

INNOVATIVE FOOD HOLDINGS INC
Form 10-Q
November 14, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington D. C. 20549

FORM 10-Q

- Quarterly report pursuant to Section 13 or 15(d) of the Securities and Exchange Act of 1934
For the quarterly period ended September 30, 2013
- Transition report pursuant to Section 13 or 15(d) of the Exchange Act
For the transition period from _____ to _____.

Commission File Number: 0-9376

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

Florida
(State or Other Jurisdiction of Incorporation or
Organization)

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

28411 Race Track Rd.
Bonita Springs, Florida 34135
(Address of Principal Executive Offices)

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

(Former name, former address and former fiscal year, if changed since last report)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company".

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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 check mark whether the registrant is a shell company (as defined in Regulation 12b-2 of the Exchange Act): YES NO

State the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date
6,722,412 shares of common stock outstanding and 7,337,125 shares issued as of November 7, 2013.

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PART I. FINANCIAL INFORMATION

ITEM 1 - CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

| | September 30, 2013 (Unaudited) | December 31, 2012 |
|---|--------------------------------------|----------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 1,374,792 | \$ 1,347,029 |
| Accounts receivable net | 746,230 | 959,805 |
| Inventory | 805,691 | 517,631 |
| Other current assets | 11,316 | 13,753 |
| Total current assets | 2,938,029 | 2,838,218 |
| Property and equipment, net | 971,624 | 145,632 |
| Intangible assets, net | 933,412 | 1,071,322 |
| Total assets | \$ 4,843,065 | \$ 4,055,172 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | \$ 1,310,592 | \$ 1,376,772 |
| Accrued liabilities - related parties | 103,217 | 342,880 |
| Accrued interest, net, current portion | 744,246 | - |
| Accrued interest - related parties, net | 46,479 | 39,866 |
| Notes payable, current portion, net of discount | 257,630 | 11,543 |
| Notes payable - related parties, current portion | 110,500 | 110,500 |
| Contingent purchase price liability | 37,500 | 48,070 |
| Total current liabilities | 2,610,164 | 1,929,631 |
| Accrued interest - net, long term portion | - | 719,187 |
| Note payable - long term portion, net of discount | 585,267 | 185,068 |
| Total liabilities | 3,195,431 | 2,833,886 |
| Stockholders' equity | | |
| Common stock, \$0.0001 par value; 500,000,000 shares authorized; 6,644,905 and 6,023,801 shares issued and 6,030,192 and 5,809,088 shares outstanding at September 30, 2013 and December 31, 2012, respectively | 664 | 602 |
| Additional paid-in capital | 7,324,567 | 6,329,553 |
| Common stock subscribed | - | 68,336 |
| Treasury stock, 614,713 and 304 shares at September 30, 2013 and December 31, 2012, respectively | (100,099) | (99) |
| Accumulated deficit | (5,577,498) | (5,177,106) |
| Total stockholder's equity | 1,647,634 | 1,221,286 |

| | | |
|--|--------------|--------------|
| Total liabilities and stockholders' equity | \$ 4,843,065 | \$ 4,055,172 |
|--|--------------|--------------|

See notes to these unaudited condensed consolidated financial statements.

