

INNOVATIVE FOOD HOLDINGS INC
Form 10-K
March 28, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended
December 31, 2012

OR

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

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)

20-116776
(I.R.S. Employer Identification No.)

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

34114
(Zip Code)

(239) 596-0204
(Registrant's telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:
NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:
COMMON STOCK, \$0.0001 PAR VALUE PER SHARE
(Title of class)

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

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

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

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

Indicate by a 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. (check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of the voting and non-voting stock held by non-affiliates was approximately \$2,349,520 as of June 30, 2012, based upon a closing price of \$0.40 per share for the registrant's common stock on such date.

On March 5, 2013, a total of 6,127,075 shares (post reverse-split) of our common stock were outstanding and 6,277,033 shares (post reverse-split) issued.

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC.

INDEX TO ANNUAL REPORT ON FORM 10-K
FILED WITH THE SECURITIES AND EXCHANGE COMMISSION
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

ITEMS IN FORM 10-K

PART I

PAGE

| | | |
|---------|--------------------------------|---|
| Item 1. | <u>Business</u> | 4 |
| Item 2. | <u>Properties</u> | 9 |
| Item 3. | <u>Legal Proceedings</u> | 9 |
| Item 4. | <u>Mine Safety Disclosures</u> | 9 |

PART II

| | | |
|----------|---|----|
| Item 5. | <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u> | 10 |
| Item 6. | <u>Selected Financial Data</u> | 11 |
| Item 7. | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 11 |
| Item 8. | <u>Financial Statements</u> | 20 |
| Item 9. | <u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u> | 49 |
| Item 9A. | <u>Controls and Procedures</u> | 49 |
| Item 9B. | <u>Other Information</u> | 50 |

PART III

| | | |
|----------|---|----|
| Item 10. | <u>Directors, Executive Officers and Corporate Governance</u> | 51 |
| Item 11. | <u>Executive Compensation</u> | 53 |
| Item 12. | <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u> | 56 |
| Item 13. | <u>Certain Relationships and Related Transactions, and Director Independence</u> | 57 |
| Item 14. | <u>Principal Accountant Fees and Services</u> | 58 |

PART IV

| | | |
|----------|-------------------|----|
| Item 15. | <u>Exhibits</u> | 59 |
| | <u>Signatures</u> | 62 |

Table of Contents

FORWARD LOOKING INFORMATION
MAY PROVE INACCURATE

THIS ANNUAL REPORT ON FORM 10-K CONTAINS CERTAIN FORWARD-LOOKING STATEMENTS AND INFORMATION RELATING TO US THAT ARE BASED ON THE BELIEFS OF MANAGEMENT, AS WELL AS ASSUMPTIONS MADE BY AND INFORMATION CURRENTLY AVAILABLE TO US. WHEN USED IN THIS DOCUMENT, THE WORDS "ANTICIPATE," "BELIEVE," "ESTIMATE," "SHOULD," "PLAN," AND "EXPECT" AND SIMILAR EXPRESSIONS, AS THEY RELATE TO US, ARE INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS. SUCH STATEMENTS REFLECT OUR CURRENT VIEWS WITH RESPECT TO FUTURE EVENTS AND ARE SUBJECT TO CERTAIN RISKS, UNCERTAINTIES AND ASSUMPTIONS, INCLUDING THOSE DESCRIBED IN THIS ANNUAL REPORT ON FORM 10-K. SHOULD ONE OR MORE OF THESE RISKS OR UNCERTAINTIES MATERIALIZE, OR SHOULD UNDERLYING ASSUMPTIONS PROVE INCORRECT, ACTUAL RESULTS MAY VARY MATERIALLY FROM THOSE DESCRIBED HEREIN AS ANTICIPATED, BELIEVED, ESTIMATED OR EXPECTED. WE DO NOT INTEND TO UPDATE THESE FORWARD-LOOKING STATEMENTS.

Table of Contents

PART I

ITEM 1. Business

Our History

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. We changed our name to Fiber Application Systems Technology, Ltd in February 2003. In January 2004, we changed our state of incorporation by merging into Innovative Food Holdings, Inc. (IVFH), a Florida corporation formed for that purpose. As a result of the merger, we changed our name to that of Innovative Food Holdings, Inc. In January 2004, we also acquired Food Innovations, Inc., a Delaware corporation, for 500,000 (post reverse-split) shares of our common stock.

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 supplier and had sold products to the Company.

Our Operations

Our business is currently conducted by our subsidiaries, Food Innovations, Inc. (“FII” or “Food Innovations”), which was incorporated in the State of Delaware on January 9, 2002, 4 The Gourmet, Inc. (d/b/a For The Gourmet, Inc.) and Gourmet Foodservice Group, Inc. Since its incorporation, Food Innovations, primarily through a relationship with US Foodservices, Inc. (“USF”), has been in the business of providing premium restaurants with the freshest origin-specific perishables, specialty food products, and healthcare products shipped directly from our network of vendors within 24 – 72 hours. Our customers include restaurants, hotels, country clubs, national chain accounts, casinos, hospitals and catering houses. Since its incorporation, For The Gourmet has been in the business of providing consumers with gourmet food products shipped directly from our network of vendors within 24 – 72 hours. Since its incorporation, Gourmet Foodservice Group holds all the companies' intellectual property including the Artistre® line of products. In our business model, we receive orders from our customers and then work closely with our suppliers to have the orders fulfilled. In order to maintain freshness and quality, we carefully select our suppliers based upon, among other factors, their quality, uniqueness, reliability and access to overnight courier services.

Our Products

We distribute over 7,300 perishable and specialty food products, including origin-specific seafood, domestic and imported meats, exotic game and poultry, artisanal cheeses, caviar, wild and cultivated mushrooms, micro-greens, heirloom and baby produce, organic farmed and manufactured food products, estate-bottled olive oils and aged vinegars. We are constantly adding other products that food distributors cannot effectively warehouse, including organic products and specialty grocery items. We offer our customers access to the best food products available nationwide, quickly, most direct, and cost-effectively. Some of our best-selling items include:

Seafood - Alaskan wild king salmon, Hawaiian sashimi-grade ahi tuna, Gulf of Mexico day-boat snapper, Chesapeake Bay soft shell crabs, New England live lobsters, Japanese hamachi

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

Meat & Game - Prime rib of American kurobuta pork, dry-aged buffalo tenderloin, domestic lamb, Cervena venison, elk tenderloin

Produce - White asparagus, baby carrot tri-color mix, Oregon wild ramps, heirloom tomatoes

Poultry - Grade A foie gras, Hudson Valley quail, free range and organic chicken, airline breast of pheasant

Specialty - Truffle oils, fennel pollen, prosciutto di Parma, wild boar sausage

Mushrooms - Fresh morels, Trumpet Royale, porcini powder, wild golden chanterelles

Cheese - Maytag blue, buffalo mozzarella, Spanish manchego, Italian gorgonzola dolce

Table of Contents

Customer Service and Logistics

Our “live” chef-driven customer service department is available by telephone Monday through Thursday, from 8 a.m. to 6 p.m. and on Friday from 8 a.m. to 5 p.m., Florida time. The team is made up of six chefs and culinary experts who are full-time employees of the Company, and who are experienced in all aspects of perishable and specialty products. By employing chefs and culinary experts to handle customer service, we are able to provide our customers with extensive information about our products, including:

Flavor profile and eating qualities

Recipe and usage ideas

Origin, seasonality, and availability

Cross utilization ideas and complementary uses of products

Our logistics team tracks every package to ensure timely delivery of products to our customers. The logistics manager receives tracking information on all products ordered, and packages are monitored from origin to delivery. In the event that delivery service is interrupted, our logistics department begins the process of expediting the package to its destination. The customer is then contacted before the expected delivery commitment time allowing the customer ample time to make arrangements for product replacement or menu changes. Our logistics manager works directly with our vendors to ensure our strict packaging requirements are in place at all times.

Relationship with U.S. Foods

In February 2010, one of our subsidiaries, Food Innovations, signed a new contract with U.S. Foods (“USF”). This contract with USF expired on December 31, 2012. However, the contract provides that it 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. Inasmuch as neither party gave the requisite notice, the agreement was automatically extended through December 31, 2013. 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 twelve months ended December 31, 2012 and 2011, sales to USF accounted for 76.0% and 93.3% of total sales, respectively.

Growth Strategy

While the U.S. economic recovery remains fragile, there appears to be much for the restaurant industry to celebrate. According to the National Restaurant Industry’s 2013 forecast, restaurant sales are expected to grow by 3.8%, exceeding \$6.5 billion. For our continued growth within the foodservice industry, we rely heavily on the availability to our customers of our chefs' culinary skills, a high level of personal customer service, premium quality products, new product introductions and sales available through our relationship with USF.

We anticipate attempting to grow our current business both through increased sales of existing products to our existing foodservice customers, the introduction of new products to our foodservice customers, increasing our foodservice customer base, and through further entry into markets such as the direct to consumer market through a variety of potential sales channels, and sales partnerships and directly via the web.

In addition to attempting to grow our current business, we believe that there are lateral opportunities in the food industry. We may consider the possibility of acquiring a gourmet food manufacturer or gourmet distributor at some future point in time. We anticipate that, given our current cash flow situation, any acquisition could involve the issuance of additional shares of our common stock or third party financing, which may not be available on acceptable terms. No acquisition will be consummated without thorough due diligence. No assurance can be given that we will be able to identify and successfully conclude negotiations with any potential target.

General economic conditions and consumer confidence can affect the frequency of purchases and amounts spent by consumers for food-prepared-away-from-home and, in turn, can impact our customers and our sales. We believe the current general economic conditions, including pressure on consumer disposable income, may contribute to a slow or declining growth in the foodservice market. We intend to continue our efforts to expand our market share and grow earnings by focusing on sales growth, margin management, productivity gains and supply chain management, and product and service differentiation.

Table of Contents

Competition

While we face intense competition in the marketing of our products and services, it is our belief that there is no other single company in the United States that offers such a broad range of customer service oriented, quality, chef driven, perishables, for delivery in 24 to 72 hours. Our primary competition is from local purveyors that supply a limited local market and have a limited range of products and from other specialty gourmet distributors. However, many purveyors are well established, have reputations for success in the development and marketing of these types of products and services and have significantly greater financial, marketing, distribution, personnel and other resources. These financial and other capabilities permit such companies to implement extensive advertising and promotional campaigns, both generally and in response to efforts by additional competitors such as us, to enter into new markets and introduce new products and services.

Insurance

We maintain a general liability insurance policy with a per occurrence limit of \$1,000,000 and aggregate policy covering \$2,000,000 of liability. In addition, we have non-owned automobile personal injury coverage with a limit of \$1,000,000. Such insurance may not be sufficient to cover all potential claims against us and additional insurance may not be available in the future at reasonable costs.

Government Regulation

Various federal and state laws currently exist, and more are sure to be adopted, regulating the delivery of fresh food products. However, our business plan does not require us to deliver fresh food products directly, as third-party vendors ship the products directly to our customers. We require all third-party vendors to certify that they maintain at least \$2,000,000 liability insurance coverage and compliance with Hazard Analysis and Critical Control Point (HACCP), an FDA- and USDA-mandated food safety program, or a similar standard. Any changes in the government regulation of delivering of fresh food products that hinders our current ability and/or cost to deliver fresh products, could adversely impact our net revenues and gross margins and, therefore, our profitability and cash flows could also be adversely affected.

Employees

We currently employ 39 full-time employees, including 6 chefs and 2 executive officers. We believe that our relations with our employees are satisfactory. None of our employees are represented by a union.

Transactions with Major Customers

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.

How to Contact Us

Our executive offices are located at 3845 Beck Blvd., Naples, Florida 34114; our Internet address is www.foodinno.com; and our telephone number is (239) 596-0204. The contents of our website are not incorporated in or deemed to be a part of this Annual Report on Form 10-K.

Risk Factors

Prior to 2012, We Have a History of Losses Requiring Us To Seek Additional Sources of Capital

As of December 31, 2012, we had an accumulated deficit of \$5,177,106. We cannot assure you that we can sustain profitability on a quarterly or annual basis in the future. If revenues grow more slowly than we anticipate, or if operating expenses exceed our expectations or cannot be adjusted accordingly, we will incur losses. Our possible success is dependent upon the successful development and marketing of our services and products, as to which we can give no assurance. Any future success that we might enjoy will depend upon many factors, including factors out of our control or which cannot be predicted at this time. These factors may include changes in or increased levels of competition, including the entry of additional competitors and increased success by existing competitors, changes in general economic conditions, increases in operating costs, including costs of supplies, personnel, marketing and promotions, reduced margins caused by competitive pressures and other economic and non-economic factors. These conditions may have a materially adverse effect upon us or may force us to reduce or curtail operations. In addition, we will require additional funds to sustain and expand our sales and marketing activities, particularly if a well-financed competitor emerges. We can give no assurance that financing will be available in amounts or on terms acceptable to us, if at all. Our inability to obtain sufficient funds from our operations or external sources could require us to curtail or cease operations.

Table of Contents

We Have Historically Derived Substantially All of Our Revenue From One Client and if We Were to Lose Such Client and Be Unable to Generate New Sales to Offset Such Loss, We May Be Forced to Cease or Curtail Our Operations.

In 2003, Next Day Gourmet initially contracted with our subsidiary, Food Innovations, to handle the distribution of over 3,000 perishable and specialty food products to customers of USF. In February 2010, Food Innovations signed a new contract with USF that was scheduled to expire in December 2012 but was automatically extended for an additional 12 months. Our sales through USF's sales force generated gross revenues for us of \$14,138,685 in the year ended December 31, 2012, and \$10,754,467 in the year ended December 31, 2011. Those amounts contributed 76.0% and 93.3% respectively, of our total sales in those periods. Our sales efforts are for the most part substantially dependent upon the efforts of the USF sales force. Although we have generated revenues from additional customers other than USF, if our relationship with USF were to be materially changed and we are unable to generate substantial new sales to offset such loss, we may be forced to cease or curtail our operations.

We May Be Unable to Manage Our Growth Which Could Result in Our Being Unable to Maintain Our Operations.

Our strategy for growth is focused on continued enhancements and expansion to our existing business model, offering a broader range of services and products and affiliating with additional vendors and through possible joint ventures. Pursuing this strategy presents a variety of challenges. We may not experience an increase in our services to our existing customers, and we may not be able to achieve the economies of scale, or provide the business, administrative and financial services, required to sustain profitability from servicing our existing and future customer base. Should we be successful in our expansion efforts, the expansion of our business would place further demands on our management, operational capacity and financial resources. To a significant extent, our future success will be dependent upon our ability to maintain adequate financial controls and reporting systems to manage a larger operation and to obtain additional capital upon favorable terms. We can give no assurance that we will be able to successfully implement our planned expansion, finance its growth, or manage the resulting larger operations. In addition, we can give no assurance that our current systems, procedures or controls will be adequate to support any expansion of our operations. Our failure to manage our growth effectively could have a material adverse effect on our business, financial condition and results of operations.

The Foodservice Industry is Very Competitive, Which May Result in Decreased Revenue for Us as Well as Increased Expenses Associated With Marketing Our Services and Products.

We compete against other providers of quality foods, some of which sell their services globally, and some of these providers have considerably greater resources and abilities than we have. These competitors may have greater marketing and sales capacity, established distribution networks, significant goodwill and global name recognition. Furthermore, it may become necessary for us to reduce our prices in response to competition. This could negatively impact our ability to be profitable.

Our Success Depends on Our Acceptance by the Chef Community and if the Chef Community Does Not Accept Our Products Then Our Revenue Will be Severely Limited.

The chef community may not embrace our products. Acceptance of our services will depend on several factors, including: cost, product freshness, convenience, timeliness, strategic partnerships and reliability. Any of these factors could have a material adverse effect on our business, results of operations and financial condition. We also cannot be sure that our business model will gain wide acceptance among chefs. If the market fails to continue to develop, or develops more slowly than we expect, our business, results of operations and financial condition will be adversely affected.

We Rely Upon Outside Vendors and Shippers for Our Specialty Food Products and Interruption in the Supply of Our Products May Negatively Impact Our Revenues.

Shortages in supplies of the food products we sell may impair our ability to provide our services. Our vendors are independent and we cannot guarantee their future ability to source the products that we sell. Many of our products are wild-caught, and we cannot guarantee their availability in the future. Unforeseen strikes and labor disputes as well as adverse weather conditions may result in our inability to deliver our products in a timely manner. Since our customers rely on us to deliver their orders within 24-72 hours, delivery delays could significantly harm our business.

Table of Contents

We Are and May Be Subject to Regulatory Compliance and Legal Uncertainties.

Changes in government regulation and supervision or proposed Department of Agriculture reforms could impair our sources of revenue and limit our ability to expand our business. In the event any future laws or regulations are enacted which apply to us, we may have to expend funds and/or alter our operations to insure compliance.

The Issuance of Shares Upon Conversion of Convertible Notes and Exercise of Outstanding Warrants May Cause Immediate and Substantial Dilution to Our Existing Stockholders.

The issuance of shares upon conversion of convertible notes and exercise of warrants may result in substantial dilution to the interests of other stockholders since the note/warrant holders may ultimately convert or exercise and sell the full amount of shares issuable on conversion/exercise. Although, for the most part, such note/warrant holders may not convert their convertible notes and/or exercise their warrants if such conversion or exercise would cause them to own more than 4.99% or 9.99% depending upon the particular note of our outstanding common stock unless waived in writing by the investor with 61 day notice to the Company, this restriction does not prevent them from converting and/or exercising some of their holdings, selling off those shares, and then converting the rest of their holdings. In this way, they could sell more than this limit while never holding more than this limit. We anticipate that eventually, over time, the full amount of the convertible notes will be converted into shares of our common stock, in accordance with the terms of the secured convertible notes, which will cause significant dilution to our other shareholders.

If We Are Required for any Reason to Repay Our Outstanding Convertible Notes We Would Be Required to Deplete Our Working Capital, If Available, or Raise Additional Funds.

We can be required to repay certain of our convertible notes or other notes. If we are required to repay a significant amount of these notes, we would be required to use our limited working capital and/or raise additional funds (which may be unavailable) which would have the effect of causing further dilution and lowering shareholder value. If we were unable to pay the notes when required, the note holders could commence legal action against us and foreclose on almost all of our assets to recover the amounts due. Any such action could require us to curtail or cease operations.

Our Revenues Can be Affected by Price Increases Imposed by our Carriers.

We deliver our products to our customers through third party overnight or express delivery carriers. If the carriers we use raise their shipping rates or add charges such as fuel surcharges and other charges, we will either have to absorb the increased costs which will put pressure on our bottom line or pass on the cost to our customers which may result in reduced sales if our customers are unwilling to pay the higher prices. Either way, such an increase in shipping costs will likely have a negative impact on our results of operations.

