convertible note payable in the amount of \$50,000 to Whalehaven dated February 25, 2005, disclosed in prior reports. On September 21, 2011, a portion of that note was sold to Alpha Capital in the amount of \$22,609 of principal and accrued interest in the amount of \$7,778. Interest in the amount of \$457 and \$45 was accrued on this note during the three months ended September 30, 2012 and 2011, respectively. Interest in the amount of \$1,361 and \$45 was accrued on this note during the nine months ended September 30, 2012 and 2011, respectively. During the three months ended June 30, 2012, the note holder agreed to further extend the maturity date of this note until October 3, 2013.	22,609	22,609
Reference is made to the convertible note payable in the amount of \$50,000 to Whalehaven dated February 25, 2005, disclosed in prior reports. On September 21, 2011, a portion of that note was sold to Osher Capital Partners LLC in the amount of \$10,145 of principal and accrued interest in the amount of \$3,490. Interest in the amount of \$205 and \$20 was accrued on this note during the three months ended September 30, 2012 and 2011, respectively. Interest in the amount of \$610 and \$20 was accrued on this note during the nine months ended September 30, 2012 and 2011, respectively. During the three months ended June 30, 2012, the note holder agreed to further extend the maturity date of this note until October 3, 2013.	10,145	10,145
Reference is made to the convertible note payable in the amount of \$50,000 to Whalehaven dated February 25, 2005, disclosed in prior reports. On September 21, 2011, a portion of that note was sold to Assameka Capital, Inc. in the amount of \$7,246 of principal and accrued interest in the amount of \$2,493. Interest in the amount of \$146 and \$14 was accrued on this note during the three months ended September 30, 2012 and 2011, respectively. Interest in the amount of \$435 and \$14 was accrued on this note during the nine months ended September 30, 2012 and 2011, respectively. During the three months ended June 30, 2012, the note holder agreed to further extend the maturity date of this note until October 3, 2013.	7,246	7,246
Convertible note payable in the original amount of \$30,000 to Huo Hua dated May 9, 2005. The note bears interest at the rate of 8% per annum, has no provisions for a default or past due rate and was due in full on October 12, 2006. The note is convertible into common stock of the Company at a conversion price of \$0.25 (post reverse-split) per share. A beneficial conversion feature in the amount of \$30,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2005 and 2006. Accrued interest is convertible into common stock of the Company at a price of \$0.25 (post reverse-split) per share. Interest in the amount of \$404 and \$404 was accrued on this note during the three months ended September 30, 2012 and 2011, respectively. Interest in the amount of \$1,212 and \$1,189 was accrued on this note during the nine	20,000	20,000

months ended September 30, 2012 and 2011, respectively. During the twelve months ended December 31, 2006, the note holder converted \$10,000 of principal into common stock.

Convertible secured note payable in the amount of \$120,000 to Alpha Capital dated August 25, 2005. We did not meet certain of our obligations under the loan documents relating to this issuance. These lapses include not reserving the requisite number of treasury shares, selling subsequent securities without offering a right of first refusal, not complying with reporting obligations, not having our common shares quoted on the OTC:BB and not timely registering certain securities. This note was in technical default as of November 13, 2005. The note originally carried interest at the rate of 8% per annum, and was due in full on August 25, 2007. Upon default, the note's interest rate increased to 15% per annum and the note became immediately due. This note contains a cross default provision. The note is convertible into common stock of the Company at a conversion price of \$0.25 (post reverse-split) per share. A beneficial conversion feature in the amount of \$120,000 was recorded as a discount to the note, and was amortized to interest expense when the note entered default status in November 2005. Accrued interest is convertible into common stock of the Company at a price of \$0.25 (post reverse-split) per share. Interest in the amount of \$2,016 and \$2,016 was accrued on this note during the three months ended September 30, 2012 and 2011, respectively. Interest in the amount of \$6,005 and \$5,983 was accrued on this note during the nine months ended September 30, 2012 and 2011, respectively. During the year ended December 31, 2010, the noteholder converted principal in the amount of \$20,000 into common stock. During the year ended December 31, 2009, the noteholder agreed to waive the default interest rate of 15%, and the note resumed accruing interest at the rate of 8% per annum. Also during the year ended December 31, 2009, the noteholder agreed to extend the maturity date of this note until January 1, 2010. During the year ended December 31, 2010, the noteholder agreed to extend the maturity date of this note until June 15, 2010. During the three months ended June 30, 2012, the note holder agreed to further extend the maturity date of this note until October 3, 2013.

100,000

100,000

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2012
(Unaudited)

	September 30, 2012	December 31, 2011
Reference is made to the convertible secured note payable originally in the amount of \$30,000 to Whalehaven dated August 25, 2005, disclosed in prior reports. On September 21, 2011, a portion of this note was sold to Alpha Capital in the amount of \$15,287 of principal and accrued interest in the amount of \$1,342. Interest in the amount of \$309 and \$30 was accrued on this note during the three months ended September 30, 2012 and 2011, respectively. Interest in the amount of \$920 and \$30 was accrued on this note during the nine months ended September 30, 2012 and 2011, respectively. During the three months ended June 30, 2012, the note holder agreed to further extend the maturity date of this note until October 3, 2013.	15,287	15,287
Reference is made to the convertible secured note payable in the amount of \$30,000 to Whalehaven dated August 25, 2005, disclosed in prior reports. On September 21, 2011, a portion of this note was sold to Osher Capital Partners LLC in the amount of \$6,860 of principal and accrued interest in the amount of \$602. Interest in the amount of \$139 and \$14 was accrued on this note during the three months ended September 30, 2012 and 2011, respectively. Interest in the amount of \$414 and \$14 was accrued on this note during the nine months ended September 30, 2012 and 2011, respectively. During the three months ended June 30, 2012, the note holder agreed to further extend the maturity date of this note until October 3, 2013.	6,860	6,860
Reference is made to the convertible secured note payable in the amount of \$30,000 to Whalehaven dated August 25, 2005, disclosed in prior reports. On September 21, 2011, a portion of this note was sold to Assameka Capital, Inc. in the amount of \$4,900 of principal and accrued interest in the amount of \$430. Interest in the amount of \$98 and \$10 was accrued on this note during the three months ended September 30, 2012 and 2011, respectively. Interest in the amount of \$292 and \$10 was accrued on this note during the nine months ended September 30, 2012 and 2011, respectively. During the three months ended June 30, 2012, the note holder agreed to further extend the maturity date of this note until October 3, 2013.	4,900	4,900
Convertible secured note payable in the original amount of \$25,000 to Asher Brand, dated August 25, 2005. We did not meet certain of our obligations under the loan documents relating to this issuance. These lapses include not reserving the requisite number of treasury shares, selling subsequent securities without offering a right of first refusal, not complying with reporting obligations, not having our common shares quoted on the OTC:BB and not timely registering certain securities. This note was in technical default as of November 13, 2005. The note originally carried interest at the rate of 8% per annum, and was	5,000	5,000

due in full on August 25, 2007. Upon default, the note's interest rate increased to 15% per annum and the note became immediately due. This note contains a cross default provision. The note is convertible into common stock of the Company at a conversion price of \$0.25 (post reverse-split) per share. A beneficial conversion feature in the amount of \$25,000 was recorded as a discount to the note, and was amortized to interest expense when the note entered default status in November, 2005. Accrued interest is convertible into common stock of the Company at a price of \$0.25 (post reverse-split) per share.

Interest in the amount of \$101 and \$303 was accrued on this note during the three months ended September 30, 2012 and 2011, respectively. Interest in the amount of \$899 and \$301 was accrued on this note during the nine months ended September 30, 2012 and 2011, respectively. During the twelve months ended December 31, 2006, the holder of the note converted \$2,000 of principal and \$3,667 of accrued interest into common stock, and during the twelve months ended December 31, 2008, the holder of the note converted an additional \$3,000 of principal into common stock. During the year ended December 31, 2009, the noteholder converted \$2,000 of principal and \$1,058 of accrued interest into common stock. During the year ended December 31, 2009, the noteholder agreed to waive the default interest rate of 15%, and the note resumed accruing interest at the rate of 8% per annum. Also, during the year ended December 31, 2009, the noteholder agreed to extend the maturity date of this note until January 1, 2010. During the year ended December 31, 2010 the noteholder converted \$3,000 of principal and \$1,043 of accrued interest into common stock. During the year ended December 31, 2011, the noteholder converted \$10,000 of principal and \$5,858 of accrued interest into common stock. Also, during the year ended December 31, 2010, the noteholder agreed to extend the maturity date of this note until April 15, 2011. During the three months ended June 30, 2012, the note holder agreed to further extend the maturity date of this note until October 3, 2013.