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

| | For the Three Months Ended September 30, 2013 | For the Three Months Ended September 30, 2012 | For the Nine Months Ended September 30, 2013 | For the Nine Months Ended September 30, 2012 |
|---|--|--|---|---|
| Revenue | \$ 6,005,091 | \$ 5,130,418 | \$ 17,131,361 | \$ 12,768,596 |
| Cost of goods sold | 4,326,573 | 3,872,444 | 12,391,963 | 9,645,040 |
| Gross margin | 1,678,518 | 1,257,974 | 4,739,398 | 3,123,556 |
| Selling, general and administrative expenses | 1,282,722 | 908,235 | 3,691,679 | 2,690,044 |
| Total operating expenses | 1,282,722 | 908,235 | 3,691,679 | 2,690,044 |
| Operating income | 395,796 | 349,739 | 1,047,719 | 433,512 |
| Other expense: | | | | |
| Interest expense | 733,554 | 67,282 | 1,448,111 | 166,033 |
| Cost of warrant extension | - | - | - | 842,100 |
| (Gain) from change in fair value of warrant liability | - | (652,644) | - | (383,467) |
| (Gain) from change in fair value of conversion option liability | - | (665,802) | - | (197,798) |
| Total other (income) expense | 733,554 | (1,251,164) | 1,448,111 | 426,868 |
| (Income) loss before income taxes | (337,758) | 1,600,903 | (400,392) | 6,644 |
| Income tax expense | - | - | - | - |
| Net income (loss) | \$ (337,758) | \$ 1,600,903 | \$ (400,392) | \$ 6,644 |
| Net income (loss) per share - basic | \$ (0.052) | \$ 0.282 | \$ (0.063) | \$ 0.001 |
| Net income (loss) per share - diluted | \$ (0.052) | \$ 0.097 | \$ (0.063) | \$ 0.001 |
| Weighted average shares outstanding - basic | 6,479,385 | 5,673,844 | 6,405,756 | 5,673,844 |
| Weighted average shares outstanding - diluted | 6,479,385 | 10,391,635 | 6,405,756 | 10,391,635 |

See notes to these unaudited condensed consolidated financial statements.

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

| | For the Nine Months Ended September 30, 2013 | For the Nine Months Ended September 30, 2012 |
|---|--|--|
| Cash flows from operating activities: | | |
| Net income (loss) | \$ (400,392) | \$ 6,644 |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Increase in allowance for doubtful accounts | 93,112 | - |
| Depreciation and amortization | 196,058 | 69,313 |
| Non-cash compensation | 35,662 | - |
| Amortization of discount on notes payable | 1,337,934 | 6,408 |
| Amortization of discount on accrued interest | - | 62,085 |
| Interest capitalized to note payable | - | 13,551 |
| Value of shares issued in settlement | - | 7,302 |
| Value of options issued to officer and directors | - | 186,299 |
| Value of extension of term of warrants | - | 842,100 |
| Change in fair value of warrant liability | - | (383,467) |
| Change in fair value of option liability | - | (39,937) |
| Change in fair value of conversion option liability | - | (197,798) |
| Changes in assets and liabilities: | | |
| Accounts receivable, net | 120,463 | 90,923 |
| Inventory and other current assets, net | (285,623) | (174,369) |
| Accounts payable and accrued expenses - related party | (260,987) | (73,962) |
| Accounts payable and accrued expenses | (8,913) | (366,393) |
| Net cash provided by operating activities | 827,314 | 48,699 |
| Cash flows from investing activities: | | |
| Payment to acquire Artisan Specialty Foods, net | - | (1,176,605) |
| Purchase of treasury stock | (100,000) | - |
| Acquisition of property and equipment | (338,140) | (40,747) |
| Net cash used in investing activities | (438,140) | (1,217,352) |
| Cash flows from financing activities: | | |
| Proceeds from issuance of notes payable | - | 1,080,000 |
| Principal payments on debt | (361,411) | (57,611) |
| Net cash (used in) provided by financing activities | (361,411) | 1,022,389 |
| Increase (Decrease) in cash and cash equivalents | 27,763 | (146,264) |
| Cash and cash equivalents at beginning of period | 1,347,029 | 862,464 |
| Cash and cash equivalents at end of period | \$ 1,374,792 | \$ 716,200 |
| Supplemental disclosure of cash flow information: | | |

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Cash paid during the period for:

| | | | | |
|----------|----|--------|----|--------|
| Interest | \$ | 43,154 | \$ | 34,652 |
| Taxes | \$ | - | \$ | - |

Non-cash transactions:

| | | | | |
|---|----|---------|----|---|
| Issuance of 279,310 shares of common stock previously subscribed | \$ | 68,336 | \$ | - |
| Issuance of 341,794 shares of common stock for conversion of notes payable and accrued interest | \$ | 85,448 | \$ | - |
| Mortgage and purchase of land and building | \$ | 546,000 | \$ | - |

See notes to these unaudited condensed consolidated financial statements.