Our Common Stock is Subject to the "Penny Stock" Rules of the SEC and the Trading Market in Our Securities is Limited, Which Makes Transactions in Our Stock Cumbersome and May Reduce the Value of an Investment in Our Stock.

The Securities and Exchange Commission has adopted Rule 15g-9 which establishes the definition of a "penny stock," for the purposes relevant to us, as any equity security that has a market price of less than \$5.00 per share (post-reverse split) or with an exercise price of less than \$5.00 per share, subject to certain exceptions. For any transaction involving a penny stock, unless exempt, the rules require:

that a broker or dealer approve a person's account for transactions in penny stocks; and
the broker or dealer receives from the investor a written agreement to the transaction, setting forth the identity and quantity of the penny stock to be purchased.

In order to approve a person's account for transactions in penny stocks, the broker or dealer must:

obtain financial information and investment experience objectives of the person; and
make a reasonable determination that the transactions in penny stocks are suitable for that person
and the person has sufficient knowledge and experience in financial matters to be capable of
evaluating the risks of transactions in penny stocks.

Table of Contents

The broker or dealer must also deliver, prior to any transaction in a penny stock, a disclosure schedule prescribed by the Commission relating to the penny stock market, which, in highlight form:

sets forth the basis on which the broker or dealer made the suitability determination; and
that the broker or dealer received a signed, written agreement from the investor prior to the transaction.

Disclosure also has to be made about the risks of investing in penny stocks in both public offerings and in secondary trading and about the commissions payable to both the broker-dealer and the registered representative, current quotations for the securities and the rights and remedies available to an investor in cases of fraud in penny stock transactions. Finally, monthly statements have to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks.

Generally, brokers may be less willing to execute transactions in securities subject to the "penny stock" rules. This may make it more difficult for investors to dispose of our common stock and cause a decline in the market value of our stock.

ITEM 2. Properties

On October 17, 2008, we entered into a three-year lease with Grand Cypress Communities, Inc. for new premises consisting of 4,000 square feet at 3845 Beck Blvd., Naples, Florida. The commencement date of the lease is January 1, 2009. On November 11, 2011, the Company extended the lease with Grand Cypress Communities, Inc. for 3 years, commencing on January 1, 2012. The annual rent and fees under the lease is approximately \$54,000. The lease provides for a buyout option at the end of the lease with credit towards the purchase price received for the rental payments made during the term of the lease. In February 2013, the lease agreement was amended to a two year lease ending December 31, 2013.

On May 7, 2012, we entered into a three-year lease with David and Sherri Vohaska for approximately 18,700 feet of office and warehouse space located at 8121 Ogden Avenue, Lyons, Illinois. The annual rent under the lease is approximately \$8,333 per month for the first year, \$8,417 per month for the second year, and \$8,500 for the third year. David Vohaska is currently an employee of the Company and prior to the acquisition of Artisan Specialty Foods, Inc. was the owner of Artisan.

On October 1, 2011, the Company entered into a month-to-month lease with Grand Cypress Communities, Inc. for warehouse space consisting of 2,000 square feet at 3845 Beck Blvd., Naples, Florida. The commencement date of this lease is October 1, 2011. The monthly rent and fees under this lease is \$848.

On March 8, 2013, we purchased a building and property located at 28411 Race Track Road, Bonita Springs, Florida 34135. The property consists of approximately 1.1 acres of land and close to 10,000 square feet of combined office and warehouse space. The purchase price of the property was \$770,000 and was financed in part by a five year mortgage in the amount of \$546,000. The Company intends to relocate all of its office and warehouse facilities into the newly acquired building in Bonita Springs, Florida in mid 2013.

ITEM 3. Legal Proceedings

None.

ITEM 4. Mine Safety Disclosure

Not Applicable.

9

Table of Contents

PART II

ITEM 5. Market For Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Prices for our common stock are quoted on the OTCQB. Since March 2004, our common stock has traded under the symbol "IVFH". Prior thereto, our common stock traded under the symbol "FBSN". 6,277,033 shares of our common stock were outstanding as of March 5, 2013. The following table sets forth the high and low closing sales prices (post reverse-split) of our common stock as reported in the OTCQB for each full quarterly period within the two most recent fiscal years.

| Fiscal Year Ending December 31, 2012 | HIGH | LOW |
|--------------------------------------|----------|----------|
| First Quarter | \$ 0.390 | \$ 0.230 |
| Second Quarter | 0.705 | 0.250 |
| Third Quarter | 0.640 | 0.200 |
| Fourth Quarter | 0.448 | 0.246 |
| | | |
| Fiscal Year Ending December 31, 2011 | HIGH | LOW |
| First Quarter | \$ 0.460 | \$ 0.320 |
| Second Quarter | 0.430 | 0.180 |
| Third Quarter | 0.480 | 0.350 |
| Fourth Quarter | 0.440 | 0.290 |

The quotations listed above reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions. On March 19, 2013, the closing price of our common stock as reported by the OTC Market was \$0.26.

Security Holders

On March 5, 2013, there were approximately 95 record holders of our common stock. In addition, we believe there are at least several hundred additional beneficial owners of our common stock whose shares are held in "street name."

Dividends

We have not paid dividends during the three most recently completed fiscal years, and have no current plans to pay dividends on our common stock. We currently intend to retain all earnings, if any, for use in our business.

Recent Sales and Other Issuances of Our Equity Securities

During the twelve months ended December 31, 2012, the Company had the following transactions:

The Company issued 150,000 shares (post reverse-split) of common stock with a value of \$37,500 pursuant to the Haley Acquisition Agreement.

The Company committed to issue 26,078 shares (post reverse-split) of common stock for settlement of a note. The fair value of \$7,302 is included in Common Stock Subscribed on the Company's balance sheet at December 31, 2012.

All of the issuances described above were exempt from registration pursuant to Section 4(2) of the Securities Act of 1933 for the following reasons: (1) none of the issuances involved a public offering or public advertising of the payment of any commissions or fees; (2) the issuances for cash were to “accredited investors”; (3) the issuances upon conversion of notes were for notes held at least 12 months and did not involve the payment of any other consideration; and (4) all issuances to affiliates and to non-affiliates holding the securities for less than six months year carried restrictive legends.

Dilutive Securities and Derivative Liabilities

As of December 31, 2012 and December 31, 2011, the Company had outstanding convertible notes payable in the aggregate principal amount of \$2,147,749 and \$1,109,481, respectively, with accrued interest of \$759,053 and \$693,085, respectively, which, if converted to common stock, will result in our issuance of approximately 7,256,844 and 4,437,928 shares (post reverse-split) of common stock, respectively, at conversion rates ranging from \$0.25 to \$1.00 per share (post reverse-split).

Table of Contents

The Company has issued warrants for holders to purchase an additional 6,964,000 and 5,464,000 shares (post reverse-split) of common stock at December 31, 2012 and 2011, respectively.

The Company also has outstanding stock options to purchase an additional 2,070,000 and 1,570,000 shares (post reverse-split) of common stock at December 31, 2012 and 2011, respectively.

Securities Authorized for Issuance Under Equity Compensation Plans

As of December 31, 2012 the Company we did not have any equity compensation plans. The following shares are issuable pursuant to individual employment arrangements:

| Plan Category | Number of securities to be issued upon exercise of outstanding options, warrants and rights (post reverse-split) | Weighted-average exercise price of outstanding options, warrants, and rights (post reverse-split) | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) |
|---|--|---|---|
| Equity compensation plans approved by security holders | None | N/A | N/A |
| Equity compensation plans not approved by security holders: | | | |
| Stock options | 1,540,000 | \$ 0.350 | N/A |
| Stock options | 132,500 | \$ 0.380 | N/A |
| Stock options | 132,500 | \$ 0.450 | N/A |
| Stock options | 132,500 | \$ 0.475 | N/A |
| Stock options | 132,500 | \$ 0.480 | N/A |
| Total | 2,070,000 | \$ 0.375 | N/A |

ITEM 6. Selected Financial Data

Not Applicable.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

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.

Table of Contents

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 were valued at issuance utilizing the Black-Scholes valuation method, and were re-valued at each period ending date, also using the Black-Scholes valuation method. Any gain or loss from revaluation was charged to operations during the period.

On December 27, 2012, the Company entered into agreements (the “2012 Notes Payable Extension Agreement”) affecting the terms of certain of its convertible notes payable. One of these changes established a minimum conversion price for these notes of \$0.05. Under accounting guidance provided by FASB ASC 815-40-05, this resulted in a change in accounting method for these instruments from derivative accounting to equity accounting. The Company revalued these instruments at December 27, 2012 using the Black-Scholes valuation method. Any gain or loss in value was charged to operations.

(a) Warrants:

The Company valued warrants using the Black-Scholes valuation model. Warrants were valued upon issuance, and re-valued at each financial statement reporting date; they were also valued at December 27, 2012, at which time the Company changed its method of accounting for these instruments from the derivative method to the equity method. The fair value of the Company’s outstanding warrants at December 27, 2012 was \$2,088,475. This amount was considered a component of the Company’s gain on the extinguishment of debt, in the total amount of \$3,797,001 during the twelve months ended December 31, 2012.

The following table illustrates certain key information regarding our warrants and warrant valuation assumptions at December , 2012 and 2011:

| | December 31, | |
|--|--------------|------------|
| | 2012 | 2011 |
| Number of warrants outstanding (post reverse-split) | 6,964,000 | 5,464,000 |
| Value at December 31 | N/A | \$ 500,825 |
| Number of warrants issued during the period (post reverse-split) | 1,500,000 | - |

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

| | | | | |
|---|----|---------|----|-----------|
| Value of warrants issued during the year | \$ | 572,765 | \$ | - |
| Revaluation (gain) loss during the period | \$ | 172,785 | \$ | (682,350) |

Black-Scholes model variables:

| | | | | |
|--------------------------|----|-----------|----|-----------|
| | | 112.43% | | 92.52% - |
| Volatility | | - 214.36% | | 114.30% |
| Dividends | \$ | 0 | \$ | 0 |
| | | 0.11% - | | 0.06% - |
| Risk-free interest rates | | 1.18% | | 0.17% |
| | | 0.01 - | | |
| Term (years) | | 8.00 | | 0.01-5.00 |

(b) Embedded conversion features of notes payable:

Table of Contents

Through December 27, 2012, the Company accounted 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. The 2012 Notes Payable Extension Agreement resulted in a change in accounting method for these instruments from derivative accounting to equity accounting. The Company revalued these instruments December 27, 2012 using the Black-Scholes valuation method. Any gain or loss in value was charged to operations.

The following table illustrates certain key information regarding our conversion options and valuation assumptions at December 31, 2012 and 2011:

| | December 31, | |
|--|--------------|--------------|
| | 2012 | 2011 |
| Number of conversion options outstanding (post-reverse split) | 5,368,195 | 4,437,928 |
| Value at December 31 | \$ N/A | \$ 1,245,761 |
| Number of options issued during the year (post-reverse split) | 1,200,000 | - |
| Value of options issued during the year (post-reverse split) | \$ 263,664 | \$ - |
| Number of options exercised or underlying notes paid during the year | 3,419,284 | 2,053,240 |
| Value of options exercised or underlying notes paid during the year | \$ 81,921 | \$ 623,837 |
| Revaluation loss (gain) during the period | \$ 281,024 | \$ (595,967) |
| Black-Scholes model variables: | | |
| | 112.43% to | 92.52% to |
| Volatility | 214.36% | 114.3% |
| Dividends | 0 | 0 |
| | 0.11 to | 0.06 to |
| Risk-free interest rates | 1.18% | 0.17% |
| | 1.1 to | |
| Term (years) | 10.00 | 10.00 |

(c) Stock options:

The Company accounted for options in accordance FASB ASC 718-40. Options were valued upon issuance, and re-valued at each financial statement reporting date, utilizing the Black-Scholes valuation model; they were also valued at December 27, 2012, at which time the Company changed its method of accounting for these instruments from the derivative method to the equity method. The fair value of the Company's options at December 27, 2012 was \$411,792. This amount was reclassified to equity at December 27, 2012.

Table of Contents

The following table illustrates certain key information regarding our options and option assumptions at December 31, 2012 and 2011.

| | December 31, | |
|--|-----------------------|---------------------|
| | 2012 | 2011 |
| Number of options outstanding (post-reverse split) | 2,070,000 | 970,000 |
| Value at December 31 | \$ N/A | \$ 162,183 |
| Number of options issued during the year (post-reverse split) | 1,100,000 | - |
| Value of options issued during the year (post-reverse split) | \$ - | - |
| Number of options recognized during the year pursuant to SFAS 123(R) | 1,100,000 | - |
| Value of options recognized during the year pursuant to SFAS 123(R) | \$ 186,299 | \$ - |
| Revaluation (gain) during the period | \$ 63,309 | \$ 174,835 |
| Black-Scholes model variables: | | |
| Volatility | 112.43% to 214.36% | 92.52% to 114.3% |
| Dividends | 0 | 0 |
| Risk-free interest rates | 0.11% - 1.18% | 0.06 to 0.17% |
| Term (years) | 0.26 - 5.00 | 0.15-5.00 |

Doubtful Accounts Receivable

The Company maintained an allowance in the amount of \$5,547 for doubtful accounts receivable at December 31, 2012, and \$11,044 at December 31, 2011. Actual losses on accounts receivable were \$5,687 for 2012 and \$13,841 for 2011. The Company has an operational relationship of several years with our major customers, and we believe this experience provides us with a solid foundation from which to estimate our expected losses on accounts receivable. Should our sales mix change or if we develop new lines of business or new customers, these estimates and our estimation process will change accordingly. These estimates have been accurate in the past.

Fair Value of Financial Instruments

The Company measures its financial assets and liabilities in accordance with accounting principles generally accepted in the United States of America. The estimated fair values approximate their carrying value because of the short-term maturity of these instruments or the stated interest rates are indicative of market interest rates. These fair values have historically varied due to the market price of the Company's stock at the date of valuation. Generally, these liabilities increased as the price of the Company's stock increased (with resultant gain), and decreased as the Company's stock decreased (yielding a loss). In December 2013, the Company removed these liabilities from its balance sheet by reclassifying them as equity; we expect the amount of future gains and losses recognized to be reduced.

Income Taxes

The Company has a history of losses, and as such has recorded no liability for income taxes. Until such time as the Company begins to provide evidence that a continued profit is a reasonable expectation, management will not determine that there is a basis for accruing an income tax liability. These estimates have been accurate in the past.

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.

Table of Contents

In January 2004, we changed our state of incorporation by merging into Innovative Food Holdings, Inc. (“IVFH”), a Florida 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 nationwide distribution of specialty food , artisanal food, organic foods and health food distribution and sales using third-party shippers and through our own delivery vehicles in the greater Chicago area.

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 an additional \$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 supplier 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) under the heading Transactions with Major Customers in Note 14 to the Consolidated Financial Statements, and (3) as the fourth item under Risk Factors.

RESULTS OF OPERATIONS

The following is a discussion of our financial condition and results of operations for the years ended December 31, 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 consolidated financial statements, the notes thereto and other financial information included elsewhere in the report.

Year Ended December 31, 2012 Compared to Year Ended December 31, 2011

Revenue

Revenue increased by \$7,057,674 or approximately 61% to \$18,610,487 for the year ended December 31, 2012 from \$11,552,813 in the prior year. \$3,406,391 or 29.5% of the increase was attributable to the acquisition of Artisan. The increase was also attributable to a significant increase in sales of specialty items, and smaller increases in meat and game and cheese products, partially offset by decreases in seafood and 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 year ended December 31, 2012 was \$13,793,550, an increase of \$4,919,550 or approximately 55% compared to cost of goods sold of \$8,874,000 for the year ended December 31, 2011. Cost of goods sold is primarily made up of the following expenses for the year ended December 31, 2012: cost of goods of specialty, meat, game, cheese poultry and other sales categories in the amount of \$10,013,013; and shipping expenses in the amount of \$3,095,046. The cost of goods sold increase is mainly associated with the increase in sales, largely due to the Artisan acquisition. Total gross margin improved to 25.9% of sales in 2012, compared to 23.2% of sales in 2011.

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 both increasing sales and increasing market share. We currently expect, if market conditions and our product revenue mix remain constant, that our cost of goods sold will either remain stable or likely improve slightly.

Selling, general, and administrative expenses

Selling, general, and administrative expenses increased by \$2,222,860 or approximately 110.7% to \$4,230,227 during the year ended December 31, 2012 compared to \$2,007,367 for the year ended December 31, 2011. Selling, general and administrative expenses were primarily made up of the following for the year ended December 31, 2012: payroll and related expenses, including employee benefits, in the amount of \$2,745,160 (including share based compensation in the amount of \$161,821, and value of options in the amount of \$249,609); consulting and professional fees in the amount of \$397,916; facilities and related expenses in the amount of \$203,903; insurance costs in the amount of \$163,761; office expense in the amount of \$152,141; amortization and depreciation expense in the amount of \$126,855; travel and entertainment expenses in the amount of \$102,590; computer support expenses in the amount of \$95,622; commissions expense in the amount of \$68,413; advertising expense in the amount of \$52,987; vehicle expense in the amount \$45,059; credit card fees in the amount of \$35,532; property taxes in the amount of \$10,852; and settlement costs of \$7,302. The increase in selling, general, and administrative expenses was primarily due to increases in volume, and the acquisition of Artisan Specialty Foods which has higher selling general and administrative expenses than other Innovative Food Holdings historical levels. In addition, expenses associated with the Company's annual meeting and the Artisan acquisition had the effect of increasing selling general and administrative expenses. . We expect our selling, general, and administrative expenses to remain steady or slightly decrease in 2013.

Interest expense, net

Interest expense, net of interest income, increased by \$495,336 or approximately 88% to \$1,057,308 during the twelve months ended December 31, 2012, compared to \$561,972 during the twelve months ended December 31, 2011. The primary reason for the increase was due to the write-off of the discount on notes payable in the amount of \$824,286 related to the extinguishment of debt during the year ended December 31, 2012, and to the note payable in the gross amount of \$1,200,000 related to the acquisition of Artisan that the Company entered into in May 2012.

Gain on extinguishment of debt

Gain on extinguishment of debt was \$3,797,001 during the year ended December 31, 2012, an increase of \$3,631,675 or approximately 2,197% compared to gain on extinguishment of debt of \$165,326 during the year ended December 31, 2011. The increase is due to gain realized with the restructure of certain of the Company's convertible note agreements in 2012.