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2012
(Unaudited)

	September 30, 2012	December 31, 2011
<p>Convertible secured note payable in the amount of \$10,000 to Lane Ventures dated August 25, 2005. We did not meet certain of our obligations under the loan documents relating to this issuance. These lapses include not reserving the requisite number of treasury shares, selling subsequent securities without offering a right of first refusal, not complying with reporting obligations, not having our common shares quoted on the OTC:BB and not timely registering certain securities. This note was in technical default at November 13, 2005. The note originally carried interest at the rate of 8% per annum, and was due in full on August 25, 2007. Upon default, the note's interest rate increased to 15% per annum and the note became immediately due. This note contains a cross default provision. The note is convertible into common stock of the Company at a conversion price of \$0.25 (post reverse-split) per share. A beneficial conversion feature in the amount of \$10,000 was recorded as a discount to the note, and was amortized to interest expense when the note entered default status in November, 2005. Accrued interest is convertible into common stock of the Company at a price of \$0.25 (post reverse-split) per share. Interest in the amount of \$121 and \$121 was accrued on this note during the three months ended September 30, 2012 and 2011, respectively. Interest in the amount of \$360 and \$359 was accrued on this note during the nine months ended September 30, 2012 and 2011, respectively. During the twelve months ended December 31, 2006, the holder of the note converted \$4,000 of principal and \$1,467 of accrued interest into common stock. In April 2009, the noteholder agreed to waive the default interest rate of 15%, and the note resumed accruing interest at the rate of 8% per annum. Also in April 2009, the noteholder agreed to extend the maturity date of this note until January 1, 2010. During the year ended December 31, 2010, the noteholder agreed to extend the maturity date of this note until April 15, 2011. During the three months ended June 30, 2012, the note holder agreed to further extend the maturity date of this note until October 3, 2013.</p>	6,000	6,000
<p>Secured note payable in the amount of \$120,000 to Alpha Capital, dated February 7, 2006. The note originally carried interest at the rate of 15% per annum, and was originally due in full on February 7, 2007. The Company was not in compliance with various terms of this note, including making timely payments of interest, and this note was in technical default at May 8, 2006. At this time, the interest rate increased to 20% and the note became immediately due and payable. During the three months ended September 30, 2007, the Company extended the due date of the note one year, to October 31, 2007; at the same time, the Company added a convertibility feature, allowing the noteholder to convert the notes and accrued interest into common stock of the Company at a rate of \$0.25 (post reverse-split) per share. This note entered technical default on October 31, 2007. The Company recorded a discount to this note for the fair value of the conversion feature in the amount of \$95,588 and amortized this discount to interest expense when the note entered default status in</p>	120,000	120,000

October 2007. On March 12, 2008, the Company extended this note to March 4, 2009. As consideration for the extension of this notes, the Company issued five-year warrants as follows: warrants to purchase 480,000 (post reverse-split) shares of common stock at \$0.575 (post reverse-split) per share; 120,000 (post reverse-split) shares of common stock at \$0.55 (post reverse-split) per share; and 48,000 (post reverse-split) shares of common stock at \$0.25 (post reverse-split) per share. These warrants were valued via the Black-Scholes valuation method at an aggregate amount of \$126,465. This transaction was accounted for as an extinguishment of debt, and a loss of \$126,465 was charged to operations during the twelve months ended December 31, 2008. Interest in the amount of \$4,537 and \$4,537 was accrued on this note during each of the three months ended September 30, 2012 and 2011, respectively. Interest in the amount of \$13,512 and \$13,463 was accrued on this note during each of the nine months ended September 30, 2012 and 2011, respectively. In January 2009, the noteholder agreed to extend the maturity date of this note to April 16, 2009. In April 2009, the noteholder agreed to waive the default interest rate of 20%, and the note resumed accruing interest at the rate of 8% per annum. Also in April 2009, the noteholder agreed to extend the maturity date of this note until April 16, 2009. This note contains a cross default provision. During the year ended December 31, 2010, the noteholder agreed to extend the maturity date of this note until April 15, 2011. During the three months ended June 30, 2012, the note holder agreed to further extend the maturity date of this note until October 3, 2013.

Reference is made to the secured note payable in the amount of \$30,000 to Whalehaven dated February 7, 2006, disclosed in prior reports. On September 21, 2011, a portion of that note was sold to Alpha Capital in the amount of \$16,957 of principal and accrued interest in the amount of \$15,070. Interest in the amount of \$641 and \$63 was accrued on this note during the three months ended September 30, 2012 and 2011, respectively. Interest in the amount of \$1,909 and \$63 was accrued on this note during the nine months ended September 30, 2012 and 2011, respectively. The portion sold to Alpha Capital of the note included warrants to purchase 67,826 (post reverse-split) shares of common stock at \$0.575 (post reverse-split) per share; 16,957 (post reverse-split) shares of common stock at \$0.55 (post reverse-split) per share; and 6,783 (post reverse-split) shares of common stock at \$0.25 (post reverse-split) per share. During the three months ended June 30, 2012, the note holder agreed to further extend the maturity date of this note until October 3, 2013.

16,957

16,957

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2012
(Unaudited)

	September 30, 2012	December 31, 2011
<p>Reference is made the secured note payable in the amount of \$30,000 to Whalehaven dated February 7, 2006, disclosed in prior reports. On September 21, 2011, a portion of that note was sold to Osher Capital Partners LLC in the amount of \$7,609 of principal and accrued interest in the amount of \$6,762. Interest in the amount of \$288 and \$28 was accrued on this note during the three months ended September 30, 2012 and 2011, respectively. Interest in the amount of \$858 and \$28 was accrued on this note during the nine months ended September 30, 2012 and 2011, respectively. The portion sold to Osher Capital Partners LLC of the note included warrants to purchase 30,435 (post reverse-split) shares of common stock at \$0.575 (post reverse-split) per share; 7,609 shares of common stock at \$0.55 (post reverse-split) per share; and 3,043 (post reverse-split) shares at \$0.25 per share. During the three months ended June 30, 2012, the note holder agreed to further extend the maturity date of this note until October 3, 2013.</p>	7,609	7,609
<p>Reference is made to the secured note payable in the amount of \$30,000 to Whalehaven dated February 7, 2006, disclosed in prior reports. On September 21, 2011, a portion of that note was sold to Assameka Capital, Inc. in the amount of \$5,435 of principal and accrued interest in the amount of \$4,830. Interest in the amount of \$205 and \$20 was accrued on this note during the three months ended September 30, 2012 and 2011, respectively. Interest in the amount of \$611 and \$20 was accrued on this note during the nine months ended September 30, 2012 and 2011, respectively. The portion sold to Assameka Capital, Inc. of the note included warrants to purchase 21,739 (post reverse-split) shares of common stock at \$0.575 (post reverse-split) per share; 5,435 (post reverse-split) shares of common stock at \$0.55 (post reverse-split) per share; and 2,174 (post reverse-split) shares of common stock at \$0.25 (post reverse-split) per share. During the three months ended June 30, 2012, the note holder agreed to further extend the maturity date of this note until October 3, 2013.</p>	5,435	5,435
<p>Twenty-nine convertible notes payable in the amount of \$4,500 each to Sam Klepfish, the Company's CEO and a related party, dated the first of the month beginning on November 1, 2006, issued pursuant to the Company's then employment agreement with Mr. Klepfish, which provided that the amount of \$4,500 in salary is accrued each month to a note payable. These notes bear interest at the rate of 8% per annum and have no due date. These notes and accrued interest are convertible into common stock of the Company at a rate of \$0.25 (post reverse-split) per share. Beneficial conversion features in the aggregate amount of \$9,000 for the year ended December 31, 2006, \$39,190 for the year ended December 31, 2007, and \$58,464 for the year ended December 31, 2008 was calculated using the Black-Scholes valuation model. Since these notes are payable on demand, the value of these discounts were charged immediately to interest expense. During the year ended December 31, 2011,</p>	130,500	130,500

the noteholder converted \$12,000 of accrued interest into 48,000 (post reverse-split) shares of common stock. Interest in the aggregate amount of \$2,632 and \$2,632 was accrued on these notes during the three months ended September 30, 2012 and 2011, respectively. Interest in the aggregate amount of \$7,838 and \$7,810 was accrued on these notes during the nine months ended September 30, 2012 and 2011, respectively.