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INNOVATIVE FOOD HOLDINGS, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2013
(Unaudited)

1. BASIS OF PRESENTATION

Basis of Presentation

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

The accompanying unaudited interim condensed consolidated financial statements have been prepared by the Company, in accordance with generally accepted accounting principles pursuant to Regulation S-X of the Securities and Exchange Commission and with the instructions to Form 10-Q. Certain information and footnote disclosures normally included in audited consolidated financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. Accordingly, these interim financial statements should be read in conjunction with the Company’s financial statements and related notes as contained in Form 10-K for the year ended December 31, 2012. In the opinion of management, the interim unaudited condensed consolidated financial statements reflect all adjustments, including normal recurring adjustments, necessary for fair presentation of the interim periods presented. The results of the operations for the three and nine months ended September 30, 2013 are not necessarily indicative of the results of operations to be expected for the full year.

2. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Business Activity

FII, Artisan and GFG are 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 warehouses and from a network of vendors, to the end users (restaurants, hotels, country clubs, national chain accounts, casinos, and catering houses) across the United States 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 direct to consumer market

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.

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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 our 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.

Significant Recent Accounting Pronouncements

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

3. 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 by April 30, 2014. During the three and nine months ended September 30, 2013, the Company made payments in the aggregate amount of \$75,000 and \$112,500 to Mr. Vohaska for the attainment of certain of these financial milestones.

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 Three Months Ended September 30, 2012 | For the Nine Months Ended September 30, 2012 |
|---|--|---|
| Total revenues | 5,130,418 | 15,325,509 |
| Net income (loss) | 1,600,903 | 141,587 |
| Basic net income (loss) per common share | 0.279 | 0.25 |
| Diluted net income (loss) per common share | 0.147 | 0.013 |
| Weighted average shares – basic | 5,673,844 | 5,673,844 |
| Weighted average shares – diluted | 10,391,635 | 10,391,635 |

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The Haley Group

The Haley Group is a food manufacture representative that manages food manufacturing foodservice 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, through its wholly-owned subsidiary The Haley Group, Inc., entered into an asset purchase agreement (the "Haley Acquisition Agreement") with The Haley Group, LLC whereby the Company acquired all existing contracts between The Haley Group, LLC and its customers for the following consideration: 300,000 shares of the Company's common stock; 150,000 shares of which vest immediately and 150,000 shares of which vest in one year under certain conditions; options to purchase 100,000 shares of the Company's common stock at a price of \$0.44 per share; and \$20,000 cash contingent upon the attainment of future revenue milestones. The Haley Group 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 June 30, 2013 and is being amortized over 3 years. During the three and nine months ended September 30, 2013, the Company charged the amount of \$9,970 and \$29,910 to operations, respectively, related to the amortization of these intangible assets.

4. ACCOUNTS RECEIVABLE

At September 30, 2013 and December 31, 2012, accounts receivable consists of:

| | September 30, 2013 | December 31, 2012 |
|------------------------------------|-----------------------|----------------------|
| Accounts receivable from customers | \$ 844,889 | \$ 965,352 |
| Allowance for doubtful accounts | (98,659) | (5,547) |
| Accounts receivable, net | \$ 746,230 | \$ 959,805 |

5. INVENTORY

Inventory consists primarily of specialty products which are warehoused in Bonita Springs, Florida and Lyons, Illinois. At September 30, 2013 and December 31, 2012, finished goods inventory is as follows:

| | September 30, 2013 | December 31, 2012 |
|--------------------------|-----------------------|----------------------|
| Finished goods inventory | \$ 805,691 | \$ 517,631 |

6. PROPERTY AND EQUIPMENT

Acquisition of Building

During the nine months ended September 30, 2013, the Company purchased a building and property located at 28411 Race Track Road, Bonita Springs, Florida 34135 and with respect thereto entered into each of a Loan Agreement, Mortgage, Security Agreement and Note with Fifth Third Bank, each with an effective date of February 26, 2013. 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. The Company moved its operations to these premises on July 15, 2013. The purchase price of the property was \$792,758 and was financed in part by a five year mortgage in the amount of \$546,000 carrying an annual interest rate of 3% above LIBOR Rate, as such term is defined in the Note.