Loss on Settlement of Debt

Loss on settlement of debt was \$63,000 during the year ended December 31, 2011 compared to \$0 during the year ended December 31, 2012. In 2011, the Company entered into an agreement (the "Morren Settlement Agreement") with an investor. Pursuant to the settlement terms of the Morren Settlement Agreement, the Company issued 180,000 shares (post reverse-split) of common stock in full satisfaction of this claim of liability. The fair value of these shares in the amount of \$63,000 was recorded as a loss on the settlement of debt during the year ended December 31, 2011.

Cost of Warrant Extension

During the twelve months ended December 31, 2012, the Company extended the term of certain of its warrants outstanding. The Company valued the cost of the extended term using the Black-Scholes valuation model, and charged the fair value of \$842,100 to operations during the year ended December 31, 2012. There was no comparable charge during the year ended December 31, 2011.

Gain from change in fair value of warrant liability

At December 31, 2012, the Company had outstanding warrants to purchase an aggregate of 2,070,000 shares (post reverse-split) of the Company's common stock. On December 27, 2012, the Company entered into the 2012 Notes Payable Extension Agreement, which affected the terms of certain of its convertible notes payable. Under accounting guidance provided by FASB ASC 815-40-05, this resulted in a change in accounting method for the Company's warrants from derivative accounting to equity accounting. The Company revalued these instruments at December 27, 2012 using the Black-Scholes valuation method. This revaluation resulted in a loss of \$172,595, which the Company included in operations during the year ended December 31, 2012. This was an increase of \$855,135 or approximately 125.3% compared to a gain of \$682,350 from the revaluation of the warrant liability which the Company recorded during the year ended December 31, 2011.

Table of Contents

(Gain) loss from change in fair value of conversion option liability

At December 31, 2012, the Company had outstanding note payable conversion options to purchase an aggregate of 5,368,195 shares (post reverse-split) of the Company's common stock. On December 27, 2012, the Company entered into the 2012 Notes Payable Extension Agreement which affected the terms of certain of its convertible notes payable. Under accounting guidance provided by FASB ASC 815-40-05, this resulted in a change in accounting method for the Company's warrants from derivative accounting to equity accounting. The Company revalued these instruments at December 27, 2012 using the Black-Scholes valuation method. This revaluation resulted in a loss of \$281,024, which the Company included in operations during the year ended December 31, 2012. This was an increase of \$876,991 or approximately 147.2% compared to a gain of \$595,967 from the revaluation of the warrant liability which the Company recorded during the year ended December 31, 2011.

Net (loss) Income

For the reasons above, the Company had a net income for the year ended December 31, 2012 of \$2,030,494, an increase of \$540,377 or approximately 36.3% compared to a net income of \$1,490,117 during the twelve months ended December 31, 2011. In 2012 operating income improved due to increases in sales, improved gross margins, and one-time gains associated with the restructuring of the Company's convertible notes.

Liquidity and Capital Resources at December 31, 2012

As of December 31, 2012, the Company had current assets of \$2,838,218 consisting of cash of \$1,347,029, trade accounts receivable of \$959,805, inventory of \$517,631, and other current assets of \$13,753. Also at December 31, 2012, the Company had current liabilities of \$1,929,631, consisting of accounts payable and accrued liabilities of \$1,719,652 (of which \$342,880 is payable to related parties); accrued interest, related parties of \$39,866; current portion of notes payable, net of discounts, of \$11,543; current portion of notes payable – related parties, net of discounts of \$110,500; and a contingent purchase price liability of \$48,070.

During the twelve months ended December 31, 2012, the Company generated cash from operating activities of \$806,874. This consisted of the Company's net income of \$2,030,494, reduced by the gain on the extinguishment of debt of \$3,797,001, and increased by non-cash charges for the value of the extension of warrant terms of \$842,100; amortization of discount on notes payable of \$838,339; the value of options issued to officers and directors of \$348,120; the change in fair value of conversion option liability of \$281,024; the change in fair value of warrant liability of \$172,785; depreciation and amortization of \$126,855; amortization of discount on convertible accrued interest of \$87,520; interest capitalized on note payable of \$13,551; and value of shares issued in settlement of \$7,302. The Company's cash position was also reduced by \$335,029 as a result of a change in the components of current assets and current liabilities. The acquisition of Artisan had an effect on the components of the Company's working capital. The following amounts were associated with Artisan at December 31, 2012: cash of \$275,305; accounts receivable of \$427,801; inventory of \$527,366; other current assets of \$8,333; accounts payable and accrued liabilities of \$383,618; and current portion of lease payable of \$11,543.

The Company had cash used by investing activities of \$1,217,353 in 2012, which consisted of a cash payment to acquire Artisan Specialty Foods in the amount of \$1,176,605, and cash paid for the acquisition of property and equipment of \$40,748.

The Company had cash provided by financing activities of \$895,044 in 2012, which consisted of net proceeds from the issuance of notes payable in the amount of \$1,080,000, offset by principal payments on notes payable of \$164,956 and principal payments on notes payable to a related party of \$20,000.

The Company's had net working capital of \$908,587 as of December 31, 2012. We have generated positive cash flow from operations during the years ended December 31, 2012 and 2011. In addition, the Company's auditors removed the going concern qualification to the audit opinion on the Company's financial statements for the year ended December 31, 2012. The Company intends to continue to focus on increasing market share and cash flow from operations by focusing its sales activities on specific market segments and new product lines. Currently, we do not have any material long-term obligations other than those described in Note 9 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 and food service 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.

Table of Contents

The independent auditors' reports on our December 31, 2011 financial statements included in this Annual Report states that our working capital deficiency raises substantial doubts about our ability to continue as a going concern.

2013 Plans

During 2013, in addition to our efforts to increase sales in our existing foodservice operations we plan to attempt to expand our business by expanding our focus to additional foodservice markets, exploring potential acquisition opportunities and continuing to extend our focus from a mainly wholesale foodservice business directed towards chefs to commencing retail sales by making sales direct to consumers through a variety of direct to consumer sales channel relationships which are currently being explored. In addition we are currently exploring the introduction of a variety of new product categories and new product lines, to leverage our existing foodservice customer base.

No assurances can be given that any of these plans will come to fruition or that if implemented that they will necessarily yield positive results.

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.

Transactions With Major Customers

The Company's largest customer, USF and its affiliates, accounted for approximately 76.0% and 93% of total sales in the years ended December 31, 2012 and 2011, respectively. A contract with USF was set to expire December 31, 2012 but was automatically extended for an additional 12 months.. No other customer accounted for more than 1% of our net revenue.

We continue to conduct business with USF.

Stock-based Compensation

Effective January 1, 2006, the Company adopted FASB ASC 718-40. This statement requires the Company to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost is recognized over the period in which the employee is required to provide service in exchange for the award, which is usually the vesting period.

In August 2005, the Company's commitments to issue shares of common stock first exceeded its common stock authorized. At this time, the Company began to value its stock options via the liability method of accounting. Pursuant to guidance in ASC 718-40 the cost of these options are valued via the Black-Scholes valuation method when issued, and re-valued at each reporting period. The gain or loss from this revaluation is charged to compensation expense during the period.

Table of Contents

ITEM 8. Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Innovative Food Holdings, Inc.
Naples, Florida

We have audited the accompanying consolidated balance sheet of Innovative Food Holdings, Inc., and subsidiaries (“the Company”) as of December 31, 2012 and the related consolidated statements of operations, stockholders' equity (deficiency), and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have nor were we engaged to perform, an audit of its Internal Control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2012 and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ LIGGETT, VOGT & WEBB, P.A.

New York, NY
March 28, 2013

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Innovative Food Holdings, Inc.
Naples, Florida

We have audited the accompanying consolidated balance sheet of Innovative Food Holdings, Inc., and subsidiaries (“the Company”) as of December 31, 2011 and the related consolidated statements of operations, stockholders' deficiency, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have nor were we engaged to perform, an audit of its Internal Control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2011 and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ RBSM LLP

New York, NY
March 26, 2012

Table of Contents

Innovative Food Holdings, Inc. and Subsidiaries
Consolidated Balance Sheets

| | December 31, 2012 | December 31, 2011 |
|---|----------------------|----------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 1,347,029 | \$ 862,464 |
| Accounts receivable net | 959,805 | 493,700 |
| Inventory | 517,631 | 42,312 |
| Other current assets | 13,753 | 5,420 |
| Total current assets | 2,838,218 | 1,403,896 |
| Property and equipment, net | 145,632 | 18,222 |
| Trade name | 217,000 | - |
| Non-compete | 213,500 | - |
| Customer relationships | 489,822 | - |
| Implied goodwill | 151,000 | - |
| Total assets | \$ 4,055,172 | \$ 1,422,118 |
| LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY) | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | \$ 1,376,772 | \$ 925,790 |
| Accrued liabilities - related parties | 342,880 | 157,080 |
| Accrued interest, net | - | 663,691 |
| Accrued interest - related parties, net | 39,866 | 29,396 |
| Notes payable, current portion, net of discount of \$1,393,411 and \$0 as of December 31, 2012 and 2011, respectively | 11,543 | 978,982 |
| Notes payable - related parties, current portion | 110,500 | 130,500 |
| Warrant liability | - | 500,825 |
| Options liability | - | 161,884 |
| Conversion option liability | - | 1,245,761 |
| Contingent purchase price liability | 48,070 | - |
| Total current liabilities | 1,929,631 | 4,793,909 |
| Accrued interest, long-term portion | 719,187 | - |
| Note payable - long term portion, net of discount of \$475,071 and \$0 as of December 31, 2012 and 2011, respectively | 185,068 | - |
| Total liabilities | 2,833,886 | 4,793,909 |
| Stockholders' equity (deficiency) | | |
| Common stock, \$0.0001 par value; 500,000,000 shares authorized; 6,023,801 and 5,873,843 shares issued (post reverse-split) and 5,809,088 and 5,659,130 shares outstanding (post reverse-split) at December 31, 2012 and 2011, respectively | 602 | 587 |
| Additional paid-in capital | 6,329,553 | 3,774,287 |
| Common stock subscribed | 68,336 | 61,034 |
| Treasury stock, 304 and 304 shares outstanding (post reverse-split) | (99) | (99) |
| Accumulated deficit | (5,177,106) | (7,207,600) |

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

| | | |
|---|--------------|--------------|
| Total stockholders' equity (deficiency) | 1,221,286 | (3,371,791) |
| Total liabilities and stockholders' equity (deficiency) | \$ 4,055,172 | \$ 1,422,118 |

See notes to consolidated financial statements.

Table of Contents

Innovative Food Holdings, Inc. and Subsidiaries
Consolidated Statements of Operations

| | For the Year Ended December 31, 2012 | For the Year Ended December 31, 2011 |
|--|---|---|
| Revenue | \$ 18,610,487 | \$ 11,552,813 |
| Cost of goods sold | 13,793,550 | 8,874,000 |
| | 4,816,937 | 2,678,813 |
| Selling, general and administrative expenses | 4,230,227 | 2,007,367 |
| Total operating expenses | 4,230,227 | 2,007,367 |
| Operating income | 586,710 | 671,446 |
| Other (income) expense: | | |
| Interest expense | 1,057,308 | 561,972 |
| (Gain) from the extinguishment of debt | (3,797,001) | (165,326) |
| Loss on settlement of debt | - | 63,000 |
| Cost of warrant extension | 842,100 | - |
| Loss (gain) from change in fair value of warrant liability | 172,785 | (682,350) |
| Loss (gain) from change in fair value of conversion option liability | 281,024 | (595,967) |
| Total other (income) expense | (1,443,784) | (818,671) |
| Income before income taxes | 2,030,494 | 1,490,117 |
| Income tax expense | - | - |
| Net income | \$ 2,030,494 | \$ 1,490,117 |
| Net income per share - basic (post reverse-split) | \$ 0.36 | \$ 0.34 |
| Net income per share - diluted (post reverse-split) | \$ 0.25 | \$ 0.03 |
| Weighted average shares outstanding - basic (post reverse-split) | 5,698,434 | 4,382,459 |
| Weighted average shares outstanding - diluted (post reverse-split) | 12,530,222 | 13,110,770 |

See notes to consolidated financial statements.

Table of Contents

Innovative Food Holdings, Inc. and Subsidiaries
Consolidated Statements of Cash Flows

| | For the Year Ended December 31, 2012 | For the Year Ended December 31, 2011 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | \$ 2,030,494 | \$ 1,490,117 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 126,855 | 14,034 |
| Amortization of discount on notes payable | 838,339 | 292,545 |
| Amortization of discount on accrued interest | 87,520 | 148,399 |
| Interest capitalized to note payable | 13,551 | - |
| Loss on settlement | - | 63,000 |
| Value of shares issued in settlement of claim | 7,302 | - |
| Value of options issued to officer and directors | 348,120 | - |
| Value of extension of term of warrants | 842,100 | - |
| Gain on the extinguishment of debt and accrued interest | (3,797,001) | (165,326) |
| Allowance for bad debt | - | 147,594 |
| Change in fair value of warrant liability | 172,785 | (682,350) |
| Change in fair value of option liability | 63,609 | (174,835) |
| Change in fair value of conversion option liability | 281,024 | (595,967) |
| Changes in assets and liabilities: | | |
| Accounts receivable, net | (3,864) | (77,185) |
| Inventory and other current assets, net | (188,967) | 10,345 |
| Accounts payable and accrued expenses - related party | 134,670 | (6,769) |
| Accounts payable and accrued expenses | (149,663) | 130,962 |
| Net cash provided by operating activities | 806,874 | 594,564 |
| Cash flows from investing activities: | | |
| Payment to acquire Artisan Specialty Foods, net | (1,176,605) | - |
| Proceeds received on loan | - | 1,500 |
| Purchase of treasury stock | - | (99) |
| Acquisition of property and equipment | (40,748) | (8,468) |
| Net cash used in investing activities | (1,217,353) | (7,067) |
| Cash flows from financing activities: | | |
| Proceeds from issuance of notes payable | 1,080,000 | - |
| Principal payments on debt | (164,956) | (243,115) |
| Principal payments on notes payable - related parties | (20,000) | - |
| Net cash (used in) provided by financing activities | 895,044 | (243,115) |
| Increase in cash and cash equivalents | 484,565 | 344,382 |
| Cash and cash equivalents at beginning of period | 862,464 | 518,082 |
| Cash and cash equivalents at end of period | \$ 1,347,029 | \$ 862,464 |

Supplemental disclosure of cash flow information:

Cash paid during the period for:

| | | | | |
|--|----|--------|----|---------|
| Interest | \$ | 35,327 | \$ | 31,304 |
| Taxes | \$ | - | \$ | - |
| Conversion of notes payable and accrued interest to common stock | \$ | - | \$ | 318,634 |
| Commitment to issue shares charged to common stock subscribed | \$ | 7,302 | \$ | - |
| Common stock and options issued in connection with the Haley acquisition | \$ | 62,145 | \$ | - |

See notes to consolidated financial statements.

Table of Contents

Innovative Food Holdings, Inc. and Subsidiaries
Consolidated Statements of Changes in Stockholders' Equity (Deficiency)
For the two years ended December 31, 2012

| | Common Stock Amount | Common Stock Value | APIC | Common stock Subscribed | Treasury stock Amount | Treasury stock Value | Accumulated Deficit | Total |
|---|------------------------|-----------------------|-----------|-------------------------------|--------------------------|-------------------------|------------------------|-------------|
| Balance as of December 31, 2010 | 4,327,702 | 433 | 2,605,352 | - | - | - | (8,697,717) | (6,091,932) |
| Shares repurchased and held in treasury | - | - | - | - | 304 | (99) | - | (99) |
| Shares issued to directors for services | 72,182 | 7 | 21,993 | - | - | - | - | 22,000 |
| Shares issued for settlement of convertible note payable | 180,000 | 18 | 62,982 | - | - | - | - | 63,000 |
| Common stock issued for conversion of notes payable and accrued interest | 1,359,551 | 136 | 349,794 | 61,034 | - | - | - | 410,964 |
| Common stock issued in error | 14,409 | 1 | (1) | - | - | - | - | - |
| Cancellation of shares of common stock issued in error | (80,000) | (8) | 8 | - | - | - | - | - |
| Discount to notes payable due to beneficial conversion feature of accrued interest | - | - | 110,322 | - | - | - | - | 110,322 |
| Reclassification of notes payable conversion option liability to equity | - | - | 623,837 | - | - | - | - | 623,837 |

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

| | | | | | | | | |
|--|-----------|-----|-----------|--------|-----|------|-------------|-------------|
| Income for the year ended December 31, 2011 | - | - | - | - | - | - | 1,490,117 | 1,490,117 |
| Balance as of December 31, 2011 | 5,873,844 | 587 | 3,774,287 | 61,034 | 304 | (99) | (7,207,600) | (3,371,791) |
| Shares issued for settlement of claim | - | - | - | 7,302 | - | - | - | 7,302 |
| Shares related to Haley acquisition | 150,000 | 15 | 37,485 | - | - | - | - | 37,500 |
| Stock options related to Haley acquisition | - | - | 24,645 | - | - | - | - | 24,645 |
| Stock options issued to directors for services | - | - | 161,821 | - | - | - | - | 161,821 |
| Discount on notes payable | - | - | 1,750,226 | - | - | - | - | 1,750,226 |
| Rounding due to reverse stock split | (42) | - | - | - | - | - | - | - |
| Discount to notes payable due to beneficial conversion feature of accrued interest | - | - | 87,376 | - | - | - | - | 87,376 |
| Reclassification of notes payable conversion option liability to equity | - | - | 81,921 | - | - | - | - | 81,921 |
| Reclassification of value of stock options from liability to equity | - | - | 411,792 | - | - | - | - | 411,792 |
| Income for the year ended December 31, 2012 | - | - | - | - | - | - | 2,030,494 | 2,030,494 |
| Balance as of December 31, 2012 | 6,023,802 | 602 | 6,329,553 | 68,336 | 304 | (99) | (5,177,106) | 1,221,286 |

See notes to consolidated financial statements.

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business Activity

FII is in the business of providing premium foodservice establishments, including 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 is a supplier of over 1,500 niche gourmet products to over 500 customers in the Greater 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, we 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, from August 25, 2005 through December 27, 2012, we accounted 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 were valued at issuance utilizing the Black-Scholes valuation method, and were re-valued at each period ending date, also using the Black-Scholes valuation method. Any gain or loss from revaluation was charged to operations during the period. On December 27, 2012, we entered into agreements (the "2012 Notes Payable Extension Agreement") with certain holders of its convertible notes which, among other things, created a minimum conversion price for the principal amount of the notes of \$0.05. Under accounting guidance provided by FASB ASC 815-40-05, this resulted in a change in accounting method for our derivative financial instruments to the equity method of accounting.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Innovative Food Holdings, Inc., and its wholly owned operating 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”). All material intercompany transactions have been eliminated upon consolidation of these entities.