Secured note payable in the amount of \$10,000 to Alpha Capital, dated May 19, 2006. The note originally carried interest at the rate of 15% per annum, and was originally due in full on November 19, 2006. The Company was not in compliance with various terms of this note, including making timely payments of interest, and this note was in technical default at February 20, 2006. At that time, the interest rate increased to 20% and the note became immediately due and payable. During the three months ended September 30, 2007, the Company extended the due date of the note one year, to October 31, 2007; at the same time, the Company added a convertibility feature, allowing the noteholder to convert the notes and accrued interest into common stock of the Company at a rate of \$0.25 (post reverse-split) per share. This note entered technical default on October 31, 2007. The Company recorded a discount to this note for the fair value of the conversion feature in the amount of \$7,966 and amortized this discount to interest expense when the note entered default status in October 2007. On March 12, 2008, the Company extended this note to March 4, 2009. As consideration for the extension of this note, the Company issued five-year warrants as follows: warrants to purchase 40,000 (post reverse-split) shares of common stock at \$0.575 (post reverse-split) per share; 10,000 (post reverse-split) shares of common stock at \$0.55 (post reverse-split) per share; and 4,000 (post reverse-split) shares of common stock at \$0.25 (post reverse-split) per share. These warrants were valued via the Black-Scholes valuation method at an aggregate amount of \$10,539. This transaction was accounted for as an extinguishment of debt, and a loss of \$10,539 was charged to operations during the twelve months ended December 31, 2008. Interest in the amount of \$377 and \$377 was accrued on this note during the three months ended September 30, 2012 and 2011, respectively. Interest in the amount of \$1,123 and \$1,119 was accrued on this note during the nine months ended September 30, 2012 and 2011, respectively. During the year ended December 31, 2009, the noteholder agreed to waive the default interest rate of 20%, and the note resumed accruing interest at the rate of 15% per annum. Also, during the year ended December 31, 2009, the noteholder agreed to extend the maturity date until January 1, 2010. During the year ended December 31, 2010, the noteholder agreed to extend the maturity date of this note until April 15, 2011. This note contains a cross default provision. During the three months ended June 30, 2012, the note holder agreed to further extend the maturity date of this note until October 3, 2013.

10,000

10,000

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2012
(Unaudited)

	September 30, 2012	December 31, 2011
<p>Convertible secured note payable in the amount of \$200,000 to Alpha Capital, dated December 31, 2008. This note bears interest at the rate of 8% per annum, and is due in full on July 31, 2011. Principal and accrued interest is convertible into common stock of the Company at the rate of \$0.25 (post reverse-split) per share. Also issued with this note are warrants to purchase 800,000 (post reverse-split) shares of the Company's common stock at a price of \$0.25 (post reverse-split) per share. The Company calculated a discount to the note in the amount of \$200,000, and recorded \$12,004 and \$77,623 amortization for the three and nine months ended September 30, 2011. Interest in the aggregate amount of \$0 and \$969 was accrued on this note during the three months ended September 30, 2012 and 2011, respectively. Interest in the aggregate amount of \$128 and \$4,299 was accrued on this note during the nine months ended September 30, 2012 and 2011, respectively. During the years ended December 31, 2011, 2010, and 2009, the Company made principal payments on this note in the amount of \$88,000, \$80,000 and \$16,000, respectively. During the three months ended March 31, 2012, the Company made principal payment on this note in the amount of \$16,000 and a payment of \$8,000 on accrued interest. During the three months ended June 30, 2012, the Company made interest payments in the amount of \$25,118. This note contains a cross default provision.</p>	-	16,000
<p>Convertible secured note payable for the settlement of the amount owed for the penalty for the late registration of shares in the amount of \$230,000 to Alpha Capital, dated January 1, 2009. This note bears interest at the rate of 8% per annum, and was due in full on July 31, 2011. Principal and accrued interest are convertible into shares of common stock of the Company at a rate of \$0.25 (post reverse-split) per share. The Company calculated a discount to the note in the amount of \$230,000, and recorded \$32,132 and \$150,367 amortization for this discount during the three and nine months ended September 30, 2011. Interest in the aggregate amount of \$4,638 and \$4,638 was accrued on this note during the three months ended September 30, 2012 and 2011, respectively. Interest in the aggregate amount of \$13,813 and \$13,763 was accrued on this note during the nine months ended September 30, 2012 and 2011, respectively. This note contains a cross default provision. During the nine months ended September 30, 2012, the note holder agreed to further extend the maturity date of this note until October 3, 2013.</p>	230,000	230,000
<p>Reference is made to the convertible secured note payable for the settlement of the amount owed for the penalty for the late registration of shares in the amount of \$38,000 to Whalehaven, dated January 1, 2009, disclosed in prior reports. On September 21, 2011, a portion of that note was sold to Alpha Capital in the amount of \$21,478 of principal and accrued interest in the amount of \$7,674. Interest in the aggregate amount of \$433 and \$42 was accrued on this note during the three months ended September 30, 2012 and 2011, respectively. Interest in the aggregate amount</p>	21,478	21,478

of \$1,290 and \$42 was accrued on this note during the nine months ended September 30, 2012 and 2011, respectively. During the nine months ended September 30, 2012, the note holder agreed to further extend the maturity date of this note until October 3, 2013.

Reference is made to the convertible secured note payable for the settlement of the amount owed for the penalty for the late registration of shares in the amount of \$38,000 to Whalehaven, dated January 1, 2009, disclosed in prior reports. On September 21, 2011, a portion of that note was sold to Osher Capital Partners LLC in the amount of \$9,638 of principal and accrued interest in the amount of \$3,443. Interest in the aggregate amount of \$193 and \$19 was accrued on this note during the three months ended September 30, 2012 and 2011, respectively. Interest in the aggregate amount of \$575 and \$19 was accrued on this note during the nine months ended September 30, 2012 and 2011, respectively. During the nine months ended September 30, 2012, the note holder agreed to further extend the maturity date of this note until October 3, 2013.

9,638

9,638

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2012
(Unaudited)

	September 30, 2012	December 31, 2011
<p>Reference is made to the convertible secured note payable for the settlement of the amount owed for the penalty for the late registration of shares in the amount of \$38,000 to Whalehaven, dated January 1, 2009, disclosed in prior reports. On September 21, 2011, a portion of that note was sold to Assameka Capital, Inc. in the amount of \$6,884 of principal and accrued interest in the amount of \$2,460. Interest in the aggregate amount of \$139 and \$14 was accrued on this note during the three months ended September 30, 2012 and 2011, respectively. Interest in the aggregate amount of \$414 and \$14 was accrued on this note during the nine months ended September 30, 2012 and 2011, respectively. During the nine months ended June 30, 2012, the note holder agreed to further extend the maturity date of this note until October 3, 2013.</p>	6,884	6,884
<p>Convertible secured note payable for the settlement of the amount owed for the penalty for the late registration of shares in the amount of \$25,310 to Momona Capital, dated January 1, 2009. This note bears interest at the rate of 8% per annum, and was due in full on July 31, 2011. Principal and accrued interest is convertible into shares of common stock of the Company at a rate of \$0.25 (post reverse-split) per share. The Company calculated a discount to the note in the amount of \$25,310, which was fully amortized at September 30, 2011. Interest in the aggregate amount of \$510 and \$510 was accrued on this note during the three months ended September 30, 2012 and 2011, respectively. Interest in the aggregate amount of \$1,519 and \$1,513 was accrued on this note during the nine months ended September 30, 2012 and 2011, respectively. This note contains a cross default provision. During the nine months ended September 30, 2012, the note holder agreed to further extend the maturity date of this note until October 3, 2013.</p>	25,310	25,310
<p>Convertible secured note payable for the settlement of the amount owed for the penalty for the late registration of shares in the amount of \$10,124 to Lane Ventures, dated January 1, 2009. This note bears interest at the rate of 8% per annum, and was due in full on July 31, 2011. Principal and accrued interest is convertible into shares of common stock of the Company at a rate of \$0.25 (post reverse-split) per share. The Company calculated a discount to the note in the amount of \$10,124, which was fully amortized at September 30, 2011. Interest in the aggregate amount of \$205 and \$205 was accrued on this note during the three months ended September 30, 2012 and 2011, respectively. Interest in the aggregate amount of 610 and \$608 was accrued on this note during the nine months ended September 30, 2012 and 2011, respectively. This note contains a cross default provision. During the three months ended June 30, 2012, the note holder agreed to further extend the maturity date of this note until October 3, 2013.</p>	10,124	10,124
<p>Secured convertible promissory note payable for the acquisition of Artisan Specialty Foods, Inc. to Alpha Capital, dated May 11, 2012 in the face amount of \$1,200,000</p>	1,178,887	-

at a purchase price of \$1,080,000. The note carries simple interest at an annual rate of 4.5% and is due in full by April 2015. The note is convertible into the registrant's common stock at a fixed conversion price of \$1.00 per share. Principal and interest in the aggregate amount of \$39,163 are payable on a monthly basis beginning in September 2012. The note allows for prepayments at any time. The note also includes cross-default provisions; is secured by all of the registrant's and its subsidiaries' assets; and is guaranteed by each of the subsidiaries. As part of the transaction, the registrant also issued to the noteholder eight year warrants to purchase 1,500,000 shares (post reverse-split) at an exercise price of \$0.01 per share. 460,000 of these warrants are exercisable immediately; 240,000 of these warrants are exercisable commencing May 11, 2013; 300,000 of these warrants are exercisable commencing January 11, 2014, and 500,000 of these warrants are exercisable commencing September 11, 2014. The note had a discount in the amount of \$956,441 at inception; \$5,100 and \$6,408 of this amount was amortized to interest expense during the three and nine months ended September 30, 2012, respectively. Interest expense in the amount of \$13,551 and \$0 was also accrued on this note during the three months ended September 30, 2012 and 2011, respectively. Interest expense in the amount of \$18,051 and \$0 was also accrued on this note during the nine months ended September 30, 2012 and 2011, respectively.