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A summary of property and equipment at September 30, 2013 and December 31, 2012, is as follows:

| | September 30, 2013 | December 31, 2012 |
|---------------------------------------|-----------------------|----------------------|
| Land | \$ 177,383 | \$ - |
| Building | 619,955 | - |
| Computer and Office Equipment | 462,506 | 382,300 |
| Warehouse Equipment | 7,733 | 7,733 |
| Furniture and Fixtures | 158,830 | 152,236 |
| Vehicles | 33,239 | 33,239 |
| Total before accumulated depreciation | 1,459,646 | 575,508 |
| Less: accumulated depreciation | (488,022) | (429,876) |
| Total | \$ 971,624 | \$ 145,632 |

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Depreciation and amortization expense for property and equipment amounted to \$22,402 and \$18,627 for the three months ended September 30, 2013 and, 2012, respectively. Depreciation and amortization expense for property and equipment amounted to \$58,148 and \$33,313 for the nine months ended June 30, 2013 and, 2012, respectively.

7. 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:

| | September 30, 2013 | | |
|------------------------|--------------------|-----------------------------|------------|
| | Gross | Accumulated Amortization | Net |
| Trade Name | \$ 217,000 | \$ - | \$ 217,000 |
| Non-Compete Agreement | 244,000 | (76,250) | 167,750 |
| Customer Relationships | 534,645 | (136,983) | 397,662 |
| Goodwill | 151,000 | - | 151,000 |
| Total | \$ 1,146,645 | \$ (213,233) | \$ 933,412 |

| | December 31, 2012 | | |
|------------------------|-------------------|-----------------------------|--------------|
| | Gross | 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 |
| Total | \$ 1,146,645 | \$ (75,323) | \$ 1,071,322 |

Total amortization expense charged to operations for the three months ended September 30, 2013 and 2012 was \$45,970 and \$36,000, respectively. Total amortization expense charged to operations for the nine months ended September 30, 2013 and 2012 was \$137,910 and \$75,323, respectively.

The trade name is not considered a finite-lived asset, and is not being amortized. The non-compete agreement is 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, respectively.

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 value of goodwill and considered all known events and circumstances that might trigger an impairment of goodwill. The analysis completed in 2012, determined that there was no impairment to goodwill assets.

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at September 30, 2013 and December 31, 2012 are as follows:

September 30, December 31,

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| | 2013 | 2012 |
|--|--------------|--------------|
| Trade payables | \$ 1,294,267 | \$ 1,325,490 |
| Accrued payroll and commissions | 16,325 | 51,282 |
| Total accounts payable and accrued liabilities - non-related parties | \$ 1,310,592 | \$ 1,376,772 |

At September 30, 2013 and December 31, 2012, accrued liabilities to related parties consisted of accrued payroll and payroll related benefits.

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9. ACCRUED INTEREST

Accrued interest on the Company's convertible notes payable is convertible at the option of the note holders into the Company's common stock at prices of \$0.25 to \$1.00 per share. 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 three months ended September 30, 2013 and 2012, the amounts of \$0 and \$22,240, 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 three months ended September 30, 2013 and 2012 was \$0 and \$22,513, respectively.

During the nine months ended September 30, 2013 and 2012, the amounts of \$0 and \$66,103, 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 nine months ended September 30, 2013 and 2012 was \$0 and \$62,085, respectively.

At September 30, 2013, convertible accrued interest was \$790,725 (including \$46,479 to a related party), which is convertible into 3,162,900 shares of common stock; at December 31, 2012, convertible accrued interest was \$759,053 (including \$39,866 to a related party) which was convertible into 3,036,212 shares of common stock.

10. NOTES PAYABLE AND NOTES PAYABLE TO RELATED PARTIES

| | September 30, 2013 | December 31, 2012 |
|--|-----------------------|----------------------|
| Secured Convertible note payable to Alpha Capital Anstalt (f/k/a/ Alpha Capital Aktiengesellschaft) ("Alpha Capital"), originally dated February 25, 2005 and due May 15, 2014. The note contains a cross default provision, and is secured by a majority of the Company's assets. This note bears interest at the rate of 5% per annum. The note and accrued interest are convertible into common stock of the Company at a conversion price of \$0.25 per share. This note was included in the 2012 Notes Payable Extension Agreement and the 2013 Notes Payable Extension Agreement (as defined below). | \$213,500 | \$263,500 |
| Convertible note payable to Alpha Capital due May 15, 2014. This note bears interest at the rate of 5% per annum. This note is unsecured. The note and accrued interest are convertible into common stock of the Company at a conversion price of \$0.25 per share. This note was included in the 2012 Notes Payable Extension Agreement and the 2013 Notes Payable Extension Agreement. | 21,478 | 21,478 |
| Convertible note payable to Osher Capital Partners LLC due May 15, 2014. This note bears interest at the rate of 5% per annum. This note is unsecured. The note and accrued interest are convertible into common stock of the Company at a conversion price of \$0.25 per share. This note was included in the 2012 Notes Payable Extension Agreement and the 2013 Notes Payable Extension Agreement. | 9,638 | 9,638 |