Revenue Recognition

The Company recognizes revenue upon product delivery. We ship all our products either overnight shipping terms or three day shipping terms to the customer and the customer takes title to product and assumes risk and ownership of the product when it is delivered. Shipping charges to customers and sales taxes collectible from customers, if any, are included in revenues.

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

For revenue from product sales, the Company recognizes revenue in accordance with Financial Accounting Standards Board "FASB" Accounting Standards Codification "ASC" 605-15-05. ASC 605-15-05 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred; (3) the selling price is fixed and determinable; and (4) collectability is reasonably assured. Determination of criteria (3) and (4) are based on management's judgments regarding the fixed nature of the selling prices of the products delivered and the collectability of those amounts. Provisions for discounts and rebates to customers, estimated returns and allowances, and other adjustments are provided for in the same period the related sales are recorded. The Company defers any revenue for which the product has not been delivered or is subject to refund until such time that the Company and the customer jointly determine that the product has been delivered or no refund will be required. ASC 605-15-05 incorporates ASC 605-25-05 "Multiple-Deliverable Revenue Arrangements". ASC 605-25-05 addresses accounting for arrangements that may involve the delivery or performance of multiple products, services and/or rights to use assets. The effect of implementing ASC 605-25-05 on the Company's consolidated financial position and results of operations was not significant.

This issue addresses determination of whether an arrangement involving more than one deliverable contains more than one unit of accounting and how the arrangement consideration should be measured and allocated to the separate units of accounting. ASC 605-25-05 became effective for revenue arrangements entered into in periods beginning after June 15, 2003. For revenue arrangements occurring on or after August 1, 2003, the Company revised its revenue recognition policy to comply with the provisions of ASC 605-25-05.

Cost of goods sold

We have included in cost of goods sold all costs which are directly related to the generation of revenue. These costs include primarily the cost of the product plus the shipping costs.

Selling, general, and administrative expenses

We have included in selling, general, and administrative expenses all other costs which support the Company's operations but which are not includable as a cost of sales. These include primarily payroll, facility costs such as rent and utilities, selling expenses such as commissions and advertising, and other administrative costs including professional fees and costs associated with non-cash stock compensation. Advertising costs are expensed as incurred.

Cash and Cash Equivalents

Cash equivalents include all highly liquid debt instruments with original maturities of three months or less which are not securing any corporate obligations.

Accounts Receivable

The Company provides an allowance for doubtful accounts equal to the estimated uncollectible amounts. The Company's estimate is based on historical collection experience and a review of the current status of trade accounts receivable. It is reasonably possible that the Company's estimate of the allowance for doubtful accounts will change. Accounts receivable are presented net of an allowance for doubtful accounts of \$5,547 and \$11,044 at December 31, 2012, and 2011, respectively.

Property and Equipment

Property and equipment are valued at cost. Depreciation is provided over the estimated useful lives up to five years using the straight-line method. Leasehold improvements are depreciated on a straight-line basis over the term of the lease.

The estimated service lives of property and equipment are as follows:

| | |
|-------------------------------|---------|
| Computer Equipment | 3 years |
| Warehouse Equipment | 5 years |
| Office Furniture and Fixtures | 5 years |
| Vehicles | 5 years |

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

Inventories

Inventory is valued at the lower of cost or market and is determined by the first-in, first-out method.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets, including tax loss and credit carryforwards, and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Fair Value of Financial Instruments

The carrying amount of the Company's cash and cash equivalents, accounts receivable, notes payable, line of credit, accounts payable and accrued expenses, none of which is held for trading, approximates their estimated fair values due to the short-term maturities of those financial instruments.

The Company adopted ASC 820-10, "Fair Value Measurements" (SFAS 157), which provides a framework for measuring fair value under GAAP. ASC 820-10 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820-10 requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs.

Long-Lived Assets

The Company reviews its property and equipment and any identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The test for impairment is required to be performed by management at least annually. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted operating cash flow expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell.

As of December 31, 2012, the Company's management believes there is no impairment of its long-lived assets. There can be no assurance, however, that market conditions will not change which could result in impairment of long-lived assets in the future.

Comprehensive Income

ASC 220-10-15 "Reporting Comprehensive Income," establishes standards for reporting and displaying of comprehensive income, its components and accumulated balances. Comprehensive income is defined to include all changes in equity except those resulting from investments by owners and distributions to owners. Among other disclosures, ASC 220-10-15 requires that all items that are required to be recognized under current accounting

standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. The Company does not have any items of comprehensive income in any of the periods presented.

Basic and Diluted Loss Per Share

Basic net earnings per share is based on the weighted average number of shares outstanding during the period, while fully-diluted net earnings per share is based on the weighted average number of shares of common stock and potentially dilutive securities assumed to be outstanding during the period using the treasury stock method. Potentially dilutive securities consist of options to purchase common stock. Basic and diluted net loss per share is computed based on the weighted average number of shares of common stock outstanding during the period.

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

The Company uses the treasury stock method to calculate the impact of outstanding stock options and warrants. Stock options and warrants for which the exercise price exceeds the average market price over the period have an anti-dilutive effect on earnings per common share and, accordingly, are excluded from the calculation.

Diluted earnings per share was computed as follows for the year ended December 31, 2012:

| | Income (Numerator) | Shares (Denominator)(post reverse-split) | Per-Share Amount (post reverse-split) |
|---|-----------------------|--|--|
| Basic earnings per share (post reverse-split) | \$ 2,030,494 | 5,698,434 | \$ 0.36 |
| Effect of Dilutive Securities | | | |
| Conversion of notes and interest into common stock: | | | |
| Additional shares | | 4,293,924 | |
| Decrease in interest expense due to conversion | 130,007 | | |
| Remove loss on revaluation of conversion option liability | 281,026 | | |
| Exercise of in-the-money warrants: | | | |
| Additional shares (post reverse-split) | | 2,194,000 | |
| Remove loss on revaluation of warrant liability | 663,238 | | |
| Shares accrued, not yet issued (post reverse-split) | | 343,864 | |
| Diluted earnings per share (post reverse-split) | \$ 3,104,765 | 12,530,222 | \$ 0.25 |

Anti-dilutive shares at December 31, 2012:

For the year ended December 31, 2012, the Company excluded certain dilutive securities from the calculation of dilutive earnings per share because the effect would be anti-dilutive, including warrants to purchase 1,870,000 shares (post reverse-split) at exercise prices of \$0.55 to \$0.60 per share (post reverse-split); 2,070,000 shares (post reverse-split) issuable upon the exercise of options at \$0.35 to \$0.40 (post reverse-split), and 1,531,256 shares (post reverse-split) issuable upon the conversion of notes and accrued interest at \$1.00 per share (post reverse-split).

Diluted earnings per share was computed as follows for the year ended December 31, 2011:

| | Income (Numerator) | Shares (Denominator) | Per-Share Amount |
|---|-----------------------|-------------------------|---------------------|
| Basic earnings per share (post reverse-split) | \$ 1,490,117 | 4,382,459 | \$ 0.34 |
| Effect of Dilutive Securities | | | |
| Conversion of notes and interest into common stock: | | | |
| Additional shares (post reverse-split) | | 8,384,447 | |
| Decrease in interest expense due to conversion | 693,087 | | |
| Remove gain on revaluation of conversion option liability | (1,768,724) | | |
| Shares accrued, not yet issued (post reverse-split) | | 343,864 | |
| Diluted earnings per share (post reverse-split) | \$ 414,480 | 13,110,770 | \$ 0.03 |

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

Anti-dilutive shares at December 31, 2011:

For the year ended December 31, 2011, the Company excluded warrants to purchase 1,870,000 (post reverse-split) shares because the warrant exercise prices were greater than the average market price of the common shares. In addition, the Company has excluded in the calculation of dilutive loss per share 970,000 shares (post reverse-split) issuable upon the exercise of options at \$0.38-\$0.48 per share (post reverse-split).

Concentrations of Credit Risk

Financial instruments and related items, which potentially subject the Company to concentrations of credit risk, consist primarily of cash, cash equivalents and trade receivables. The Company places its cash and temporary cash in investments with credit quality institutions. At times, such investments may be in excess of applicable government mandated insurance limit. At December 31, 2012 and 2011, trade receivables from the Company's largest customer amount to 60% and 93%, respectively, of total trade receivables.

Reclassification

Certain reclassifications have been made in prior year's financial statements to conform to classifications used in the current year.

Stock-based Compensation

Effective January 1, 2006, the Company adopted FASB ASC 718-40. This statement requires the Company to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost is recognized over the period in which the employee is required to provide service in exchange for the award, which is usually the vesting period.

In August 2005, the Company's commitments to issue shares of common stock first exceeded its common stock authorized. At this time, the Company began to value its stock options via the liability method of accounting. Pursuant to guidance in ASC 718-40 the cost of these options were valued via the Black-Scholes valuation method when issued, and re-valued at each reporting period. The gain or loss from this revaluation was charged to compensation expense during the period. On December 27, 2012, the Company entered into the 2012 Notes Payable Extension Agreement with certain holders of its convertible notes which, among other things, created a minimum conversion price for the principal amount of the notes. Under accounting guidance provided by FASB ASC 815-40-05, this resulted in a change in accounting method for our derivative financial instruments to the equity method of accounting. We revalued our derivative liabilities at December 27, 2012, and charged the gain or loss from this revaluation to compensation expense during the period.

Options expense and gain or loss on revaluation during the twelve months ended December 31, 2012 and 2011 are summarized in the table below:

| | December 31, | |
|----------------|--------------|------|
| | 2012 | 2011 |
| Option expense | \$ 348,120 | \$ - |

| | | | | |
|---------------------------------------|----|--------|----|-----------|
| (Gain) loss on revaluation of options | \$ | 63,311 | \$ | (174,834) |
|---------------------------------------|----|--------|----|-----------|

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 consolidated financial statements.

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

2. ACQUISITIONS

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 supplier 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 |
| 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

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.

| | For the Year Ended December 31, | |
|---|---------------------------------|---------------|
| | 2012 | 2011 |
| Total revenues | \$ 20,284,899 | \$ 15,189,207 |
| Net income | 2,219,314 | 1,788,593 |
| Basic net income (loss) per common share (post reverse-split) | \$ 0.389 | \$ 0.410 |
| Diluted net income (loss) per common share (post reverse-split) | \$ 0.208 | \$ 0.120 |
| Weighted average shares – basic (post reverse-split) | 5,698,434 | 4,382,459 |
| | 10,650,222 | 15,050,011 |

Weighted average shares – diluted (post
reverse-split)

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

The Haley Group

The Haley Group, LLC is a food manufacture representative that manages the vendor relationships at a food distributor's corporate level. The Haley Group also provides their suppliers with guidance and assistance as needed at the distributor's regional and divisional level. The Haley Group provides these services in exchange for a combination of monthly retainers and percentages of future sales of client products. On November 2, 2012, the Company entered into an asset purchase agreement (the "Haley Acquisition Agreement") with Haley Group, LLC whereby the Company acquired all existing contracts between Haley Group and its customers for the following consideration: 300,000 shares (post reverse-split) of the Company's common stock; 150,000 shares (post reverse-split) of which vest immediately and 150,000 shares (post reverse-split) of which vest in one year under certain conditions; options to purchase 100,000 shares (post reverse-split) of the Company's common stock at a price of \$0.44 per share (post reverse-split); and \$20,000 cash contingent upon the attainment of future revenue milestones. The Haley Acquisition was valued at a total cost of \$119,645. This intangible fair value of the purchase amount was allocated to Haley Group's customer relationships and capitalized accordingly on the Company's balance sheet at December 31, 2012 and is being amortized over 3 years.

3. ACCOUNTS RECEIVABLE

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

| | 2012 | 2011 |
|------------------------------------|------------|------------|
| Accounts receivable from customers | \$ 965,352 | \$ 504,744 |
| Allowance for doubtful accounts | (5,547) | (11,044) |
| Accounts receivable, net | \$ 959,805 | \$ 493,700 |

4. INVENTORY

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

| | 2012 | 2011 |
|--------------------------|------------|-----------|
| Finished goods inventory | \$ 517,631 | \$ 42,312 |

5. PROPERTY AND EQUIPMENT

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

| | 2012 | 2011 |
|--|------------|------------|
| Computer Equipment | \$ 382,300 | \$ 321,716 |
| Warehouse Equipment | 7,733 | - |
| Furniture and Fixtures | 152,236 | 74,850 |
| Vehicles | 33,239 | - |
| | 575,508 | 396,566 |
| Less accumulated depreciation and amortization | (429,876) | (378,344) |

| | | | | |
|-------|----|---------|----|--------|
| Total | \$ | 145,632 | \$ | 18,222 |
|-------|----|---------|----|--------|

Depreciation and amortization expense for property and equipment amounted to \$51,532 and \$14,034 for the year ended December 31, 2012 and 2011, respectively.

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

6. INTANGIBLE ASSETS

The Company acquired certain intangible assets pursuant to the acquisition of Artisan Specialty Foods and the acquisition of certain assets of The Haley Group (see note 2). The following is the net book value of these assets:

| | Gross | December 31, 2012 Accumulated Amortization | Net |
|------------------------|--------------|--|--------------|
| Trade Name | \$ 217,000 | \$ - | \$ 217,000 |
| Non-Compete Agreement | 244,000 | (30,500) | 213,500 |
| Customer Relationships | 534,645 | (44,823) | 489,822 |
| Goodwill | 151,000 | - | 151,000 |
| | \$ 1,146,645 | \$ (75,323) | \$ 1,071,322 |

Total amortization expense charged to operations for the year ended December 31, 2012 and 2011 was \$73,323 and \$0, respectively.

Amortization of finite life intangible assets as of December 31, 2012 is as follows:

| | |
|------------------------|------------|
| 2013 | \$ 183,882 |
| 2014 | 183,882 |
| 2015 | 180,558 |
| 2016 | 113,500 |
| 2017 and thereafter | 41,500 |
| Total | \$ 703,322 |

The trade name is not considered a finite-lived asset, and is not being amortized. The non-competes are being amortized over a period of 48 months. The customer relationships acquired in the Artisan and Haley transactions are being amortized over a period of 60 and 36 months.

As detailed in ASC 350, the Company tests for goodwill impairment in the fourth quarter of each year and whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its fair value and may not be recoverable. As detailed in ASC 350-20-35-3A, in performing its testing for goodwill impairment, management has completed a qualitative analysis to determine whether it was more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. To complete this review, management followed the steps in ASC 350-20-35-3C to evaluate the fair values of goodwill and considered all known events and circumstances that might trigger an impairment of goodwill. The analysis completed in both 2012 and 2011, determined that there was no impairment to goodwill assets.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

| | 2012 | 2011 |
|---------------------------------|--------------|------------|
| Trade payables | \$ 1,325,490 | \$ 891,785 |
| Accrued payroll and commissions | 51,282 | 34,005 |
| Total | \$ 1,376,772 | \$ 925,790 |

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

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

8. 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 prices of \$0.25 to \$1.00 per share (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. Through December 27, 2012, the Company had immediately charged the value of this beneficial conversion feature of convertible accrued interest to operations. At December 27, 2012, the Company entered into the 2012 Note Extension Agreements, the terms of which brought about a change in the Company's accounting for its convertible equity instruments from the liability method to the equity method.

During the twelve months ended December 31, 2012 and 2011, the amounts of \$87,376 and \$110,322, respectively, were credited to additional paid-in capital as a discount on convertible interest. The aggregate amount of discounts on convertible interest charged to operations during the twelve months ended December 31, 2012 and 2011 was \$87,520 and \$148,399, respectively.

At December 31, 2012, convertible accrued interest was \$759,053 (including \$39,866 to a related party), which is convertible into 2,916,614 shares (post reverse-split) of common stock; at December 31, 2011, convertible accrued interest was \$693,085 (including \$29,396 to a related party) which was convertible into 2,793,947 shares (post reverse-split) of common stock.

9. NOTES PAYABLE AND NOTES PAYABLE TO RELATED PARTIES

| | December 31, 2012 | December 31, 2011 |
|---|----------------------|----------------------|
| Secured Convertible note payable to Alpha Capital Anstalt (f/k/a/ Alpha Capital Aktiengesellschaft) ("Alpha Capital"), originally dated February 25, 2005 and due February 1, 2014. The note contains a cross default provision. This note bears interest at the rate of 8% per annum. The note and accrued interest are convertible into common stock of the Company at a conversion price of \$0.25 (post reverse-split) per share. This note was included in the 2012 Notes Payable Extension Agreement. | \$263,500 | \$263,500 |
| Convertible note payable to Alpha Capital due February 1, 2014. This note bears interest at the rate of 8% per annum. The note and accrued interest are convertible into common stock of the Company at a conversion price of \$0.25 (post reverse-split) per share. This note was included in the 2012 Notes Payable Extension Agreement. | 21,478 | 21,478 |
| Convertible note payable to Osher Capital Partners LLC due February 1, 2014. This note bears interest at the rate of 8% per annum. The note and accrued interest are convertible into common stock of the Company at a conversion price of \$0.25 (post reverse-split) per share. This note was included in the 2012 Notes Payable Extension Agreement. | 9,638 | 9,638 |
| | 6,884 | 6,884 |

Convertible note payable to Assameka Capital Inc. due February 1, 2014. This note bears interest at the rate of 8% per annum. The note and accrued interest are convertible into common stock of the Company at a conversion price of \$0.25 (post reverse-split) per share. This note was included in the 2012 Notes Payable Extension Agreement.

Convertible note payable to Alpha Capital due February 1, 2014. This note bears interest at the rate of 8% per annum. The note and accrued interest are convertible into common stock of the Company at a conversion price of \$0.25 (post reverse-split) per share. This note was included in the 2012 Notes Payable Extension Agreement.

22,609 22,609

Convertible note payable to Osher Capital Partners LLC due February 1, 2014. This note bears interest at the rate of 8% per annum. The note and accrued interest are convertible into common stock of the Company at a conversion price of \$0.25 (post reverse-split) per share. This note was included in the 2012 Notes Payable Extension Agreement.