Note payable at an effective interest rate of 9.96% for purchase of vehicle, payable in monthly installments (including principal and interest) of \$614 through January 2015. During the three months ended September 30 2012, the Company paid principal and interest in the amount of \$1,438 and \$404, respectively, on this note. During the nine months ended September 30 2012, the Company paid principal and interest in the amount of \$1,909 and \$547, respectively, on this note.

15,130

-

Note payable at an effective interest rate of 8.26% for purchase of vehicle, payable in monthly installments (including principal and interest) of \$519 through June 2015. During the three months ended September 30 2012, the Company paid principal and interest in the amount of \$1,225 and \$332, respectively, on this note. During the nine months ended September 30 2012, the Company paid principal and interest in the amount of \$1,628 and \$449, respectively, on this note.

15,284

-

Total	\$2,302,783	\$1,109,482
Less: Discount	(950,033)	
Net	\$1,352,750	\$1,109,482

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2012
(Unaudited)

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Discount on Notes Payable amortized to interest expense:	\$5,100	\$57,932	\$6,408	\$292,546

Conversion Options Embedded in Convertible Notes

The Company accounts for conversion options embedded in convertible notes in accordance with FASB ASC 815-10-05. ASC 815-10-05 generally requires companies to bifurcate conversion options embedded in convertible notes from their host instruments and to account for them as free standing derivative financial instruments in accordance with ASC 815-40-05.

At September 30, 2012 and December 31, 2011, the Company had outstanding \$2,272,369 and \$1,109,482 in principal, respectively, of various convertible notes with embedded conversion options accounted for as free standing derivative financial instruments in accordance with ASC 815-10-05 and ASC 815-40-05. The fair value of these embedded conversion options was \$1,284,577 and \$1,245,761 at September 30, 2012 and December 31, 2011, respectively. The fair value of these embedded conversion options were estimated at September 30, 2012 using the Black-Scholes option pricing model with the following assumptions: risk free interest rate of 0.14%; expected dividend yield of 0%; expected option life of 10 years; and volatility of 214.36%. The fair value of these embedded conversion options were estimated at December 31, 2011 using the Black-Scholes option pricing model with the following assumptions: risk free interest rate of 0.06%; expected dividend yield of 0%; expected option life of 10 years; and volatility 114.30%. The expected term of 10 years was used for all notes in both periods which have been past due or have been in default, and accordingly the term of the note is deemed not relevant as a variable for the Black-Scholes calculation. The Company revalues the conversion options at each reporting period, and charges any change in value to operations. During the three months ended September 30, 2012 and 2011, the Company recorded a gain of \$665,802 and a loss of \$1,769 respectively, due to the change in value of the conversion option liability. During the nine months ended September 30, 2012 and 2011, the Company recorded a gain of \$197,798 and a gain of \$264,032, respectively, due to the change in value of the conversion option liability.

When convertible notes payable are satisfied by payment or by conversion to equity, the Company revalues the related conversion option liability at the time of the payment or conversion. The conversion option liability is then relieved by this amount, which is charged to additional paid-in capital. During the three months ended September 30, 2012 and 2011, conversion option liabilities in the amounts of \$7,004 and \$24,102, respectively, were transferred from liability to equity due to the conversion or payment of the related convertible notes payable. During the nine months ended September 30, 2012 and 2011, a conversion option in the amount of \$27,050 and \$452,992, respectively, was transferred from liability to equity due to the conversion or payment of the related convertible notes payable.

Discounts on notes payable

The Company calculates the fair value of any beneficial conversion features embedded in its convertible notes via the Black-Scholes valuation method. The Company also calculates the fair value of any detachable warrants offered with its convertible notes via the Black-Scholes valuation method. The instruments are considered discounts to the notes, to the extent the aggregate value of the warrants and conversion features do not exceed the face value of the notes.

These discounts are amortized to interest expense via the effective interest method over the term of the notes. The fair value of these instruments is expensed to interest expense to the extent that the value of these instruments exceeds the face value of the notes. During the three months ended June 30, 2012, the Company calculated discounts on the \$1,200,000 note payable to Alpha Capital as follows: (i) a discount in the amount of \$263,664 related to the conversion option feature of this note; (ii) a discount in the amount of \$572,777 related to the fair value of warrants issued with this note; and (iii) an original issue discount (“OID”) in the amount of \$120,000. During the three and nine months ended September 30, 2012, these discounts were amortized to interest expense in the aggregate amount of \$5,100 and \$6,708, respectively.

Extension of notes payable

The Company accounts for modifications of its notes payable according to the guidance in FASB ASC 470-50-40. Pursuant to ASC 470-50-40, changes to an existing note should be accounted for as an extinguishment of the note with resultant gain or loss if the present value of the cash flows from the new note varies by more than 10% from the present value of the cash flows from the original note. ASC 470-50-40 provides an exception to this rule for the addition of conversion options accounted for as a derivative liability.

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC.
 NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 September 30, 2012
 (Unaudited)

During the year ended December 31, 2009, the Company negotiated the extension of its notes payable in the aggregate amount of \$587,000. The Company extended the maturity date of these notes until January 1, 2010. These notes, along with two additional notes payable in the aggregate amount of \$150,000, contained certain provisions for a default interest rate. The Company negotiated an agreement with the noteholders and the noteholders agreed to reinstate the original interest rate of 8% per annum.

During the year ended December 31, 2009, the Company negotiated the extension of certain of its notes payable in the aggregate amount of \$138,000. The Company extended the maturity date of these notes until February 15, 2010. During the year ended December 31, 2010, as described below, the Company negotiated the extension of these notes payable, and the maturity dates of these notes to either June 15, 2010 or April 15, 2011.

During the year ended December 31, 2010, the Company negotiated the extension of nine of its notes payable in the aggregate amount of \$617,000, to April 15, 2011. The Company also negotiated the extension of two of its notes payable in the aggregate amount of \$130,000 until June 15, 2010. During the three months ended June 30, 2012, the Company negotiated the extension of twenty-four of its notes payable in the aggregate amount of \$942,982 to October 3, 2013.

Embedded conversion features of notes payable:

The Company values embedded conversion features utilizing the Black-Scholes valuation model. Conversion options are valued upon issuance, and re-valued at each financial statement reporting date. Any change in value is charged to income or expense during the period. The following table illustrates certain key information regarding our conversion option valuation assumptions at September 30, 2012 and 2011:

	September 30,	
	2012	2011
Number of conversion options outstanding	5,539,260	4,917,170
Value at September 30	\$ 1,284,577	\$ 1,748,541
Number of conversion options issued during the period	-	-
Value of conversion options issued during the period	\$ -	\$ -
Number of conversion options exercised or underlying notes paid during the period	34,664	1,574,000
Value of conversion options exercised or underlying notes paid during the period	\$ 7,004	\$ 452,922
Revaluation (gain) during the period	\$ (197,798)	\$ (264,032)
Black-Scholes model variables:		
Volatility	214.36%	92.52-110.66%
Dividends	-	-

Risk-free interest rates	0.14-0.41%	0.06-0.19%
Term (years)	10	10

11. CONTINGENT LIABILITY

Pursuant to the Artisan acquisition, the Company may be obligated to pay up to another \$300,000 (with a fair value of \$131,000) in the event certain financial milestones are met over the next one or two years (see note 3).

12. INCOME TAXES

Deferred income taxes result from the temporary differences arising from the use of accelerated depreciation methods for income tax purposes and the straight-line method for financial statement purposes, and an accumulation of net operating loss carryforwards for income tax purposes with a valuation allowance against the carryforwards for book purposes.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. Included in deferred tax assets are Federal and State net operating loss carryforwards of approximately \$3.7 million, which will expire beginning in 2025 through 2029. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Due to significant changes in the Company's ownership, the Company's future use of its existing net operating losses may be limited.

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2012
(Unaudited)

13. EQUITY

On June 13, 2012, the Company effected a reverse split of its common stock (the “Reverse Split”) in the amount of 1-for-50. The number of shares issued and outstanding immediately before the Reverse Split were 293,692,189 and 282,956,546, respectively; the number of shares issued and outstanding immediately after the Reverse Split were 5,873,801 and 5,659,130, respectively. In addition, the proposal to authorize the Board of Directors to change the Company’s domicile from Florida to Delaware was approved.

Common Stock

During the three and nine months ended September 30, 2012, the Company did not have any issuances of common stock. During the three months ended June 30, 2012, the Company committed to issue 26,078 shares (post reverse-split) of common stock for settlement of a claim. The fair value of \$7,302 is included in Common Stock Subscribed on the Company’s balance sheet at September 30, 2012.

Treasury Stock

During the nine months ended September 30, 2012, the Company did not purchase any outstanding shares of the Company’s common stock.

Warrants

The following table summarizes the significant terms of warrants outstanding at September 30, 2012. These warrants may be settled in cash or via cashless conversion into shares of the Company’s common stock at the request of the warrant holder. These warrants were granted as part of a financing agreement:

Range of exercise prices (post reverse-split)	Number of warrants outstanding (post reverse-split)	Weighted average remaining contractual life (years)	Weighted average exercise price of outstanding warrants (post reverse-split)	Number of warrants exercisable (post reverse-split)	Weighted average exercise price of exercisable warrants (post reverse-split)
\$ 0.2500	3,594,000	3.01	\$ 0.250	3,594,000	\$ 0.250
\$ 0.5500	370,000	3.01	\$ 0.550	370,000	\$ 0.550
\$ 0.6000	20,000	1.71	\$ 0.600	20,000	\$ 0.600
\$ 0.5750	1,480,000	3.26	\$ 0.575	1,480,000	\$ 0.575
\$ 0.0100	1,500,000	7.88	0.010	1,500,000	\$ 0.010
	6,964,000	4.11	\$ 0.284	6,924,00	\$ 0.284

Transactions involving warrants are summarized as follows:

	Number of Warrants (post reverse-split)	Weighted Average Exercise Price (post reverse-split)
Warrants exercisable at December 31, 2011	5,464,000	\$ 0.36
Granted	1,500,000	0.010
Exercised	-	-
Cancelled / Expired	-	-
Warrants outstanding at September 30, 2012	6,964,000	\$ 0.284

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2012
(Unaudited)

During the nine months ended September 30, 2012, the Company issued warrants to purchase 1,500,000 shares (post reverse-split) of common stock; the fair value of these warrants was \$572,777. The Company also extended the term of warrants to purchase 5,440,000 shares of common stock from April 3, 2012 to April 3, 2015. The fair value of this extension of \$842,100 was charged to operations during the nine months ended September 30, 2012.

Options

The following table summarizes the changes outstanding and the related prices for the options to purchase shares of the Company's common stock issued by the Company:

Range of exercise prices (post reverse-split)	Number of options Outstanding (post reverse-split)	Weighted average Remaining contractual life (years)	Weighted average exercise price of outstanding Options (post reverse-split)	Number of options Exercisable (post reverse-split)	Weighted average exercise price of exercisable Options (post reverse-split)
\$ 0.350	1,040,000	2.93	\$ 0.350	1,040,000	\$ 0.350
\$ 0.380	132,500	2.50	\$ 0.380	132,500	\$ 0.380
\$ 0.450	132,500	3.00	\$ 0.450	132,500	\$ 0.450
\$ 0.474	132,500	2.75	\$ 0.474	132,500	\$ 0.474
\$ 0.480	132,500	3.25	\$ 0.480	132,500	\$ 0.480
	1,570,000	2.61	\$ 0.382	1,570,000	\$ 0.382

Transactions involving stock options are summarized as follows:

	Number of Shares (post reverse-split)	Weighted Average Exercise Price (post reverse-split)
Options outstanding at December 31, 2011	970,000	\$ 0.400
Granted	600,000	0.350
Exercised	-	-
Cancelled / Expired	-	-

Options outstanding at September 30, 2012	1,570,000	\$	0.382
--	-----------	----	-------

Aggregate intrinsic value of options outstanding and exercisable at September 30, 2012 and 2011 was \$0 and \$0, respectively. Aggregate intrinsic value represents the difference between the Company's closing stock price on the last trading day of the fiscal period, which was \$0.24 and \$0.40 as of September 30, 2012 and 2011, respectively, and the exercise price multiplied by the number of options outstanding. During the three months ended September 30, 2012 and 2011, the Company charged \$0 and \$0, respectively, to operations related to recognized stock-based compensation expense for employee stock options. During the nine months ended September 30, 2012 and 2011, the Company charged \$186,299 and \$0, respectively, to operations related to recognized stock-based compensation expense for employee stock options.

Accounting for warrants and stock options

The Company accounts for the issuance of common stock purchase warrants, stock options, and other freestanding derivative financial instruments in accordance with the provisions of FASB ASC 815-40-15. Based on the provisions of ASC 815-40-05, the Company classifies, as equity, any contracts that (i) require physical settlement or net-share settlement or (ii) gives the Company a choice of net-cash settlement or settlement in its own shares (physical settlement or net-share settlement). The Company classifies as assets or liabilities any contract that (i) require net-cash settlement or (ii) give the counterparty a choice of net-cash settlement in shares (physical or net-share settlement). At September 30, 2012 and 2011, the Company had no freestanding derivative financial instruments that require net cash settlement or give the counterparty a choice of net cash settlement or settlement in shares.

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2012

(Unaudited)

The fair value of these warrants and stock options is determined utilizing the Black-Scholes valuation model. Through August 2005, these warrants were accounted for by the equity method, whereby the fair value of the warrants was charged to additional paid-in capital. During September, 2005, the number of shares of the Company's common stock issued and issuable exceeded the number of shares of common stock the Company had authorized. As the Company no longer had sufficient shares authorized to settle all of our outstanding contracts, this triggered a change in the manner in which the Company accounts for the warrants and stock options. The Company began to account for these warrants and stock options utilizing the liability method. Pursuant to ASC 815-40-15, "If a contract is reclassified from permanent or temporary equity to an asset or a liability, the change in fair value of the contract during the period the contract was classified as equity should be accounted for as an adjustment to stockholders' equity." Accordingly, during the year ended December 31, 2005, the Company charged the amount of \$10,374,536 to stockholders' equity. At the same time, the Company changed the way in which it accounts for the beneficial conversion feature of convertible notes payable (see note 8).

The accounting guidance shows that the warrants and stock options which are a derivative liability should be revalued each reporting period. The recorded value of such warrants and stock options can fluctuate significantly based on fluctuations in the market value of the underlying securities of the issuer of the warrants and stock options, as well as in the volatility of the stock price during the term used for observation and the term remaining for warrants. During the three months ended September 30, 2012 and 2011, the Company recognized a gain of \$652,644 and a gain of \$64,032, respectively, for the change in the fair value of the warrant liability and recorded the change in operations during the three months ended September 30, 2012 and 2011. During the nine months ended September 30, 2012 and 2011, the Company recognized a gain of \$383,467 and a gain of \$363,500, respectively, for the change in the fair value of the warrant liability and recorded the change in operations during the nine months ended September 30, 2012 and 2011. During the three months ended September 30, 2012 and 2011, the Company recognized a gain of \$111,288 and a gain of \$13,087, respectively, for the change in the fair value of the stock option liability and recorded these amounts in operations during the three months ended September 30, 2012 and 2011. During the nine months ended September 30, 2012 and 2011, the Company recognized a gain of \$39,937 and a gain of \$77,660, respectively, for the change in the fair value of the stock option liability and recorded these amounts in operations during the nine months ended September 30, 2012 and 2011.

The Company valued warrants and options using the Black-Scholes valuation model utilizing the following variables:

	September 30, 2012	December 31, 2011
Volatility	214.36%	92.52-114.30%
Dividends	\$ -	\$ -
Risk-free interest rates	0.16-1.04%	0.06-0.17%
	0.75 –	
Term (years)	4.59	0.01-5.00

Insufficient Authorized but Unissued Shares of Common Stock

At March 31, 2012, and December 31, 2011, the Company's potential obligation to issue shares had exceeded its shares authorized by 9,621,782 (post reverse-split) and 11,135,994 (post reverse-split), respectively. During the three months ended June 30, 2012, the Company effected a 1-50 reverse split of its common on stock; at September 30,

2012, the Company had outstanding a total of 5,873,801 shares (post reverse-split), and obligations to issue an additional 16,336,664 shares (post reverse-split). At September 30, 2012, 478,004,206 shares (post reverse-split) were available for issuance.

14. FAIR VALUE MEASUREMENTS

Our short-term financial instruments, including cash, accounts payable and other liabilities, consist primarily of instruments without extended maturities, the fair value of which, based on management's estimates, reasonably approximate their book value. The fair value of the Company's stock option, convertible debt features and warrant instruments is determined using option pricing models.

As a result of the adoption of ASC 815-40, the Company is required to disclose the fair value measurements required by ASC 820, "Fair Value Measurements and Disclosures." The other liabilities recorded at fair value in the balance sheet as of September 30, 2012 are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels, defined by ASC 820 are directly related to the amount of subjectivity associated with the inputs to fair valuations of these liabilities are as follows:

Level 1 — Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date;

Level 2 — Inputs other than Level 1 inputs that are either directly or indirectly observable; and

Level 3 — Unobservable inputs, for which little or no market data exist, therefore requiring an entity to develop its own assumptions.