10,145 10,145

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

| | December 31, 2012 | December 31, 2011 |
|---|----------------------|----------------------|
| Convertible note payable to Assameka Capital Inc. due February 1, 2014. This note bears interest at the rate of 8% per annum. The note and accrued interest are convertible into common stock of the Company at a conversion price of \$0.25 (post reverse-split) per share. This note was included in the 2012 Notes Payable Extension Agreement. | 7,246 | 7,246 |
| Convertible note payable to Huo Hua due February 1, 2014. This note bears interest at the rate of 8% per annum. The note and accrued interest are convertible into common stock of the Company at a conversion price of \$0.25 (post reverse-split) per share. | 20,000 | 20,000 |
| Convertible secured note payable to Alpha Capital due February 1, 2014. This note bears interest at the rate of 8% per annum. The note and accrued interest are convertible into common stock of the Company at a conversion price of \$0.25 (post reverse-split) per share. This note was included in the 2012 Notes Payable Extension Agreement. | 100,000 | 100,000 |
| Convertible secured note payable to Alpha Capital due February 1, 2014. This note bears interest at the rate of 8% per annum. The note and accrued interest are convertible into common stock of the Company at a conversion price of \$0.25 (post reverse-split) per share. This note was included in the 2012 Notes Payable Extension Agreement. | 15,287 | 15,287 |
| Convertible secured note payable to Osher Capital Partners LLC due February 1, 2014. This note bears interest at the rate of 8% per annum. The note and accrued interest are convertible into common stock of the Company at a conversion price of \$0.25 (post reverse-split) per share. This note was included in the 2012 Notes Payable Extension Agreement. | 6,860 | 6,860 |
| Convertible secured note payable to Assameka Capital, Inc. due February 1, 2014. This note bears interest at the rate of 8% per annum. The note and accrued interest are convertible into common stock of the Company at a conversion price of \$0.25 (post reverse-split) per share. This note was included in the 2012 Notes Payable Extension Agreement. | 4,900 | 4,900 |
| Convertible secured note payable to Asher Brand due February 1, 2014. This note bears interest at the rate of 8% per annum. The note and accrued interest are convertible into common stock of the Company at a conversion price of \$0.25 (post reverse-split) per share. This note was included in the 2012 Notes Payable Extension Agreement. | 5,000 | 5,000 |
| Convertible secured note payable to Lane Ventures due February 1, 2014. This note bears interest at the rate of 8% per annum. The note and accrued interest are | 6,000 | 6,000 |

convertible into common stock of the Company at a conversion price of \$0.25 (post reverse-split) per share. This note was included in the 2012 Notes Payable Extension Agreement.

Convertible secured note payable Alpha Capital due February 1, 2014. This note bears interest at the rate of 8% per annum. The note and accrued interest are convertible into common stock of the Company at a conversion price of \$0.25 (post reverse-split) per share. This note was included in the 2012 Notes Payable Extension Agreement.

120,000 120,000

Convertible secured note payable Alpha Capital due February 1, 2014. This note bears interest at the rate of 8% per annum. The note and accrued interest are convertible into common stock of the Company at a conversion price of \$0.25 (post reverse-split) per share. This note was included in the 2012 Notes Payable Extension Agreement.

16,957 16,957

Convertible secured note payable to Osher Capital Partners LLC due February 1, 2014. This note bears interest at the rate of 8% per annum. The note and accrued interest are convertible into common stock of the Company at a conversion price of \$0.25 (post reverse-split) per share. This note was included in the 2012 Notes Payable Extension Agreement.

7,609 7,609

Convertible secured note payable to Assameka Capital, Inc. due February 1, 2014. This note bears interest at the rate of 8% per annum. The note and accrued interest are convertible into common stock of the Company at a conversion price of \$0.25 (post reverse-split) per share. This note was included in the 2012 Notes Payable Extension Agreement.

5,435 5,435

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

| | December 31, 2012 | December 31, 2011 |
|--|----------------------|----------------------|
| 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 per share (post reverse-split). | 110,500 | 130,500 |
| Convertible secured note payable to Alpha Capital due February 1, 2014. This note bears interest at the rate of 8% per annum. The note and accrued interest are convertible into common stock of the Company at a conversion price of \$0.25 (post reverse-split) per share. This note was included in the 2012 Notes Payable Extension Agreement. | 10,000 | 10,000 |
| Convertible secured note payable to Alpha Capital due February 1, 2014. This note contains a cross default provision. This note bears interest at the rate of 8% per annum. The note and accrued interest are convertible into common stock of the Company at a conversion price of \$0.25 (post reverse-split) per share. This note was included in the 2012 Notes Payable Extension Agreement. | - | 16,000 |
| Convertible secured note payable to Alpha Capital due February 1, 2014. This note bears interest at the rate of 8% per annum. The note and accrued interest are convertible into common stock of the Company at a conversion price of \$0.25 (post reverse-split) per share. This note was included in the 2012 Notes Payable Extension Agreement. | 230,000 | 230,000 |
| Convertible secured note payable to Whalehaven Capital Fund Limited, due February 1, 2014. This note bears interest at the rate of 8% per annum. The note and accrued interest are convertible into common stock of the Company at a conversion price of \$0.25 (post reverse-split) per share. This note was included in the 2012 Notes Payable Extension Agreement. | 21,478 | 21,478 |
| Convertible secured note payable to Osher Capital Partners LLC due February 1, 2014. This note bears interest at the rate of 8% per annum. The note and accrued interest are convertible into common stock of the Company at a conversion price of \$0.25 (post reverse-split) per share. This note was included in the 2012 Notes Payable Extension Agreement. | 9,638 | 9,638 |
| Convertible secured note payable to Assameka Capital, Inc. due February 1, 2014. This note bears interest at the rate of 8% per annum. The note and accrued interest are convertible into common stock of the Company at a conversion price of \$0.25 (post reverse-split) per share. This note was included in the 2012 Notes Payable Extension Agreement. | 6,884 | 6,884 |

| | | |
|---|--------------|-------------|
| Convertible secured note payable to Momona Capital due February 1, 2014. This note contains a cross default provision. This note bears interest at the rate of 8% per annum. The note and accrued interest are convertible into common stock of the Company at a conversion price of \$0.25 (post reverse-split) per share. This note was included in the 2012 Notes Payable Extension Agreement. | 25,310 | 25,310 |
| Convertible secured note payable to Lane Ventures due February 1, 2014. This note bears interest at the rate of 8% per annum. The note and accrued interest are convertible into common stock of the Company at a conversion price of \$0.25 (post reverse-split) per share. This note was included in the 2012 Notes Payable Extension Agreement. | 10,124 | 10,124 |
| 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 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. Interest expense in the amount of \$30,921 and was accrued on this note during the years ended December 31, 2012 and 2011, respectively. | 1,074,267 | - |
| Secured vehicle lease payable at an effective interest rate of 9.96% for purchase of truck, payable in monthly installments (including principal and interest) of \$614 through January 2015. | 13,811 | - |
| Secured vehicle lease payable at an effective interest rate of 8.26% for purchase of truck, payable in monthly installments (including principal and interest) of \$519 through June 2015. | 14,033 | - |
| Total | \$2,175,593 | \$1,109,482 |
| Less: Discount | (1,868,482) | - |
| Net | \$307,111 | \$1,109,482 |

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

Aggregate maturities of long-term notes payable as of December 31, 2012 are as follows:

For the twelve months ended December 31,

| | | |
|-------|----|-----------|
| 2013 | \$ | 552,472 |
| 2014 | | 1,426,274 |
| 2015 | | 196,847 |
| Total | \$ | 2,175,593 |

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 were considered discounts to the notes, to the extent the aggregate value of the warrants and conversion features did not exceed the face value of the notes. These discounts were amortized to interest expense via the effective interest method over the term of the notes. The fair value of these instruments was expensed to interest expense to the extent that the value of these instruments exceeds the face value of the notes.

At December 31, 2011, the Company had outstanding \$1,109,482 in principal 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 \$1,245,761 at December 31, 2011. 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; and volatility 114.30%. The expected term of 10 years was used for all notes in both periods because several of the notes are currently 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 revalued the conversion options at each reporting period, and charged any change in value to operations. During the years ended December 31, 2012 and 2011, the Company recorded a loss of \$281,024 and a gain of \$595,967 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 years ended December 31, 2012 and 2011, conversion option liabilities in the amounts of \$81,921 and \$623,837 were transferred from liability to equity due to the conversion or payment of the related convertible notes payable.

From September 2005 through December 26, 2012, the Company accounted 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.

Effective December 27, 2012, the Company entered into agreements (the "2012 Notes Payable Extension Agreement") with certain convertible note holders regarding twenty-five convertible notes in the aggregate amount of \$2,037,249 in principal and \$719,187 in accrued interest. Pursuant to the 2012 Notes Payable Extension Agreement,

the maturity date of each note and accrued interest was extended to February 1, 2014 (unless the original maturity date is beyond the extended date, in which case the original maturity date will not change); the expiration date of each warrant associated with each of the notes was extended to August 1, 2015 (unless the original expiration date of each warrant was beyond August 1, 2015, in which case the original expiration date will not change); the minimum conversion price of the note and accrued interest, in the case of any adjustment to such price, was set to be \$0.05 per share (post reverse-split). The Company also agreed that for long as the convertible notes are held by the existing note holders, it will not issue any common stock or other securities convertible into or exercisable for shares of common stock at a price of less than \$0.05 per share (post reverse-split). Accordingly, the conversion option and warrants were reclassified from liability to equity since the conversion and exercise prices were fixed and all other conditions were met to classify the conversion feature and warrants as equity.

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

The Company revalued its derivative equity instruments at December 27, 2012 using the Black-Scholes valuation method, and recorded losses on revaluation in the amount of \$478,822 for the conversion options, \$566,063 for the warrants, and \$103,248 for stock options. This resulted in liabilities in the amount of \$2,088,475 for the value of the warrants, \$1,708,528 for the value of the conversion options, and \$411,792 for the stock options. The value of the warrants and conversion options (a total of \$3,797,001) was eliminated, and recorded as a gain on extinguishment of debt. The value of the stock options of \$411,792 was eliminated, and recorded as a charge to additional paid-in capital.

Pursuant to debt extinguishment accounting, the Company charged to interest expense the unamortized amount of the discount on the related convertible notes at December 27, 2012 in the amount of \$824,286. Prior to December 27, 2012, the Company had amortized \$13,899 of the discount. At December 27, 2012, the Company recorded a new discount on the convertible notes in the aggregate amount of \$1,918,993, which was charged to additional paid-in capital.

At December 27, 2012, the aggregate value of the unamortized discount on the notes payable affected by the 2012 Notes payable Extension Agreement was \$830,837 which amount was charged to operations. The Company recorded new discounts on notes payable in the aggregate amount of \$1,918,993, which was recorded as an increase in additional paid-in capital.

During the year ended December 31, 2011, the Company entered into agreements (the “Notes Settlement Agreements”) with convertible note holders regarding thirteen convertible notes in the aggregate amount of \$333,000 in principal and \$236,924 in accrued interest. Pursuant to the Note Settlement Agreements, the Company made cash payments in the aggregate amount of \$181,604 and agreed to pay an additional \$12,500 by February 15, 2012. The Company also committed to issue a total of 679,740 shares of its common stock to the note holders. The Notes Settlement Agreements resulted in an aggregate gain on the extinguishment of debt in the amount of \$165,326. As of December 31, 2011, 558,999 shares of common stock have been issued pursuant to the terms of the Notes Settlement Agreements.

During the year ended December 31, 2012, the Company calculated an original issue discount (“OID”) related to the acquisition of Artisan Specialty Foods, Inc. in the amount of \$120,000 on a note payable in the total principal amount of \$1,200,000. During the year ended December 31, 2012, this discount was amortized to interest expense in the amount of \$1,744.

At December 31, 2012 and 2011, the Company had unamortized discounts to notes payable in the aggregate amount of \$1,868,482 and \$0, respectively.

Loss on Settlement of Debt

During the year ended December 31, 2011, the Company entered into an agreement (the “Morren Settlement Agreement”) with an investor. Pursuant to the settlement terms of Morren Settlement Agreement, the Company issued 9,000,000 shares of common stock. The fair value of these shares in the amount of \$63,000 was recorded as a loss on the settlement of debt.

The following table illustrates certain key information regarding our conversion option valuation assumptions at December 31, 2012 and 2011:

| | December 31, | |
|--|---------------------|------------------|
| | 2012 | 2011 |
| Number of conversion options outstanding (post-reverse split) | 5,368,195 | 4,437,928 |
| Value at December 31 | \$ N/A | \$ 1,245,761 |
| Number of conversion options issued during the period (post-reverse split) | 1,200,000 | - |
| Value of conversion options issued during the period (post-reverse split) | \$ 263,664 | \$ - |
| Number of conversion options exercised or underlying notes paid during the period (post reverse-split) | 3,419,284 | 2,053,240 |
| Value of conversion options exercised or underlying notes paid during the period | \$ 81,921 | \$ 623,837 |
| Revaluation loss (gain) during the period | \$ 281,024 | \$ (595,967) |
| Black-Scholes model variables: | | |
| Volatility | 112.43% to 214.36 % | 92.52% to 114.3% |
| Dividends | - | - |
| Risk-free interest rates | 0.11% to 1.18 % | 0.06% to 0.17 % |
| Term (years) | 1.1 to 10 | 10 |

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

10. RELATED PARTY TRANSACTIONS

For the year ended December 31, 2012:

Pursuant to the terms of an employment agreement, the Company has accrued a bonus payable to the Company's Chief Executive Officer in the amount of \$90,500. This bonus is recorded on the Company's balance sheet as a liability to related parties as of December 31, 2012. The Company also made cash payments to the Company's chief Executive Officer in the amount of \$45,250 for previously-accrued bonuses.

Pursuant to the terms of an employment agreement, the Company has accrued a bonus payable to the Company's President in the amount of \$90,500. This bonus is recorded on the Company's balance sheet as a liability to related parties as of December 31, 2012. The Company also made cash payments to the Company's chief Executive Officer in the amount of \$45,250 for previously-accrued bonuses.

The Company accrued a bonus payable to the Company's Chief Information and Principal Accounting Officer in the amount of \$25,000. This bonus is recorded on the Company's balance sheet as a liability to related parties as of December 31, 2012.

The Company made a cash payment of \$20,000 to its Chief Executive Officer on the principal amount of convertible note. The Company also accrued interest in the amount of \$10,356 on this note. This accrued interest is convertible at a rate of \$0.25 per share (post reverse-split) into a total of 41,424 shares (post reverse-split) of the Company's stock.

In May 2012, the Company issued options to purchase 100,000 shares (post reverse-split) of common stock to each of its five directors (options to purchase an aggregate of 500,000 shares, post reverse-split) and additional options to purchase 100,000 shares of common stock to its President. The aggregate fair value of these options in the amount of \$186,299 was charged to operations during the period. On December 31, 2012, the Company issued options to purchase an additional 100,000 shares (post reverse-split) of its common stock to each of its five directors for services rendered during the twelve months ended December 31, 2012 (options to purchase an aggregate of 500,000 shares, post reverse-split). The fair value of these options in the amount of \$161,821 was charged to operations during the period.

On May 7, 2012, we entered into a three-year lease with David and Sherri Vohaska for approximately 18,700 feet of office and warehouse space located at 8121 Ogden Avenue, Lyons, Illinois. The annual rent under the lease is approximately \$8,333 per month for the first year, \$8,417 per month for the second year, and \$8,500 for the third year. David Vohaska is currently an employee of the Company, and prior to the Artisan acquisition was the owner of Artisan.

For the year ended December 31, 2011:

Pursuant to the terms of an employment agreement, the Company has accrued a bonus payable to the Company's Chief Executive Officer in the amount of \$34,650. This bonus is recorded on the Company's balance sheet as a liability to related parties as of December 31, 2011. In September 2011, our board of directors modified the compensation arrangements for Mr. Klepfish such that his bonuses due and payable then may, at the option of Mr. Klepfish, be paid in any combination of cash or stock Mr. Klepfish desires with such decision to be made within five business days of being advised of the size of the bonus, if any, he is entitled to receive, it being agreed that a determination for one year

shall not be binding upon any future year. During the first quarter of 2012, the Company, at the election of Mr. Klepfish, made a cash payment of \$34,650.

Pursuant to the terms of an employment agreement, the Company has accrued a bonus payable to the Company's President in the amount of \$34,650. This bonus is recorded on the Company's balance sheet as a liability to related parties as of December 31, 2011. In September 2011, our board of directors modified the compensation arrangements for Mr. Wiernasz such that his bonuses due and payable then may, at the option of Mr. Wiernasz, be paid in any combination of cash or stock Mr. Wiernasz desires with such decision to be made within five business days of being advised of the size of the bonus, if any, he is entitled to receive, it being agreed that a determination for one year shall not be binding upon any future year. During the first quarter of 2012, the Company, at the election of Mr. Wiernasz, made a cash payment of \$34,650.

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

The Company issued 48,000 shares (post-reverse split) of common stock to the Company's Chief Executive Officer for the conversion of accrued interest in the amount of \$12,000 on a note payable.

The Company committed to issue 262,404 shares (post-reverse split) of common stock to a director and the Director's relatives for the settlement of notes payable and accrued interest in the amount of \$40,000 in principal and \$56,119 in accrued interest. As of December 31, 2011, 140,331 of the shares (post-reverse split) of common stock were issued, which were issued represented the settlement of \$35,083 of accrued interest. The remaining shares to be issued in the amount of 122,073 (post-reverse split), which represent the settlement of \$40,000 of principal and \$21,036 of interest is recorded on the Company's balance sheet as common stock subscribed as of December 31, 2011.

The Company issued 418,663 shares (post-reverse split) of common stock to a director of the Company for the settlement of notes payable and accrued interest in the amount of \$50,000 in principal and \$64,616 in accrued interest.

The Company issued 33,591 shares (post-reverse split) of common stock to each of its two non-employee directors, for a total issuance of 67,182 shares (post-reverse split) of common stock, which were accrued in previous years.

The Company issued 5,000 shares (post-reverse split) of common stock to a director for services. These shares were accrued during the year ended December 31, 2010.

11. CONTINGENT LIABILITY

Pursuant to the Artisan acquisition, the Company may be obligated to pay up to another \$300,000 in the event certain financial milestones are met over the next one or two years (see note 2). This obligation had a fair value of \$131,000 at the time of the Artisan acquisition. During the year ended December 31, 2012, the Company made payments in the aggregate amount of \$82,930 against this liability, and at the amount of \$48,070 remains on the Company's balance sheet at December 31, 2012.

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 \$3.2 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 historical ownership, the Company's future use of its existing net operating losses may be limited.