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2012
(Unaudited)

The following table summarizes the financial liabilities measured at fair value on a recurring basis as of September 30, 2012, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	Level 1	Level 2	Level 3	Liabilities at fair value
Warrant liability \$	-	-	\$ 1,532,424	\$ 1,532,424
Option liability	-	-	308,544	308,544
Conversion option liability	-	-	1,284,577	1,284,577
Total	\$ -	\$ -	\$ 3,125,545	\$ 3,125,545

The following is a reconciliation of the derivative liability for which Level 3 inputs were used in determining the approximate fair value:

Beginning balance as of January 1, 2012	\$ 1,908,470
Reclassification of notes payable conversion option liability to equity	(27,050)
Fair value of common stock equivalents issued	1,022,728
Fair value of warrants extended	842,100
Change in fair value	(620,691)
Ending balance as of September 30, 2012	\$ 3,125,545

Table of Contents

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD LOOKING STATEMENTS

The following discussion should be read in conjunction with the consolidated financial statements and the related notes thereto, as well as all other related notes, and financial and operational references, appearing elsewhere in this document.

Certain information contained in this discussion and elsewhere in this report may include "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, and is subject to the safe harbor created by that act. The safe harbor created by the Private Securities Litigation Reform Act will not apply to certain "forward looking statements" because we issued "penny stock" (as defined in Section 3(a)(51) of the Securities Exchange Act of 1934 and Rule 3(a)(51-1) under the Exchange Act) during the three year period preceding the date(s) on which those forward looking statements were first made, except to the extent otherwise specifically provided by rule, regulation or order of the Securities and Exchange Commission. We caution readers that certain important factors may affect our actual results and could cause such results to differ materially from any forward-looking statements which may be deemed to have been made in this Report or which are otherwise made by or on behalf of us. For this purpose, any statements contained in this report that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the generality of the foregoing, words such as "may", "will", "expect", "believe", "explore", "consider", "anticipate", "intend", "could", "estimate", "plan", "propose" or "continue" or the negative variations of those words or comparable terminology are intended to identify forward-looking statements. Factors that may affect our results include, but are not limited to, the risks and uncertainties associated with:

Our ability to raise capital necessary to sustain our anticipated operations and implement our business plan,

Our ability to implement our business plan,

Our ability to generate sufficient cash to pay our lenders and other creditors,

Our ability to employ and retain qualified management and employees,

Our dependence on the efforts and abilities of our current employees and executive officers,

Changes in government regulations that are applicable to our current or anticipated business,

Changes in the demand for our services,

The degree and nature of our competition,

The lack of diversification of our business plan,

The general volatility of the capital markets and the establishment of a market for our shares, and

Disruption in the economic and financial conditions primarily from the impact of past terrorist attacks in the United States, threats of future attacks, police and military activities overseas and other disruptive worldwide political and economic events and weather conditions.

We are also subject to other risks detailed from time to time in our other Securities and Exchange Commission filings and elsewhere in this report. Any one or more of these uncertainties, risks and other influences could materially affect our results of operations and whether forward-looking statements made by us ultimately prove to be accurate. Our actual results, performance and achievements could differ materially from those expressed or implied in these forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements, whether from new information, future events or otherwise.

Table of Contents

Critical Accounting Policy and Estimates

Use of Estimates in the Preparation of Financial Statements

The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. These estimates include certain assumptions related to doubtful accounts receivable, stock-based services, valuation of financial instruments, and income taxes. On an on-going basis, we evaluate these estimates, including those related to revenue recognition and concentration of credit risk. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We believe our estimates have not been materially inaccurate in past years, and our assumptions are not likely to change in the foreseeable future.

On August 25, 2005, the Company entered into contracts which obligated the company under certain circumstances to issue shares of common stock in excess of the number of shares of common stock authorized. Under accounting guidance provided by FASB ASC 815-40-05, effective August 25, 2005 the Company began to account for all derivative financial instruments, including warrants, conversion features embedded in notes payable, and stock options, via the liability method of accounting. Accordingly, all these instruments are valued at issuance utilizing the Black-Scholes valuation method, and are re-valued at each period ending date, also using the Black-Scholes valuation method. Any gain or loss from revaluation is charged to operations during the period.

(a) Warrants:

The Company values warrants using the Black-Scholes valuation model. Warrants are valued upon issuance, and re-valued at each financial statement reporting date. Any change in value is charged to income or expense during the period. The following table illustrates certain key information regarding our warrants and warrant valuation assumptions at September 30, 2012 and 2011:

	September 30,	
	2012	2011
Number of warrants outstanding (post reverse-split)	6,964,000	5,464,000
Value at September 30,	\$ 1,532,424	\$ 819,675
Number of warrants issued during the period (post reverse-split)	-	-
Value of warrants issued during the period	\$ -	\$ -
Value of warrants extended during the period	\$ 842,100	\$ -
Revaluation (gain) during the period	\$ (383,467)	\$ (363,500)
Black-Scholes model variables:		
Volatility	117.77 -214.36%	92.52-110.66%
Dividends	\$ -	\$ -
Risk-free interest rates	0.41-1.11%	0.06-0.17%
Term (years)	2.9-7.63	0.22-2.75

(b) Embedded conversion features of notes payable:

The Company accounts for conversion options embedded in convertible notes in accordance with ASC 815-10-05. ASC 815-10-05 generally requires companies to bifurcate conversion options embedded in convertible notes and preferred shares from their host instruments and to account for them as free standing derivative financial instruments in accordance with ASC 815-40-05.

Table of Contents

The Company values embedded conversion features utilizing the Black-Scholes valuation model. Conversion options are valued upon issuance, and re-valued at each financial statement reporting date. Any change in value is charged to income or expense during the period. The following table illustrates certain key information regarding our Conversion options and conversion option valuation assumptions at September 30, 2012 and 2011:

	September 30,	
	2012	2011
Number of conversion options outstanding	5,539,260	4,917,170
Value at September 30	\$ 1,284,577	\$ 1,748,541
Number of conversion options issued during the period	-	-
Value of conversion options issued during the period	\$ -	\$ -
Number of conversion options exercised or underlying notes paid during the period	34,664	1,574,000
Value of conversion options exercised or underlying notes paid during the period	\$ 7,004	\$ 452,922
Revaluation (gain) loss during the period	\$ (197,798)	\$ (264,032)
Black-Scholes model variables:		
Volatility	214.36%	92.52-110.66%
Dividends	-	-
Risk-free interest rates	0.14-0.41%	0.06-0.19%
Term (years)	10	10

(c) Stock options:

The Company accounts for options in accordance FASB ASC 718-40. Options are valued upon issuance, and re-valued at each financial statement reporting date, utilizing the Black-Scholes valuation model. Option expense is recognized over the requisite service period of the related option award. Any change in value is charged to income or expense during the period. The following table illustrates certain key information regarding our options and option assumptions at September 30, 2012 and 2011:

	September 30,	
	2012	2011
Number of vested options outstanding	1,570,000	1,270,000
Value at September 30	\$ 308,544	\$ 259,059
Number of options issued during the period	-	-
Value of options issued during the period	\$ -	\$ -
Number of options recognized during the period pursuant to SFAS 123(R)	-	-
Value of options recognized during the period pursuant to SFAS 123(R)	\$ -	\$ -

Edgar Filing: INNOVATIVE FOOD HOLDINGS INC - Form 10-Q

Revaluation (gain) during the period	\$	(39,938)	\$	(77,660)
Black-Scholes model variables:				
Volatility		214.36%		92.52-110.66 %
Dividends	\$	-	\$	-
Risk-free interest rates		0.14-0.41%		0.06-0.19%
Term (years)		0.75 -4.59		0.22-4.75

Background

We were initially formed in June 1979 as Alpha Solarco Inc., a Colorado corporation. From June 1979 through February 2003, we were either inactive or involved in discontinued business ventures. In February 2003 we changed our name to Fiber Application Systems Technology, Ltd.

In January 2004, we changed our state of incorporation by merging into Innovative Food Holdings, Inc. (“IVFH”), a Florida shell corporation. As a result of the merger we changed our name to that of Innovative Food Holdings, Inc. In February 2004 we also acquired Food Innovations, Inc. (“FII”) a Delaware corporation incorporated on January 9, 2002 and through FII and our other subsidiaries we are in the business of national food distribution and sales using third-party shippers.

Table of Contents

On May 18, 2012, the Company executed a Stock Purchase Agreement to acquire all of the issued and outstanding shares of Artisan Specialty Foods, Inc., an Illinois corporation (“Artisan”), from its owner, Mr. David Vohaska. The purchase price was \$1.2 million, with up to another \$300,000 (with a fair value of \$131,000) payable in the event certain financial milestones are met over the next one or two years. The purchase price was primarily financed via a loan from Alpha Capital in the principal amount of \$1,200,000. Prior to the acquisition, Artisan was a vendor and had sold products to the Company.

Transactions With a Major Customer

Transactions with a major customer and related economic dependence information is set forth (1) following our discussion of Liquidity and Capital Resources, (2) Concentrations of Credit Risk in Note 2 to the Condensed Consolidated Financial Statements, and (3) as the fourth item under Risk Factors.

Relationship with U.S. Foods

In February 2010, one of our subsidiaries, Food Innovations, signed a new contract with U.S. Foods (“USF”). This current contract with USF expires on December 31, 2012. The contract automatically renews for an additional 12-month term unless either party notifies the other in writing 30 days prior to the end date of its intent not to renew. We believe that although a significant portion of our sales occurs through the USF sales force, the success of the program is less contingent on a contract than on the actual performance and quality of our products. Other than our business arrangements with USF, we are not affiliated with either USF or its subsidiary, Next Day Gourmet, L.P. (“Next Day Gourmet”). During the three and nine months ended September 30, 2012, sales to USF accounted for 65.4% and 76.4% of total sales, respectively; during three and nine months ended September 30, 2011, sales to USF accounted for 94.0% and 93.5% of total sales, respectively.

RESULTS OF OPERATIONS

The following is a discussion of our financial condition and results of operations for the three and nine months ended September 30, 2012 and 2011.

This discussion may contain forward looking-statements that involve risks and uncertainties. Our future results could differ materially from the forward looking-statements discussed in this report. This discussion should be read in conjunction with our unaudited condensed consolidated financial statements, the notes thereto and other financial information included elsewhere in the report.

Three Months Ended September 30, 2012 Compared to Three Months Ended September 30, 2011

Revenue

Revenue increased by \$2,238,214 or approximately 77% to \$5,130,418 for the three months ended September 30, 2012 from \$2,892,204 in the prior three months ended September 30, 2011. The increase was attributable both to the acquisition of Artisan \$1,497,286, as well as to increases in sales in existing parts of our business \$740,928. The areas of increased sales included specialty items, produce, meat and game, cheese and seafood, and with a smaller increase in poultry products. We continue to assess the potential of new revenue sources from the manufacture and sale of proprietary food products and additional sales channel opportunities and will implement that strategy if, based on our analysis, we deem it beneficial to us.

Any changes in the food distribution operating landscape that materially hinders our current ability and/or cost to deliver our products to our customers could potentially cause a material impact on our net revenue and gross margin

and, therefore, our profitability and cash flows could be adversely affected.

Currently, a small portion of our revenues comes from imported products or international sales. Our current sales from such segments may be hampered and negatively impacted by any economic tariffs that may be imposed in the United States or in foreign countries.

See "Transactions with Major Customers" and the Securities and Exchange Commission's ("SEC") mandated FR-60 disclosures following the "Liquidity and Capital Resources" section for a further discussion of the significant customer concentrations, loss of significant customer, critical accounting policies and estimates, and other factors that could affect future results.

Cost of goods sold

Our cost of goods sold for the three months ended September 30, 2012 was \$3,872,444, an increase of \$1,467,556 or approximately 61% compared to cost of goods sold of \$2,404,888 for the three month ended September 30, 2011. The increase was due primarily to a corresponding growth in sales. Cost of goods sold is primarily made up of the following expenses for the three months ended September 30, 2012: cost of good of specialty, meat, game, cheese poultry and other sales categories in the amount of \$3,063,734; and shipping expenses in the amount of \$817,479. The cost of goods sold increase is mainly associated with an increase in sales.

Table of Contents

In 2012, we continued to aggressively price our products in order to gain market share and increase the number of our end users. We were successful in doing so and increased the number of our end users for the quarter by approximately 25% to more than 12,000 end users for the third quarter compared to the third quarter of 2011. We currently expect, if market conditions remain constant, that our cost of goods sold will stabilize and likely improve compared to the first 9 months of 2012.

Selling, general and administrative expenses

Selling, general, and administrative expenses increased by \$334,437 or approximately 58%, to \$908,235 during the three months ended September 30, 2012 compared to \$573,798 for the three months ended September 30, 2011. The increase was due primarily to the costs associated with the acquisition of Artisan and additional operational, selling, general, and administrative expenses related to the operations of Artisan. Selling, general and administrative expenses were primarily made up of the following for the three months ended September 30, 2012: payroll and related expenses, including employee benefits, in the amount of \$590,319; consulting and professional fees in the amount of \$73,350; insurance costs in the amount of \$67,112; facilities and related expenses in the amount of \$61,632; office expense in the amount of \$43,828; travel and entertainment expenses in the amount of \$30,410; computer support expenses in the amount of \$27,046; vehicle expense of \$19,804; amortization and depreciation expense of \$54,728; commissions expense in the amount of \$15,931; advertising expenses in the amount of \$4,028; credit card expense of \$3,064; and credit of options, including the fair value of options issued and the change in fair value of the option liability in the amount of \$111,288. We expect our legal fees to slightly increase in 2012 and our accounting fees in 2012 to remain constant. We do however expect to increase our spending on advertising and marketing and web development fees in 2012.

Interest expense

Interest expense decreased by \$50,145, or approximately 43%, from \$117,427 during the three months ended September 30, 2011 to \$67,282 for the three months ended September 30, 2012. Interest expense decreased during the three months ended September 30, 2012 as compared to the three months ended September 30, 2011 as the result of the settlement of notes payable that occurred in the year ended December 31, 2011. Interest expense is expected to increase due to an increase in notes payable, and the amortization of the discount on notes payable.

Loss from change in fair value of warrant liability

At September 30, 2012, the Company had outstanding warrants to purchase an aggregate of 6,964,000 shares of the Company's common stock. The Company revalued this warrant liability at September 30, 2012 at \$1,532,424. This revaluation resulted in a gain of \$652,644 which the Company credited to operations during the three months ended September 30, 2012. This is an increase of \$588,612 or approximately 919% compared to a gain of \$64,032 from the revaluation of the warrant liability which the Company recorded during the three months ended September 30, 2011.

Gain and loss from change in fair value of conversion option liability

At September 30, 2012, the Company had outstanding a liability to issue an aggregate of 5,539,260 shares of the Company's common stock pursuant to convertible notes payable. The Company revalued this liability at September 30, 2012 at \$1,284,577. This revaluation resulted in a gain of \$665,802, which the Company included in operations for the three months ended September 30, 2012. This is an increase of \$667,571 or approximately 37,737% compared to a loss of \$1,769 from the revaluation of the conversion option liability which the Company recorded during the three months ended September 30, 2011.

Net Income (loss)

For the reasons above, the Company had a net income for the three months ended September 30, 2012 of \$1,600,903, an increase of \$1,742,549 compared to a net loss of \$141,646 during the three months ended September 30, 2011.

Nine Months Ended September 30, 2012 Compared to Nine Months Ended September 30, 2011

Revenue

Revenue increased by \$4,628,586 or approximately 57% to \$12,768,596 for the nine months ended September 30, 2012 from \$8,140,010 in the prior nine months ended September 30, 2011. The increase was due both to the acquisition of Artisan and to increases in sales from our existing parts of our business. There were significant increase in sales of specialty items, produce, meat and game, cheese and seafood, and with a smaller increase in poultry products. We continue to assess the potential of new revenue sources from the manufacture and sale of proprietary food products and additional sales channel opportunities and will implement that strategy if, based on our analysis, we deem it beneficial to us.

Table of Contents

Any changes in the food distribution operating landscape that materially hinders our current ability and/or cost to deliver our products to our customers could potentially cause a material impact on our net revenue and gross margin and, therefore, our profitability and cash flows could be adversely affected.

Currently, a small portion of our revenues comes from imported products or international sales. Our current sales from such segments may be hampered and negatively impacted by any economic tariffs that may be imposed in the United States or in foreign countries.

See "Transactions with Major Customers" and the Securities and Exchange Commission's ("SEC") mandated FR-60 disclosures following the "Liquidity and Capital Resources" section for a further discussion of the significant customer concentrations, loss of significant customer, critical accounting policies and estimates, and other factors that could affect future results.

Cost of goods sold

Our cost of goods sold for the nine months ended September 30, 2012 was \$9,645,040, an increase of \$3,309,302 or approximately 52% compared to cost of goods sold of \$6,335,738 for the nine month ended September 30, 2011. The increase was due primarily to a corresponding growth in sales and to a focus on gaining market share in certain of our product lines. Cost of goods sold is primarily made up of the following expenses for the nine months ended September 30, 2012: cost of good of specialty, meat, game, cheese poultry and other sales categories in the amount of \$6,959,983; and shipping expenses in the amount of \$2,186,124. The gross margin increased in 2012 as compared to 2011 due to the acquisition of Artisan Specialty Foods partially offset by the company's strategy of pursuing market share in certain product lines.

In 2012, we continued to aggressively price our products in order to gain market share and increase the number of our end users. We were successful in doing so and increased the number of our end users for the nine months ending September 30, 2012 by approximately 6% to more than 22,000 versus the nine months ending September 30, 2011. We currently expect if market conditions remain constant that our cost of goods sold will stabilize and likely improve compared to the first half of 2012.