The provision (benefit) for income taxes for the years ended December 31, 2012 and 2011 consist of the following:

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

| | 2012 | 2011 |
|----------|------|------|
| Current | \$ - | \$ - |
| Deferred | - | - |
| Total | \$ - | \$ - |

40

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

The provision (benefit) for income taxes differs from the amount of income tax determined by applying the applicable statutory income tax rate of 39.6% for the December 31, 2012 and 2011 to the loss before taxes as a result of the following differences:

| | 2012 | 2011 |
|--|--------------|--------------|
| Income (loss) before income taxes | \$ 2,030,494 | \$ 1,490,117 |
| Statutory tax rate | 39.6% | 39.6% |
| Total tax at statutory rate | 804,075 | 590,086 |
| Temporary differences | (16,214) | - |
| Permanent difference – meals and entertainment | 4,000 | 12,000 |
| Permanent differences- derivatives and discount amortization | (568,414) | (404,133) |
| Total | 223,447 | 197,953 |
| Changes in valuation allowance | (223,447) | (197,953) |
| Income tax expense | \$ - | \$ - |

Deferred income taxes reflect the tax impact of temporary differences between the amounts of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws and regulations.

Deferred tax assets and (liabilities) at December 31, 2012 and 2011 are comprised of the following (in thousands):

Deferred income taxes include the net tax effects of net operating loss (NOL) carryforwards and the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. As of December 31, 2012 and 2011 significant components of the Company's deferred tax assets are as follows:

| | 2012 | 2011 |
|------------------------------------|--------------|--------------|
| Deferred Tax Assets (Liabilities): | | |
| Net operating loss carryforwards | \$ 1,267,200 | \$ 1,471,824 |
| Allowance for doubtful accounts | 1,734 | 4,373 |
| Accumulated depreciation | (12,000) | 4,214 |
| Net deferred tax assets | 1,256,934 | 1,480,411 |
| Valuation allowance | (1,256,934) | (1,480,411) |
| Net deferred tax assets | \$ - | \$ - |

13. EQUITY

Reverse Stock Split

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 was 293,692,189 and 282,956,546, respectively; the number of shares issued and outstanding immediately after the Reverse Split was 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. All share and per share data have been retroactively restated to reflect the reverse split.

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

Common Stock

During the year ended December 31, 2012, the Company had the following transaction:

The Company issued 150,000 shares (post reverse-split) of common stock with a value of \$37,500 pursuant to the Haley Acquisition Agreement.

The Company committed to issue 26,078 shares (post reverse-split) of common stock for settlement of a note. The fair value of \$7,302 is included in Common Stock Subscribed on the Company's balance sheet at December 31, 2012.

During the year ended December 31, 2011, the Company had the following transactions:

The Company issued 800,551 shares (post-reverse split) of common stock for the conversion of notes payable and accrued interest in the aggregate amount of \$200,138.

The Company issued 180,000 shares (post-reverse split) of common stock for the settlement of debt in the amount of \$63,000. The Company recorded a loss on the settlement of debt in the amount of \$63,000 to operations during the year ended December 31, 2011.

The Company issued 72,182 shares (post-reverse split) of common stock to directors for services. The value of these shares in the amount of \$22,000 was previously accrued.

The Company issued 558,999 shares (post-reverse split) of common stock in satisfaction of notes payable and accrued interest in the aggregate amount of \$210,826. A gain in the amount of \$165,326 was recorded on this transactions during the twelve months ended December 31, 2011. An additional 122,073 shares (post-reverse split) of common stock with a value of \$61,036 are due to be issued under these transactions as of December 31, 2011. This amount is shown as Common Stock Subscribed on the Company's balance sheet at December 31, 2011.

The Company issued 14,408 shares (post-reverse split) of common stock in error. The Company will return these shares for cancellation.

The Company cancelled 80,000 shares (post-reverse split) of common stock, which were issued in error by the transfer agent.

Treasury Stock

During the twelve months ended December 31, 2012, the Company did not purchase any outstanding shares of the Company's common stock.

During the year ended December 31, 2011, the Company purchased 304 shares (post reverse-split) of the Company's outstanding common stock. The purchase price was \$99 and the Company recorded the transaction at cost to Treasury Stock.

Warrants

During the year ended December 31, 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.

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

The following table summarizes the significant terms of warrants outstanding at December 31, 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 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) |
|---|---|---|--|---|--|
| \$ 0.010 | 1,500,000 | 7.38 | \$ 0.010 | 1,500,000 | \$ 0.010 |
| \$ 0.250 | 3,594,000 | 2.25 | \$ 0.250 | 3,594,000 | \$ 0.250 |
| \$ 0.550 | 370,000 | 2.25 | \$ 0.550 | 370,000 | \$ 0.550 |
| \$ 0.575 | 1,480,000 | 2.25 | \$ 0.575 | 1,480,000 | \$ 0.575 |
| \$ 0.600 | 20,000 | 0.70 | \$ 0.600 | 20,000 | \$ 0.600 |
| | 6,964,000 | 3.35 | \$ 0.284 | 6,964,000 | \$ 0.284 |

Transactions involving warrants are summarized as follows:

| | Number of Shares (post reverse-split) | Weighted Average Exercise Price (post reverse-split) |
|---|---------------------------------------|--|
| Warrants outstanding at January 1, 2010 | 5,464,000 | \$ 0.360 |
| Granted | - | - |
| Exercised | - | - |
| Cancelled / Expired | - | - |
| Warrants outstanding at December 31, 2011 | 5,464,000 | \$ 0.360 |
| Granted | 1,500,000 | \$ 0.100 |
| Exercised | - | - |
| Cancelled / Expired | - | - |
| Warrants outstanding at December 31, 2012 | 6,964,000 | \$ 0.284 |

Options

During the year ended December 31, 2011, options to purchase 300,000 shares (post reverse-split) at a price of \$0.25 per share (post reverse-split) expired. During the year ended December 31, 2012, the Company issued options to purchase 100,000 shares (post reverse-split) of common stock at a price of \$0.35 per share (post reverse-split) to each of its five directors (options to purchase an aggregate of 500,000 shares, post reverse-split) and additional options to purchase 100,000 shares (post reverse-split) of common stock at a price of \$0.35 (post reverse-split) to its President. On December 31, 2012, the Company issued options to purchase an additional 100,000 shares (post reverse-split) of common stock at a price of \$0.35 per share (post reverse-split) each of its five directors (options to purchase an aggregate of 500,000 shares, post reverse-split).

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

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 | 1,540,000 | 1.81 | \$ 0.350 | 1,540,000 | \$ 0.350 |
| \$ 0.380 | 132,500 | 2.25 | \$ 0.380 | 132,500 | \$ 0.380 |
| \$ 0.450 | 132,500 | 2.75 | \$ 0.450 | 132,500 | \$ 0.450 |
| \$ 0.474 | 132,500 | 2.50 | \$ 0.474 | 132,500 | \$ 0.474 |
| \$ 0.480 | 132,500 | 3.00 | \$ 0.480 | 132,500 | \$ 0.480 |
| | 2,070,000 | 2.05 | \$ 0.375 | 2,070,000 | \$ 0.375 |

Transactions involving stock options issued to employees are summarized as follows:

| | Options (post reverse-split) | Weighted Average Exercise Price (post reverse-split) |
|----------------------------------|------------------------------|--|
| Outstanding at December 31, 2010 | 1,270,000 | \$ 0.366 |
| Issued | - | - |
| Exercised | - | - |
| Forfeited or expired | (300,000) | (0.250) |
| Outstanding as December 31, 2011 | 970,000 | \$ 0.402 |
| Issued | 1,100,000 | 0.350 |
| Exercised | - | - |
| Forfeited or expired | | |
| Outstanding at December 31, 2012 | 2,070,000 | \$ 0.375 |

Aggregate intrinsic value of options outstanding and exercisable at December 31, 2012 and 2011 was \$0. Aggregate intrinsic value represents the difference between the Company's closing stock price on the last trading day of the fiscal period, which was \$0.33 and \$0.30 as of December 31, 2012 and 2011, respectively, and the exercise price multiplied

by the number of options outstanding.

During the year ended December 31, 2012 and 2011, the Company charged \$348,120 and \$0, respectively, to operations related to recognized stock-based compensation expense for employee stock options.

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

Accounting for warrants and stock options

In August 2005, the Company's commitments to issue shares of common stock first exceeded its common stock authorized. At this time, the Company began to value its warrants and stock options via the liability method of accounting. Pursuant to guidance in ASC 718-40 the cost of these options were valued via the Black-Scholes valuation method when issued, and re-valued at each reporting period. The gain or loss from this revaluation was charged to compensation expense during the period. On December 27, 2012, the Company entered into the 2012 Notes Payable Extension Agreement with certain holders of its convertible notes which, among other things, created a minimum conversion price for the principal amount of the notes. Under accounting guidance provided by FASB ASC 815-40-05, this resulted in a change in accounting method for our derivative financial instruments to the equity method of accounting. We revalued our derivative liabilities at December 27, 2012, and charged the gain or loss from this revaluation to compensation expense during the period.

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

| | December 31, 2012 | | December 31, 2011 | |
|--------------------------|----------------------|---|----------------------|------|
| Volatility | 112.43 | % | 214.36 | % |
| Dividends | \$ 0 | | \$ 0 | |
| Risk-free interest rates | 0.11 | % | 1.18 | % |
| Term (years) | 0.26 | | 5.00 | 0.1 |
| | | | | 5.00 |

Insufficient Authorized but Unissued Shares of Common Stock

At December 31, 2012, the Company had sufficient shares authorized to meet its potential obligations to issue additional shares. At December 31, 2011, the Company's potential obligation to issue shares had exceeded its shares authorized by 9,668,870 (post reverse-split).

14. EMPLOYMENT AGREEMENTS

SAM KLEPFISH

On January 6, 2010 (with an effective date of January 1, 2010), we entered into a three year employment agreement with Sam Klepfish. The agreement provides for, among other things, (i) average annual salary of \$151,000 from January 1, 2010 through December 31, 2010, of which \$6,500 shall be accrued until June 30, 2010, and then payable in equal weekly installments until said \$6,500 is paid in full by December 31, 2010; (ii) \$165,000 per annum from January 1, 2011 through December 31, 2011, provided, however that the increase of \$14,000 shall only take effect if the Company's gross annual sales for 2010 are at least \$7.5 million; and (iii) the lesser of a 10% increase in salary above the salary in 2011 or \$181,000 per annum from January 1, 2012 through December 31, 2012, provided, however, the increase in 2012 shall only take effect if the Company's gross annual sales for 2011 are at least \$7.5 million.

Mr. Klepfish is also entitled to receive an annual bonus based upon the consolidated aggregate incremental revenues of the Company (payable one-half in cash and one-half in stock) in the range of 7%-50% of salary based upon the

registrant meeting certain revenue and gross margin milestones. In September 2011, our board of directors modified the compensation arrangements for Mr. Klepfish such that his bonuses due and payable then may, at the option of Mr. Klepfish, be paid in any combination of cash or stock Mr. Klepfish desires with such decision to be made within five business days of being advised of the size of the bonus, if any, he is entitled to receive, it being agreed that a determination for one year shall not be binding upon any future year. The board also provided that in the event the Corporation sells a subsidiary, or substantially all of the assets of a subsidiary, Mr. Klepfish shall be entitled to a cash bonus equal to 2%, of the purchase price, provided he is then an employee of the Company or one of its subsidiaries.

Subsequent to December 31, 2012, the company entered into an additional employment agreement with Mr. Klepfish (note 18).

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

JUSTIN WIERNASZ

On January 6, 2010 (with an effective date of January 1, 2010) we entered into a three year employment agreement with Mr. Wiernasz. The agreement provides for, among other things, (i) average annual salary of \$151,000 from January 1, 2010 through December 31, 2010, of which \$6,500 shall be accrued until June 20, 2010, and then payable in equal weekly installments until the \$6,500 is paid in full by December 31, 2010; (ii) \$165,000 per annum from January 1, 2011 through December 31, 2011, provided, however that the increase of \$14,000 shall only take affect if the Company's gross annual sales for 2010 are at least \$7.5 million; and (iii) the lesser of a 10% increase in salary above the salary in 2011 or \$181,000 per annum from January 1, 2012 through December 31, 2012, provided, however, the increase in 2012 shall only take effect if the Company's gross annual sales for 2011 are at least \$7.5 million.

Mr. Wiernasz is also entitled to receive an annual bonus based upon the consolidated aggregate incremental revenues of the Company (payable one-half in cash and one-half in stock) in the range of 7%-50% of salary based upon the registrant meeting certain revenue and gross margin milestones. In September 2011, our board of directors modified the compensation arrangements for Mr. Wiernasz such that his bonuses due and payable then may, at the option of Mr. Wiernasz, be paid in any combination of cash or stock Mr. Wiernasz desires with such decision to be made within five business days of being advised of the size of the bonus, if any, he is entitled to receive, it being agreed that a determination for one year shall not be binding upon any future year. The board also provided that in the event the Corporation sells a subsidiary, or substantially all of the assets of a subsidiary, Mr. Wiernasz shall be entitled to a cash bonus equal to 3%, of the purchase price, provided he is then an employee of the Company or one of its subsidiaries.

Subsequent to December 31, 2012, the company entered into an additional employment agreement with Mr. Wiernasz (note 18).

DAVE VOHASKA

On May 18, 2012, concurrent with the Artisan Acquisition Agreement, the Company entered into a two-year employment with Dave Vohaska (the "Vohaska Employment Agreement"). Pursuant to the terms of the Vohaska Employment Agreement, Mr. Vohaska will receive a base salary of \$120,000 during the first year, and \$140,000 during the second year. Mr. Vohaska may also receive discretionary bonus payments as determined by the Company's Board of Directors.

LOU HALEY

On November 2, 2012, concurrent with the Haley Acquisition Agreement, the Company entered into a two-year employment agreement with Lou Haley (the "Haley Employment Agreement"). Pursuant to the terms of the Haley Employment Agreement, Mr. Haley will receive a base salary of \$185,000 per year for the first year, and \$195,000 per year for the second year, with Mr. Haley's compensation subject to automatic downwards adjustments if specified revenue targets of The Haley Group are not met. The agreement also provides for bonus payments to Mr. Haley upon the achievement of certain revenue milestones.

15. COMMITMENTS AND CONTINGENCIES

On October 17, 2008, we entered into a three-year lease with Grand Cypress Communities, Inc. for new premises consisting of 4,000 square feet at 3845 Beck Blvd., Naples, Florida. The commencement date of the lease is January 1, 2009. On November 11, 2011, the Company extended the lease with Grand Cypress Communities, Inc. for 3 years, commencing on January 1, 2012. The annual rent and fees under the lease is approximately \$54,000. The lease provides for a buyout option at the end of the lease with credit towards the purchase price received for the rental payments made during the term of the lease. In February 2013, the Company entered into a modification of the lease agreement whereby the lease term was reduced from 3 years to 2 years.

We lease approximately 18,800 square feet of combined office and warehouse space located at 8121 Ogden Avenue, Lyons, Illinois. The commencement date of the lease is May 17, 2012 and the end date is April 30, 2015. Base rent under the lease is \$8,333 per month for year one, \$8,417 for year two, and \$8,500 for year three. The property is owned by David Vohaska, an employee of the Company.

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

At December 31, 2012, commitments for minimum rental payments were as follows:

| | | |
|---------------------------------|----|---------|
| For the twelve months ended: | | |
| December 31, 2013 | \$ | 154,667 |
| December 31, 2014 | | 87,667 |
| Thereafter | | - |
| Total | \$ | 242,334 |

16. MAJOR CUSTOMER

The Company's largest customer, US Foods, Inc. and its affiliates, accounted for approximately 76% and 93% of total sales in the years ended December 31, 2012 and 2011, respectively. A contract between our subsidiary, Food Innovations, and USF entered an optional renewal period in December 2012 but was automatically extended for an additional 12 months. We believe that although a significant portion of our sales occur through USF and its affiliates, the success of the program is less contingent on a contract than on our actual performance and the quality of our products.

17. 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 December 31, 2009 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.

INNOVATIVE FOOD HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

The following table summarizes the financial liabilities measured at fair value on a recurring basis as of December 31, 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 | \$ - | \$ - | \$ - | \$ - |
| Option liability | - | - | - | - |
| Conversion option liability | - | - | - | - |
| Total | \$ - | \$ - | \$ - | \$ - |

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 to equity | (493,713) |
| Fair value of common stock equivalents issued | 1,022,726 |
| Fair value of extension of warrant term | 842,100 |
| Gain on restructure of notes payable | (3,797,001) |
| Change in fair value | 517,418 |
| Ending balance as of December 31, 2012 | \$ - |

18. SUBSEQUENT EVENTS

Issuance of Common Stock

In January 2013, the Company issued 253,232 shares of common stock to a board member in satisfaction of a note. The value of these shares of \$61,035 is carried as Common Stock Subscribed in the Company's financial statements as of December 31, 2012.

Employment Agreement – CEO:

On January 1, 2013, the Company entered into an employment agreement with its Chief Executive Officer (the "2013 CEO Employment Agreement"). The 2013 CEO Employment Agreement is for a term of three years, and provides a base compensation in the amount of \$198,312 in cash plus an additional \$27,937 in restricted stock units for year one, \$223,987 in cash plus an additional \$24,875 in restricted stock units for year two, and \$260,075 in cash plus an additional \$13,688 in restricted stock units for year three. The 2013 CEO Employment Agreement also provides the CEO with a four year option to purchase 100,000 shares (post reverse-split) of the Company's common stock at a price of \$0.40 per share (post reverse-split); a five year option to purchase 100,000 shares (post reverse-split) of the Company's common stock at a price of \$0.57 per share (post reverse-split); and a six year option to purchase 125,000 shares (post reverse-split) of the Company's common stock at a price of \$1.60 per share (post reverse-split); various performance-based bonus provisions; and a stock grant of 200,000 shares of the Company's common stock.

INNOVATIVE FOOD HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

Employment Agreement – President:

On January 1, 2013, the Company entered into an employment agreement with its President (the “2013 President Employment Agreement”). The 2013 President Employment Agreement is for a term of three years, and provides a base compensation in the amount of \$226,250 per annum for year one, \$248,875 per annum for year two, and \$273,763 per annum for year three. The 2013 President Employment Agreement also provides the President with a four year option to purchase 100,000 shares (post reverse-split) of the Company’s common stock at a price of \$0.40 per share (post reverse-split); a five year option to purchase 100,000 shares (post reverse-split) of the Company’s common stock at a price of \$0.57 per share (post reverse-split); and a six year option to purchase 125,000 shares (post reverse-split) of the Company’s common stock at a price of \$1.60 per share (post reverse-split); various performance-based bonus provisions; and a stock grant of 75,000 shares of the Company’s common stock.

Employment Agreement – Principal Accounting Officer and Chief Information Officer:

On January 1, 2013, the Company entered into an employment agreement with its Principal Accounting Officer and Chief Information officer (the “2013 CAO – CIO Employment Agreement”). The 2013 CAO – CIO Employment Agreement is for a term of two years, and provides a base compensation in the amount of \$135,000 per annum for year one and \$151,200 per annum for year two. The 2013 CAO – CIO Employment Agreement also provides a four year option to purchase 75,000 shares (post reverse-split) of the Company’s common stock at a price of \$0.40 per share (post reverse-split); a five year option to purchase 25,000 shares (post reverse-split) of the Company’s common stock at a price of \$0.57 per share (post reverse-split); and a five year option to purchase 60,000 shares (post reverse-split) of the Company’s common stock at a price of \$1.60 per share (post reverse-split); various performance-based bonus provisions; and a stock grant in the amount of \$15,000 in shares of the Company’s common stock.

Amendment of Lease Term

In February 2013, the Company entered into a modification of the lease agreement with Grand Cypress Communities, Inc. for 4,000 square feet at 3845 Beck Blvd., Naples, Florida, whereby the lease term was reduced from 3 years to 2 years.

Acquisition of Building and Property

On March 8, 2013, the Company closed a transaction for the purpose of financing the purchase of a building and property located at 28411 Race Track Road, Bonita Springs, Florida 34135. The property consists of approximately 1.1 acres of land and close to 10,000 square feet of combined office and warehouse space and was purchased as part of a bank short sale. It is anticipated that the Company will move its operations to these premises in approximately four months. The purchase price of the property was \$770,000 and was financed in part by a five year note in the amount of \$546,000 carrying an annual interest rate of 3% above LIBOR Rate, as such term is defined in the Note.

Resignation of Director

On March 20, 2013, Mr. Michael Ferrone informed the Company’s Board of Directors that he was resigning, effective immediately. Mr. Ferrone informed the Board that he resigned for personal reasons.

Table of Contents

ITEM 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

ITEM 9A. Controls and Procedures

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Under the supervision and with the participation of our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act). Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions as appropriate to allow timely decisions regarding required disclosure. We concluded that our disclosure controls and procedures as defined in Rule 13a-15(e) under the Exchange Act were effective as of December 31, 2012 to ensure that information required to be disclosed in reports we file or submit under the Exchange Act is recorded, processed, and summarized and reported within the time periods specified in SEC rules and forms and our disclosure controls and procedures are also effective to ensure that the information required to be disclosed in reports that we file under the Exchange Act is accumulate and communicated to our principal executive and financial officers to allow timely decisions regarding required disclosures.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) and 15d-(f) under the Exchange Act. Our internal control over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with U.S. generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that:

- (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
- (ii) provide reasonable assurance that transactions are recorded as necessary to permit the preparation of our consolidated financial statements in accordance with U.S. generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the consolidated financial statements.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2012. In making this assessment, management used the criteria set forth in Internal Control Over Financial Reporting — Guidance for Smaller Public Companies issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Subject to the inherent limitations described in the following paragraph, our management has concluded that our internal control over financial reporting was effective at December 31, 2012 at the reasonable assurance level.

Inherent Limitations Over Internal Controls

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations, including the possibility of human error and circumvention by collusion or overriding of controls. Accordingly, even an effective internal control system may not prevent or detect material misstatements on a timely basis. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate. Accordingly, our internal controls and procedures are designed to provide reasonable assurance of achieving their objectives.

Changes in Internal Control over Financial Reporting

We have made no change in our internal control over financial reporting during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

Attestation Report of the Registered Public Accounting Firm

This annual report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our independent registered public accounting firm pursuant to temporary rules of the SEC that permit us to provide only management's report in this annual report on Form 10-K.

ITEM 9B. Other Information

None.

50

Table of Contents

PART III

ITEM 10. Directors, Executive Officers and Corporate Governance

Set forth below are the directors and executive officers of our Company, their respective names and ages, positions with our Company, principal occupations and business experiences during at least the past five years.

| Name | Age | Position |
|--------------|-----|----------------------|
| | | Chief Executive |
| Sam Klepfish | 42 | Officer and Director |
| Justin | | |
| Wiernesz | 47 | President |
| Joel Gold | 72 | Director |
| Solomon | | |
| Mayer | 55 | Director |
| Hank Cohn | 43 | Director |

Directors

Sam Klepfish

From November 2007 to present Mr. Klepfish is the CEO of Innovative Food Holdings and its subsidiaries. From March 2006 to November 2007 Mr. Klepfish was the interim president of the Company and its subsidiary. Since February 2005 Mr. Klepfish was also a Managing Partner at ISG Capital, a merchant bank. From May 2004 through February 2005 Mr. Klepfish served as a Managing Director of Technoprises, Ltd. From January 2001 to May 2004 he was a corporate finance analyst and consultant at Phillips Nizer, a New York law firm. Since January 2001 Mr. Klepfish has been a member of the steering committee of Tri-State Ventures, a New York investment group. From 1998 to December 2000, Mr. Klepfish was an asset manager for several investors in small-cap entities.

Joel Gold, Director

Joel Gold is currently an investment Banker at Buckman, Buckman and Reid located in New Jersey, a position he has held since May 2010. Prior there to, from October 2004, he was head of investment banking of Andrew Garrett, Inc. From January 2000 until September 2004, he served as Executive Vice President of Investment Banking of Berry Shino Securities, Inc., an investment banking firm also located in New York City. From January 1999 until December 1999, he was an Executive Vice President of Solid Capital Markets, an investment-banking firm also located in New York City. From September 1997 to January 1999, he served as a Senior Managing Director of Interbank Capital Group, LLC, an investment banking firm also located in New York City. From April 1996 to September 1997, Mr. Gold was an Executive Vice President of LT Lawrence & Co., and from March 1995 to April 1996, a Managing Director of Fechter Detwiler & Co., Inc., a representative of the underwriters for the Company's initial public offering. Mr. Gold was a Managing Director of Furman Selz Incorporated from January 1992 until March 1995. From April 1990 until January 1992, Mr. Gold was a Managing Director of Bear Stearns and Co., Inc. ("Bear Stearns"). For approximately 20 years before he became affiliated with Bear Stearns, he held various positions with Drexel Burnham Lambert, Inc. He is currently a director, and serves on the Audit and Compensation Committees, of Geneva Financial Corp., a publicly held specialty, consumer finance company.

Table of Contents

Solomon Mayer, Director

Mr. Solomon Mayer has held various executive level positions, and has successfully overseen several businesses from conceptions to profitability. Mr. Mayer is currently on the board of directors of the following private Companies: Mooney Airplane Corporation, Premier Store Fixtures and Supreme Construction and Development, a real estate development and investment firm.

Hank Cohn, Director

Hank Cohn is currently CEO of P1 Billing, LLC, a revenue cycle management services provider to ambulatory medical clinics. P1 Billing is a spinoff of PracticeOne Inc., (formerly PractieXpert, Inc., an OTCBB traded company), an integrated PMS and EMR software and services company for physicians. Mr. Cohn served as President and Chief Executive Officer of PracticeOne from December 2009 until December 2009, at which time he sold the company to Francison Partners, one of the largest, global technology focused, private equity firms in Silicon Valley. Prior to that, Mr. Cohn worked with a number of public companies. A partial list of his past and present board memberships include: Analytical Surveys, Inc., Kaching Kaching, Inc., and International Food and Wine, Inc., currently Evolution Resources Inc. Mr. Cohn also served as the executive vice president of Galaxy Ventures, LLC a closely-held investment fund concentrating in the areas of bond trading and early stage technology investments, where he acted as portfolio manager for investments.

Executive Officer

Justin Wiernasz, President

Effective on July 31, 2008, Mr. Justin Wiernasz was promoted to the position of President of Innovative Food Holdings, Inc. Prior thereto he was the Executive Vice President of Marketing and Sales and Chief Marketing Officer of our operating subsidiary, Food Innovations, Inc. since May 2007 and the President of Food Innovations and our Chief Marketing Officer since December 2007. Prior thereto, he was at USF, our largest customer, for 13 years. From 2005 to 2007 he was the Vice President of Sales & Marketing, USF, Boston, and prior thereto, from 2003 to 2005 he was a National Sales Trainer at USF, Charleston SC, from 1996 to 2003 he was the District Sales Manager at USF, Western Massachusetts and from 1993 to 1996 he was Territory Manager, USF, Northampton, Easthampton & Amherst, MA. Prior to that from 1989 to 1993 he was the owner and operator J.J.'s food and spirit, a 110 seat restaurant.

Key Employee

John McDonald

Mr. McDonald, age 51, has been the Chief Information Officer of IVFH since November 2007 and our principal accounting officer since November 2007. From 2004 through 2007, Mr. McDonald worked as a consultant with Softrim Corporation of Estero, Florida where he created custom applications for a variety of different industries and assisted in building interfaces to accounting applications. Since 1999 he has also been President of McDonald Consulting Group, Inc. which provide consulting on accounts receivable, systems and accounting services.

Qualification of Directors

We believe that all of our directors are qualified for their positions and each brings a benefit to the board. Mr. Kelpfish, as our CEO, is uniquely qualified to bring management's perspective to the board's deliberations. Mr. Gold, with his lengthy career working for broker/dealers, brings "wall Street's" perspective. Mr. Mayer, with his experience as

an executive in start-up companies, brings that knowledge and insight to the board. Mr. Cohn, with his prior history of being an executive and his experience as a director of other companies, brings a well-rounded background and wealth of experience to our board.

Committees

The Board of Directors does not currently have an Audit Committee, a Compensation Committee, a Nominating Committee or a Governance Committee. The usual functions of such committees are performed by the entire Board of Directors. We are currently having difficulties attracting additional qualified directors, specifically to act as the audit committee financial expert. However, we believe that at least a majority of our directors are familiar with the contents of financial statements.

Table of Contents

Code of Ethics

We have adopted a Code of Ethics that applies to each of our employees, including our principal executive officer and our principal financial officer, as well as members of our Board of Directors. A copy of such Code has been publicly filed with, and is available for free from, the Securities and Exchange Commission.

Section 16(a) Beneficial Ownership Reporting Compliance

During 2012, Mr. Klepfish did not file one Form 4 and each of Messrs. Gold and Mr. Ferrone did not file two Forms 4.

ITEM 11. Executive Compensation

The following table sets forth information concerning the compensation for services in all capacities rendered to us for the year ended December 31, 2012, of our Chief Executive Officer and our other executive officers whose annual compensation exceeded \$100,000 in the fiscal year ended December 31, 2012, if any. We refer to the Chief Executive Officer and these other officers as the named executive officers.

SUMMARY COMPENSATION TABLE

| Name and Principal Position | Year | Salary (\$) | Bonus (\$) | Stock Awards (\$) | Option Awards (\$) | Non-Equity Incentive Plan Compensation | | All Other Compensation (\$) | Total (\$) |
|---|------|----------------|---------------|-------------------------|--------------------------|--|----------------------------------|-----------------------------------|---------------|
| | | | | | | Performance (\$) | Deferred Compensation (\$) | | |
| Sam Klepfish CEO | 2012 | \$ 198,037 | \$ 90,500(a) | \$ - | \$ 63,414(b) | \$ - | \$ - | \$ 1,004(c) | \$ 352,955 |
| | 2011 | \$ 165,000 | \$ 34,650(d) | \$ - | \$ - | \$ - | \$ - | \$ 14,441(c) | \$ 214,091 |
| | 2010 | \$ 151,000 (e) | \$ 42,280(f) | \$ - | \$ - | \$ - | \$ - | \$ 15,713(c) | \$ 208,993 |
| Justin Wiernasz President | 2012 | \$ 188,934 | \$ 90,500(a) | \$ - | \$ 31,050 (g) | \$ - | \$ - | \$ 4,372(c) | \$ 314,856 |
| | 2011 | \$ 165,000 | \$ 34,650(d) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 199,650 |
| | 2010 | \$ 135,038 | \$ 42,280(f) | \$ - | \$ 54,620 (h) | \$ - | \$ - | \$ - | \$ 231,938 |
| John McDonald Chief Information and Principal Accounting Officer | 2012 | \$ 119,942 | \$ 25,000(i) | \$ - | \$ - | \$ - | \$ - | \$ 4,023(c) | \$ 148,965 |
| | 2011 | \$ 116,933 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 116,933 |
| | 2010 | \$ 118,124 | \$ - | \$ - | \$ 17,046(j) | \$ - | \$ - | \$ - | \$ 135,170 |

Table of Contents

- Consists of a bonus of \$45,250, payable in cash, and \$45,250 payable in cash or shares, at the discretion of the officer
- (a) Consists of options to purchase 100,000 shares (post reverse-split) of common stock at \$0.35 per share (post reverse-split)
For services performed in 2011; also includes options to purchase 100,000 shares of common stock
- (b) at \$0.35 per share (post reverse-split) for services performed in 2012.
- (c) Consists of cash payments for health care benefits.
- (d) Consists bonus payment of \$34,650, payable in cash or shares, at the discretion of the officer.
- (e) Consists of \$130,000 cash salary paid and an additional \$13,500 salary accrued, which is convertible into shares of common stock at the election of Mr. Klepfish at a rate of \$0.25 per share. (post reverse-split).
- (f) Consists of a cash portion of \$21,140 and 57,135 shares (post reverse-split) of common stock valued at \$0.37 (post reverse-split) per share..
- (g) Consists of options to purchase 100,000 shares (post reverse-split) of common stock at a price of \$0.38 per share (post reverse-split).
- (h) Consists of options to purchase 40,000 shares (post reverse-split) of common stock at a price of \$0.38, options to purchase 40,000 shares (post reverse-split) of common stock at a price of \$0.45; options to purchase 40,000 shares (post reverse-split) of common stock at a price of \$0.47; and options to purchase 40,000 shares (post reverse-split) of common stock at a price of \$0.48.
- (i) Consists of a cash bonus of \$25,000.
- (j) Consists of options to purchase 12,500 shares (post reverse-split) of common stock at a price of \$0.38 per share (post reverse-split); options to purchase 12,500 shares (post reverse-split) of common stock at a price of \$0.45 per share (post reverse-split); options to purchase 12,500 shares (post reverse-split) of common stock at a price of \$0.47 per share (post reverse-split); and options to purchase 12,500 shares (post reverse-split) of common stock at a price of \$0.48 per share (post reverse-split).

Outstanding Equity Awards at Fiscal Year-End as of December 31, 2012

| Name | Option Awards | | | | Option Expiration Date | Stock Awards | | | |
|------|--|--|--|--|------------------------|--|--|---|---|
| | Number of Securities Underlying Unexercised Options (#) (post reverse-split) | Number of Securities Underlying Unexercised Options (#) (post reverse-split) | Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#) (post reverse-split) | Option Exercise Price (\$ (post reverse-split) | | Number of Shares or Units of Stock That Have Not Vested (post reverse-split) | Market Value of Shares or Units of Stock That Have Not Vested (\$) | Equity Incentive Plan Awards: Number of Unearned Shares, or Other Rights That Vested (post reverse-split) | Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, or Other Rights That Vested (post reverse-split) |
| | | | | | | | | | |

(\$)

| | | | | | | | | | |
|--------------------|-------------|---|---|--------------|----------|---|---|---|---|
| Justin Wiernasz | 160,000 (a) | - | - | \$ 0.446 (b) | - (c) | - | - | - | - |
| Justin Wiernasz | 100,000 | - | - | \$ 0.350 | 03/31/13 | - | - | - | - |
| Justin Wiernasz | 100,000 | - | - | \$ 0.350 | 05/14/17 | - | - | - | - |
| Sam Klepfish | 100,000 | - | - | \$ 0.350 | 03/31/13 | - | - | - | - |
| Sam Klepfish | 100,000 | - | - | \$ 0.350 | 05/04/17 | - | - | - | - |
| Sam Klepfish | 100,000 | - | - | \$ 0.350 | 12/31/17 | - | - | - | - |

(a) Options vest at the rate of 25% each quarter beginning March 31, 2010

(b) Weighted-average exercise price.

(c) Option term is 5 years from the date of vesting.

Table of Contents

Director Compensation

| Name | Fees Earned or Paid in Cash (\$) | Stock Awards (\$ (post reverse-split) | Option Awards (\$ (post reverse-split) | Non-Equity Incentive Plan Compensation (\$) | Nonqualified Deferred Compensation Earnings (\$) | All Other Compensation (\$) | Total (\$) |
|------------------------|---|--|---|---|--|-----------------------------------|---------------|
| Joel Gold | \$ - | \$ - | \$ 63,414 | \$ - | \$ - | \$ - | \$ - |
| Michael Ferrone (1) | \$ - | \$ - | \$ 63,414 | \$ - | \$ - | \$ - | \$ - |
| Sam Klepfish | \$ - | \$ - | \$ 63,414 | \$ - | \$ - | \$ - | \$ - |
| Solomon Mayer | \$ - | \$ - | \$ 63,414 | \$ - | \$ - | \$ - | \$ - |
| Hank Cohn | \$ - | \$ - | \$ 63,414 | \$ - | \$ - | \$ - | \$ - |

During the year ended December 31, 2012, each of the Company's five board members were granted fully vested five-year options to purchase 200,000 shares (post reverse-split) of the Company's stock.

(1) On March 20, 2013, Mr. Michael Ferrone informed the Company's Board of Directors that he was resigning, effective immediately.

Employment Agreements

Our subsidiary, Food Innovations, has employment agreements with certain officers and certain employees. The employment agreements provide for salaries and benefits, including stock grants and extend up to five years. In addition to salary and benefit provisions, the agreements include defined commitments should the employer terminate the employee with or without cause.

SAM KLEPFISH

On January 6, 2010 (with an effective date of January 1, 2010), we entered into a three year employment agreement with our Chief Executive Officer, Sam Klepfish. The agreement provides for, among other things, (i) average annual salary of \$151,000 from January 1, 2010 through December 31, 2010, of which \$6,500 shall be accrued until June 20, 2010, and then payable in equal weekly installments until said \$6,500 is paid in full by December 31, 2010; (ii) \$165,000 per annum from January 1, 2011 through December 31, 2011, provided, however that the increase of \$14,000 shall only take affect if the Company's gross annual sales for 2010 are at least \$7.5 million; and (iii) the lesser of a 10% increase in salary above the salary in 2011 or \$181,000 per annum from January 1, 2012 through December 31, 2012, provided, however, the increase in 2012 shall only take effect if the Company's gross annual sales for 2011 are at least \$7.5 million.

Mr. Klepfish is also entitled to receive an annual bonus based upon the consolidated aggregate incremental revenues of the Company (payable one-half in cash and one-half in stock) in the range of 7%-50% of salary based upon the registrant meeting certain revenue and gross margin milestones. In September 2011, our board of directors modified the compensation arrangements for Mr. Klepfish such that his bonuses due and payable then may, at the option of Mr. Klepfish, be paid in any combination of cash or stock Mr. Klepfish desires with such decision to be made within five business days of being advised of the size of the bonus, if any, he is entitled to receive, it being agreed that a determination for one year shall not be binding upon any future year. The board also provided that in the event the Corporation sells a subsidiary, or substantially all of the assets of a subsidiary, Mr. Klepfish shall be entitled to a cash

bonus equal to 2%, of the purchase price, provided that he is then an employee of the Company or one of its subsidiaries.