Selling, general and administrative expenses

Selling, general, and administrative expenses increased by \$1,187,527 or approximately 79%, to \$2,690,044 during the nine months ended September 30, 2012 compared to \$1,502,517 for the nine months ended September 30, 2011. The increase was due primarily to the costs associated with the acquisition of Artisan and additional operational selling, general, and administrative expenses related to the operations of Artisan. Selling, general and administrative expenses were primarily made up of the following for the nine months ended September 30, 2012: payroll and related expenses, including employee benefits, in the amount of \$1,395,740; consulting and professional fees in the amount of \$343,374; options expense, including the fair value of options issued and the change in fair value of the option liability in the amount of \$146,361; insurance costs in the amount of \$135,458; facilities and related expenses in the amount of \$135,458; office expense in the amount of \$84,168; computer support expenses in the amount of \$83,421; travel and entertainment expenses in the amount of \$77,231; commissions expense in the amount of \$56,349; vehicle expense of \$27,947; amortization and depreciation expense of \$69,313; credit card expense of \$17,739; settlement expense of \$7,302; and advertising expenses in the amount of \$42,072. We expect our legal fees to slightly increase in 2012 and our accounting fees in 2012 to remain constant. We do however expect to increase our spending on advertising and marketing and web development fees in 2012.

Interest expense

Interest expense decreased by \$337,493, or approximately 67%, from \$503,526 during the nine months ended September 30, 2011 to \$166,033 for the nine months ended September 30, 2012. Interest expense decreased during the nine months ended September 30, 2012 as compared to the nine months ended September 30, 2011 as the result of the settlement of notes payable that occurred in the year ended December 31, 2011. Interest expense is expected to increase due to an increase in notes payable, and the amortization of the discount on notes payable.

Loss from change in fair value of warrant liability

At September 30, 2012, the Company had outstanding warrants to purchase an aggregate of 6,964,000 shares of the Company's common stock. The Company revalued this warrant liability at September 30, 2012 at \$1,532,424. This revaluation resulted in a gain of \$383,467 which the Company credited to operations during the nine months ended September 30, 2012. This is an increase of \$19,967 or approximately 6% compared to a gain of \$363,500 from the revaluation of the warrant liability which the Company recorded during the nine months ended September 30, 2011.

Table of Contents

Gain and loss from change in fair value of conversion option liability

At September 30, 2012 the Company had outstanding a liability to issue an aggregate of 5,539,260 shares of the Company's common stock pursuant to convertible notes payable. The Company revalued this liability at September 30, 2012 at \$1,284,577. This revaluation resulted in a gain of \$197,798, which the Company included in operations for the nine months ended September 30, 2012. This is a decrease of \$66,234 or approximately 25% compared to a gain of \$264,032 from the revaluation of the conversion option liability which the Company recorded during the nine months ended September 30, 2011.

Net Income (loss)

For the reasons above, the Company had net income for the nine months ended September 30, 2012 of \$6,644, a decrease of \$584,442 compared to a net income of \$591,086 during the nine months ended September 30, 2011.

Liquidity and Capital Resources

As of September 30, 2012, the Company had current assets of \$2,098,004 consisting of cash of \$716,200, trade accounts receivable of \$865,018, inventory of \$503,033, and other current assets of \$13,753. Also at September 30, 2012, the Company had current liabilities of \$5,578,994, consisting of accounts payable and accrued liabilities of \$1,174,070 (of which \$75,280 is payable to a related party); accrued interest of \$696,947; accrued interest – related parties of \$37,234; current portion of notes payable, net of discounts of \$283,698; current portion of notes payable – related parties, net of discounts of \$130,500; warrant liability of \$1,532,424; option liability of \$308,544; conversion option liability of \$1,284,577; and contingent liability of \$131,000.

During the nine months ended September 30, 2012, the Company had cash provided by operating activities of \$48,699. This consisted of the Company's net income of \$6,644, offset by charges to operations \$69,313 for depreciation and amortization, \$6,408 for the amortization of the discount on notes payable, \$62,085 for the amortization of the discount on accrued convertible interest, \$13,551 for the interest capitalized on a note payable, \$7,302 for the issuance of shares for a settlement, \$186,299 for the fair value of options issued to officers and directors, \$842,100 for the cost of extending the term of certain warrants outstanding, \$383,467 gain for the revaluation of the warrant liability, \$39,937 gain for the revaluation of the conversion option liability, and \$197,798 gain for the revaluation of the option liability. The Company's results also reflect an increase in working capital deficiency of \$523,801.

The Company had cash provided by financing activities of \$1,022,389 in 2012, which consisted primarily of proceeds from issuance of a note payable in the amount \$1,080,000, offset by principal payments on debt of \$57,611.

Historically, our primary cash requirements have been used to fund the cost of operations, with additional funds having been used in promotion and advertising and in connection with the exploration of new business lines.

The Company's current liabilities exceeded its current assets by \$3,480,990 as of September 30, 2012. By adjusting its operation and development to the level of available resources, management believes it has sufficient capital resources to meet projected cash flow through the next twelve months. The Company also intends to focus on increasing market share and cash flow from operations by focusing its sales activities on specific market segments and new product lines as well as the completion of the integration of IT and systems at Artisan. However, if thereafter, the Company is not successful in generating sufficient liquidity from operations or in raising sufficient capital resources, on terms acceptable to us, this could have a material adverse effect on our business, results of operations, liquidity and financial condition. Currently, we do not have any material long-term obligations other than those described in Note 10 to the financial statements included in this report. As we seek to increase our sales of perishables, as well as

identify new and other consumer oriented products and services, we may use existing cash reserves, long-term financing, or other means to finance such diversification.

If the Company's cash flow from operations is insufficient, the Company may require additional financing in order to execute its operating plan and continue as a going concern. The Company cannot predict whether this additional financing will be in the form of equity or debt, or be in another form. The Company may not be able to obtain the necessary additional capital on a timely basis, on acceptable terms, or at all. The Company expects that any sale of additional equity securities or convertible debt will result in additional dilution to our stockholders.

In any of these events, the Company may be unable to implement its current plans for expansion, repay its debt obligations as they become due or respond to competitive pressures, any of which circumstances would have a material adverse effect on its business, prospects, financial condition and results of operations. The Company has not made any adjustments to the financial statements which would be necessary should the Company not be able to continue as a going concern.

The independent auditors' reports on our December 31, 2011 and 2010 financial statements included in our Annual Report on Form 10-K for the two years then ended states that our working capital deficiency raises substantial doubts about our ability to continue as a going concern.

Table of Contents

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues, or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Inflation

In the opinion of management, inflation has not had a material effect on the Company's financial condition or results of its operations.

RISK FACTORS

The Company's business and success is subject to numerous risk factors as detailed in its Annual Report on Form 10-K for the year ended December 31, 2011 which is available at no cost at www.sec.gov.

ITEM 4 - CONTROLS AND PROCEDURES

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit pursuant to the requirements of the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, among other things, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file under the Exchange Act is accumulated and communicated to our management, including our principal executive and financial officers, as appropriate, to allow timely decisions regarding required disclosure.

(a) Evaluation of disclosure controls and procedures

Our Principal Executive Officer and Principal Financial Officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this Quarterly Report, have concluded that as of that date, our disclosure controls and procedures were adequate and effective to ensure that information required to be disclosed by us in the reports we file or submit with the Securities and Exchange Commission is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. The conclusions notwithstanding, you are advised that no system is foolproof.

(b) Changes in internal control over financial reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Exchange Act Rules 13a-15(d) and 15d-15 that occurred during the period covered by this Quarterly Report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information

On November 20, 2012 the Company entered into an employment agreement with each of its chief executive officer and its president with both agreements having an effective date of January 1, 2013 and terminating on December 31, 2015. The agreements provide for annual compensation ranging from \$226,250 to \$273,763 during the term with a portion of the compensation paid in stock. The agreements also provide for annual bonuses including bonuses based on increases in EBITDA (as defined in the agreements) of the Company's various subsidiaries; additional bonuses upon the occurrence of certain events such as: listing on specific stock exchanges, spin-offs, investments and stock trading and volume levels. The agreements also provide for stock options with exercise prices ranging from \$0.40 - \$1.60 and an award of restricted stock which only vest if certain volume and pricing milestones with respect to the Company's common stock are met. Each executive has the option of receiving any portion of his salary or bonus in the form of equity. The agreements also contain non-compete and non-solicitation provisions. The foregoing description of the employment agreements are qualified in their entirety by reference to each of the agreements, copies of which are filed as exhibits to this Quarterly Report on Form 10-Q and are incorporated by reference in this Item 5.

Item 6. Exhibits

10.1 CEO Employment Agreement

10.2 President Employment Agreement

31.1 Section 302 Certification

31.2 Section 302 Certification

32.1 Section 906 Certification

32.2 Section 906 Certification

101.INS* XBRL Instance Document

101.SCH* XBRL Taxonomy Extension Schema

101.CAL* XBRL Taxonomy Extension Calculation Linkbase

101.DEF* XBRL Taxonomy Extension Definition Linkbase

101.LAB* XBRL Taxonomy Extension Label Linkbase

101.PRE* XBRL Taxonomy Extension Presentation Linkbase

* Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability.

Table of Contents

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.

SIGNATURE	TITLE	DATE
/s/Sam Klepfish Sam Klepfish	Chief Executive Officer	November 21, 2012
/s/ John McDonald John McDonald	Principal Financial Officer	November 21, 2012

Table of Contents