On November 20, 2012 we entered into an employment agreement with Mr. Klepfish having an effective date of January 1, 2013 and terminating on December 31, 2015. The agreement provides for annual compensation ranging from \$226,250 to \$273,763 during the term with a portion of the compensation paid in stock. The agreement also provides for annual bonuses including bonuses based on increases in EBITDA (as defined in the agreement) of our 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 agreement also provides for stock options with exercise prices ranging from \$0.40 - \$1.60 and an award of restricted stock, which only vests if certain volume and pricing milestones with respect to our common stock are met. Mr. Klepfish also has the option of receiving any portion of his salary or bonus in the form of equity. The agreement also contains non-compete and non-solicitation provisions.

Table of Contents

JUSTIN WIERNASZ

On January 6, 2010 (with an effective date of January 1, 2010), we entered into a three year employment agreement with our President, Justin Wiernasz. The agreement provides for, among other things, (i) average annual salary of \$151,000 from January 1, 2010 through December 31, 2010, of which \$6,500 shall be accrued until June 20, 2010, and then payable in equal weekly installments until the \$6,500 is paid in full by December 31, 2010; (ii) \$165,000 per annum from January 1, 2011 through December 31, 2011, provided, however that the increase of \$14,000 shall only take affect if the Company's gross annual sales for 2010 are at least \$7.5 million; and (iii) the lesser of a 10% increase in salary above the salary in 2011 or \$181,000 per annum from January 1, 2012 through December 31, 2012, provided, however, the increase in 2012 shall only take effect if the Company's gross annual sales for 2011 are at least \$7.5 million.

Mr. Wiernasz is also entitled to receive an annual bonus based upon the consolidated aggregate incremental revenues of the Company (payable one-half in cash and one-half in stock) in the range of 7%-50% of salary based upon the registrant meeting certain revenue and gross margin milestones. In September 2011, our board of directors modified the compensation arrangements for Mr. Wiernasz such that his bonuses due and payable then may, at the option of Mr. Wiernasz, be paid in any combination of cash or stock Mr. Wiernasz desires with such decision to be made within five business days of being advised of the size of the bonus, if any, he is entitled to receive, it being agreed that a determination for one year shall not be binding upon any future year. The board also provided that in the event the Corporation sells a subsidiary, or substantially all of the assets of a subsidiary, Mr. Wiernasz shall be entitled to a cash bonus equal to 3%, of the purchase price, provided he is then an employee of the Company or one of its subsidiaries.

On November 20, 2012 we entered into an employment agreement with Mr. Wiernasz having an effective date of January 1, 2013 and terminating on December 31, 2015. The agreement provides for annual compensation ranging from \$226,250 to \$273,763 during the term with a portion of the compensation paid in stock. The agreement also provides for annual bonuses including bonuses based on increases in EBITDA (as defined in the agreement) of our 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 agreement also provides for stock options with exercise prices ranging from \$0.40 - \$1.60 and an award of restricted stock, which only vests if certain volume and pricing milestones with respect to our common stock are met. Mr. Wiernasz also has the option of receiving any portion of his salary or bonus in the form of equity. The agreement also contains non-compete and non-solicitation provisions.

Compensation Committee Interlocks and Insider Participation

None of our executive officers has served as a director or member of a compensation committee (or other board committee performing equivalent functions) of any other entity, one of whose executive officers served as a director or a member of our Compensation Committee.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table sets forth certain information as of March 19, 2013 with respect to the beneficial ownership of our common stock by (1) each person known by us to own beneficially more than 5% of the outstanding shares of our common stock, (2) each of our directors, (3) each Named Officer, and (4) all our directors and executive officers as a group. Unless otherwise stated, each person listed below uses the Company's address. Pursuant to SEC rules, includes shares that the person has the right to receive within 60 days from March 19, 2013.

| Name and Address of Beneficial Owners | Number of Shares | Percent of Class |
|---------------------------------------|------------------|------------------|
|---------------------------------------|------------------|------------------|

Beneficially
Owned

| | | | |
|---|-----|-----------|-------|
| Sam Klepfish | (1) | 961,843 | 14.3% |
| Michael Ferrone | (2) | 1,522,922 | 24.3% |
| Joel Gold | (3) | 989,054 | 15.7% |
| Solomon Mayer | (4) | 200,000 | 3.3% |
| Hank Cohn | (5) | 200,000 | 3.3% |
| Justin Wiernasz | (6) | 360,000 | 5.8% |
| Joseph DiMaggio Jr. | | 296,000 | 5.1% |
| Christopher Brown | (7) | 492,200 | 8.5% |
| Alpha Capital Anstalt | (8) | 404,365 | 2.1% |
| All officers and directors as a whole (6 persons) | (9) | 4,236,819 | 50.2% |

Table of Contents

- (1) Includes 55,000 shares (post reverse-split) of common stock held by Mr. Klepfish; options to purchase 300,000 shares (post reverse-split) of the Company's common stock, and 164,843 shares (post reverse-split) for a note payable and accrued interest on the note. Does not include 18,200 shares (post reverse-split) of common stock issuable as of December 31, 2009 as compensation for services performed in 2009, and 57,135 shares (post reverse-split) of common stock issuable as compensation for services performed in 2010. Upon the issuance of these shares, Mr. Klepfish will beneficially own 15.3% of the outstanding shares.
- (2) Includes 1,045,922 shares (post reverse-split) of common stock held by Mr. Ferrone; and options to purchase 480,000 shares (post reverse-split) of the Company's common stock held by Mr. Ferrone. Does not include 26,078 shares(post reverse-split) to be issued to Mr. Ferrone for the settlement of debt. Upon the issuance of these shares, Mr. Ferrone will beneficially own 24.6% of the outstanding shares. On March 20, 2013, Mr. Ferrone informed the Company's Board of Directors that he was resigning, effective immediately.
- (3) Includes 490,654 shares (post reverse-split) of common stock held by Mr. Gold, and options to purchase 480,000 shares (post reverse-split) of common stock. Also includes 18,400 shares (post reverse-split) of common stock held by Mr. Gold's spouse.
- (4) Includes options to purchase 200,000 shares (post reverse-split) of common stock held by Mr. Mayer. Does not include 5,000 shares (post reverse-split) issuable for services as a board member for 2010, but not yet issued. Upon issuance of these shares, Mr. Mayer will beneficially own 3.3% of the shares outstanding.
- (5) Includes options to purchase 200,000 shares (post reverse-split) of common stock held by Mr. Cohn. Does not include 5,000 shares (post reverse-split) issuable for services as a board member for 2010, but not yet issued. Upon issuance of these shares, Mr. Cohn will beneficially own 3.3% of the shares outstanding.
- (6) Includes options to purchase 360,000 shares (post reverse-split) of common stock held by Mr. Wiernasz. Does not include 60,000 shares (post reverse-split) to be issued for services performed in 2008, 19,320 shares (post reverse-split) to be issued for services performed in 2009, and 57,135 shares (post reverse-split) to be issued for services performed in 2010. Upon the issuance of these shares, Mr. Wiernasz will beneficially own 7.9% of the outstanding shares.
- (7) Dr. Brown resigned as a member of our Board of Directors on May 23, 2011. The most recent address we have on file is 16902 Harbor Master CV, Cornelius, NC 28031. We have not received any updated information from Dr. Brown with respect to his shareholdings since our last annual report was filed.
- (8) Consists of 404,365 shares (post reverse-split) of common stock held by Alpha Capital. Excludes shares underlying warrants and convertible notes which are subject to a 9.99% blocker provision. The address of its principal business is Pradafant 7, Furstentums 9490, Vaduzm Liechtenstein. Information gathered from a Schedule 13G filed with the Securities and Exchange Commission on February 15, 2012.
- (9)

Includes 1,609,976 shares (post reverse-split) of common stock held by officers and directors. Also includes 2,626,843 shares (post reverse-split) underlying options, convertible notes or shares issuable as accrued interest upon outstanding notes. Does not include an aggregate of an additional 247,868 shares (post reverse-split) committed by the Company to be issued. Upon issuance of such shares the group will beneficially own 47.5% of the outstanding shares.

ITEM 13. Certain Relationships and Related Transactions, and Director Independence

We are not currently subject to the requirements of any stock exchange or national securities association with respect to having a majority of “independent directors” although we believe that we meet the standard established by NASDAQ inasmuch as Messrs. Gold, Mayer, and Cohn, are “independent” and only Mr. Klepfish, by virtue of being our Chief Executive Officer, is not independent. Mr. Klepfish does not participate in board discussions concerning his compensation.

Table of Contents

ITEM 14. Principal Accountant Fees and Services

Audit Fees

The Company engaged Liggett, Vogt & Webb P.A. (“LVW”) as our new independent registered public accounting firm as of November 9, 2012. During the year ended December 31, 2012, LVW billed us \$2,700 for the audit of our annual consolidated financial statements for the year ended December 31, 2012 included in our Form 10-K.

The aggregate fees billed for each of the last two fiscal years for professional services rendered by RBSM LLP for the audit of our annual consolidated financial statements included in our Forms 10-K: 2012: \$17,000; and 2011: \$36,500 which includes audit fees related to the acquisition audit of Artisan Specialty Foods, Inc.

Audit-Related Fees

The aggregate fees billed in each of the last two fiscal years for assurance and related services by LVW that are reasonably related to the performance of the audit or review of our consolidated financial statements including our quarterly interim reviews on Form 10-Q and are not reported under Audit Fees above: 2012: \$7,500 and 2011: \$0.

The aggregate fees billed in each of the last two fiscal years for assurance and related services by RBSM LLP that are reasonably related to the performance of the audit or review of our consolidated financial statements including our quarterly interim reviews on Form 10-Q and are not reported under Audit Fees above: 2012: \$15,000 and 2011: \$22,500.

Tax Fees

LVW has not billed any tax fees since their engagement on November 9, 2012.

The aggregate fees billed in each of the last two fiscal years for professional services rendered by RBSM LLP are: 2012: \$3,500 and 2011: \$3,500.

All Other Fees

LVW has not billed any tax fees since their engagement on November 9, 2012.

The aggregate fees billed in each of the last two fiscal years for services provided by RBSM LLP, other than the services reported above: \$0.

Table of Contents

PART IV

ITEM 15. Exhibits

EXHIBIT
NUMBER

- 3.1 Articles of Incorporation (incorporated by reference to exhibit 3.1 of the Company's annual report on Form 10-KSB for the year ended December 31, 2004 filed with the Securities and Exchange Commission on September 28, 2005).
- 3.2 Amended Bylaws of the Company (incorporated by reference to exhibit 3.2 of the Company's annual report Form 10-K for the year ended December 31, 2010 filed with the Securities and Exchange Commission on March 16, 2011).
- 4.1 Form of Convertible Note (incorporated by reference to exhibit 4.1 of the Company's annual report on Form 10-KSB for the year ended December 31, 2004 filed with the Securities and Exchange Commission on September 28, 2005).
- 4.2 Form of Convertible Note (incorporated by reference to exhibit 4.2 of the Company's annual report on Form 10-KSB for the year ended December 31, 2004 filed with the Securities and Exchange Commission on September 28, 2005).
- 4.3 Form of Warrant - Class A (incorporated by reference to exhibit 4.3 of the Company's annual report on Form 10-KSB for the year ended December 31, 2004 filed with the Securities and Exchange Commission on September 28, 2005).
- 4.4 Form of Warrant - Class B (incorporated by reference to exhibit 4.4 of the Company's annual report on Form 10-KSB for the year ended December 31, 2004 filed with the Securities and Exchange Commission on September 28, 2005).
- 4.5 Form of Warrant - Class C (incorporated by reference to exhibit 4.5 of the Company's annual report on Form 10-KSB for the year ended December 31, 2004 filed with the Securities and Exchange Commission on September 28, 2005).
- 4.6 Secured Convertible Promissory Note dated December 31, 2008 in favor of Alpha Capital Anstalt (incorporated by reference to exhibit 10.1 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 7, 2009).
- 4.7 Class B Common Stock Purchase Warrant dated December 31, 2008 in favor of Alpha Capital Anstalt (incorporated by reference to exhibit 10.2 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 7, 2009).
- 4.8 Subscription Agreement between the Registrant and Alpha Capital Anstalt dated December 31, 2008 (incorporated by reference to exhibit 10.3 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 7, 2009).
- 4.9 Amendment, Waiver, and Consent Agreement effective January 1, 2009 between the Registrant and Alpha Capital Anstalt (incorporated by reference to exhibit 10.4 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission

on January 7, 2009).

- 10.1 Lease of the Company's offices at Naples, Florida (incorporated by reference to exhibit 10.1 of the Company's current report on Form 8-K filed with the Securities and Exchange Commission on October 23, 2008).
- 10.2 Security and Pledge Agreement – IVFH (incorporated by reference to exhibit 10.2 of the Company's annual report on Form 10-KSB for the year ended December 31, 2004 filed with the Securities and Exchange Commission on September 28, 2005).
- 10.3 Security and Pledge Agreement – FII (incorporated by reference to exhibit 10.3 of the Company's annual report on Form 10-KSB for the year ended December 31, 2004 filed with the Securities and Exchange Commission on September 28, 2005).
- 10.4 Supply Agreement with Next Day Gourmet, L.P. with Next Day Gourmet, L.P. (incorporated by reference to exhibit 10.4 of the Company's annual report on Form 10-KSB for the year ended December 31, 2004 filed with the Securities and Exchange Commission on September 28, 2005).
- 10.5 Subscription Agreement (incorporated by reference to exhibit 10.5 of the Company's annual report on Form 10-KSB for the year ended December 31, 2004 filed with the Securities and Exchange Commission on September 28, 2005).
- 10.6 Agreement and Plan of Reorganization between IVFH and FII. (incorporated by reference to exhibit 10.6 of the Company's annual report on Form 10-KSB for the year ended December 31, 2004 filed with the Securities and Exchange Commission on September 28, 2005).

Table of Contents

- 10.7 Employment Agreement with Sam Klepfish dated as of December 31, 2008 (incorporated by reference to exhibit 10.5 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 7, 2009).
- 10.8 Employment Agreement with Justin Wiernasz dated as of December 31, 2008 (incorporated by reference to exhibit 10.6 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 7, 2009).
- 10.9 Employment Agreement with Sam Klepfish dated as of January 6, 2010 (incorporated by reference to exhibit 10.5 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 7, 2010).
- 10.10 Employment Agreement with Justin Wiernasz dated as of January 6, 2010 (incorporated by reference to exhibit 10.5 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 7, 2010).
- 10.11 Employment Agreement with Sam Klepfish (incorporated by reference to exhibit 10.1 of the Company's Form 10-Q filed with the Securities and Exchange Commission on November 21, 2012)
- 10.12 Employment Agreement Justin Wiernasz (incorporated by reference to exhibit 10.2 of the Company's Form 10-Q filed with the Securities and Exchange Commission on November 21, 2012)
- 10.13 Subscription Agreement dated as of May 11, 2012 between the Registrant and Alpha Capital Anstalt (incorporated by reference to exhibit 10.1 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 17, 2012)
- 10.14 Secured Convertible Promissory Note dated as of May 11, 2012 of the registrant issued to Alpha Capital Anstalt (incorporated by reference to exhibit 10.1 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 17, 2012)
- 10.15 Class E Common Stock Purchase Warrant issued to Alpha Capital Anstalt (incorporated by reference to exhibit 10.1 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 17, 2012)
- 10.16 Class F Common Stock Purchase Warrant issued to Alpha Capital Anstalt (incorporated by reference to exhibit 10.2 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 17, 2012)
- 10.16 Class G Common Stock Purchase Warrant issued to Alpha Capital Anstalt (incorporated by reference to exhibit 10.3 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 17, 2012)
- 10.17 Class H Common Stock Purchase Warrant issued to Alpha Capital Anstalt (incorporated by reference to exhibit 10.4 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 17, 2012)
- 10.18

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

Stock Purchase Agreement dated as of May 10, 2012 between the Registrant, Artisan Specialty Foods, Inc. and David Vohaska (incorporated by reference to exhibit 10.1 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 24, 2012)

- 10.19 Lease dated May 7, 2012 between Artisan Specialty Foods, Inc. and David and Sherri Vohaska (incorporated by reference to exhibit 10.2 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 24, 2012)
- 10.20 Employment Agreement dated May 10, 2012 between Artisan Specialty Foods, Inc. and David Vohaska (incorporated by reference to exhibit 10.3 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 24, 2012)
- 10.21 Loan Agreement between the registrant and Fifth Third Bank effective February 26, 2013 (incorporated by reference to exhibit 10.1 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 15, 2013)
- 10.22 Security Agreement between the registrant and Fifth Third Bank effective February 26, 2013. (incorporated by reference to exhibit 10.2 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 15, 2013)

Table of Contents

| | |
|----------|--|
| | Mortgage by registrant in favor of Fifth Third Bank effective February 26, 2013. (incorporated by reference to exhibit 10.2 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 15, 2013) |
| 10.23 | Note by registrant in favor of Fifth Third Bank effective February 26, 2013 (incorporated by reference to exhibit 10.3 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 15, 2013) |
| 14 | Code of Ethics (incorporated by reference to exhibit 14 of the Company's Form 10-KSB/A for the year ended December 31, 2006, filed with the Securities and Exchange Commission on July 31, 2008). |
| 21 | <u>Subsidiaries of the Company</u> |
| 31.1 | <u>Rule 13a-14(a) Certification of Chief Executive Officer</u> |
| 31.2 | <u>Rule 13a-14(a) Certification of Principal Accounting Officer</u> |
| 32.1 | <u>Rule 1350 Certification of Chief Executive Officer</u> |
| 32.2 | <u>Rule 1350 Certification of Principal Accounting Officer</u> |
| 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 Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

INNOVATIVE FOOD HOLDINGS, INC.

By: /s/ Sam Klepfish
Sam Klepfish,
Chief Executive Officer and Director

Dated: March 28, 2013

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| Name | Title | Date |
|------------------------------------|---|----------------|
| /s/ Sam Klepfish Sam Klepfish | CEO and Director (Chief Executive Officer) | March 28, 2013 |
| /s/ John McDonald John McDonald | Principal Accounting Officer (Principal Financial Officer) | March 28, 2013 |
| /s/ Joel Gold Joel Gold | Director | March 28, 2013 |
| /s/ Solomon Mayer Solomon Mayer | Director | March 28, 2013 |
| /s/ Hank Cohn Hank Cohn | Director | March 28, 2013 |

Table of Contents