| | | |
|---|---------|---------|
| Convertible note payable to Assameka Capital Inc. due May 15, 2014. This note bears interest at the rate of 5% per annum. This note is unsecured. The note and accrued interest are convertible into common stock of the Company at a conversion price of \$0.25 per share. This note was included in the 2012 Notes Payable Extension Agreement and the 2013 Notes Payable Extension Agreement. | 6,884 | 6,884 |
| Convertible note payable to Alpha Capital due May 15, 2014. This note bears interest at the rate of 5% per annum. This note contains a cross-default provision, and is secured by a majority of the Company's assets. The note and accrued interest are convertible into common stock of the Company at a conversion price of \$0.25 per share. This note was included in the 2012 Notes Payable Extension Agreement and the 2013 Notes Payable Extension Agreement. | 22,609 | 22,609 |
| Convertible note payable to Osher Capital Partners LLC due May 15, 2014. This note bears interest at the rate of 5% per annum. This note contains a cross-default provision, and is secured by a majority of the Company's assets. The note and accrued interest are convertible into common stock of the Company at a conversion price of \$0.25 per share. This note was included in the 2012 Notes Payable Extension Agreement and the 2013 Notes Payable Extension Agreement. | 10,145 | 10,145 |
| Convertible note payable to Assameka Capital Inc. due May 15, 2014. This note bears interest at the rate of 5% per annum. This note contains a cross-default provision, and is secured by a majority of the Company's assets. The note and accrued interest are convertible into common stock of the Company at a conversion price of \$0.25 per share. This note was included in the 2012 Notes Payable Extension Agreement and the 2013 Notes Payable Extension Agreement . | 7,246 | 7,246 |
| Convertible note payable to Huo Hua due May 15, 2014. This note bears interest at the rate of 5% per annum. This note is unsecured. The note and accrued interest are convertible into common stock of the Company at a conversion price of \$0.25 per share and the 2013 Notes Payable Extension Agreement. | 20,000 | 20,000 |
| Convertible secured note payable to Alpha Capital due May 15, 2014. This note bears interest at the rate of 5% per annum, This note contains a cross-default provision, and is secured by a majority of the Company's assets. The note and accrued interest are convertible into common stock of the Company at a conversion price of \$0.25 per share. This note was included in the 2012 Notes Payable Extension Agreement and the 2013 Notes Payable Extension Agreement. | 100,000 | 100,000 |

| | September 30, 2013 | December 31, 2012 |
|---|-----------------------|----------------------|
| Convertible secured note payable to Alpha Capital due May 15, 2014. This note bears interest at the rate of 5% per annum. This note contains a cross-default provision, and is secured by a majority of the Company's assets. The note and accrued interest are convertible into common stock of the Company at a conversion price of \$0.25 per share. This note was included in the 2012 Notes Payable Extension Agreement and the 2013 Notes Payable Extension Agreement. | \$15,287 | \$15,287 |
| Convertible secured note payable to Osher Capital Partners LLC due May 15, 2014. This note bears interest at the rate of 5% per annum. This note contains a cross-default provision, and is secured by a majority of the Company's assets. The note and accrued interest are convertible into common stock of the Company at a conversion price of \$0.25 per share. This note was included in the 2012 Notes Payable Extension Agreement and the 2013 Notes Payable Extension Agreement. | 6,860 | 6,860 |
| Convertible secured note payable to Assameka Capital, Inc. due May 15, 2014. This note bears interest at the rate of 5% per annum. This note contains a cross-default provision, and is secured by a majority of the Company's assets. The note and accrued interest are convertible into common stock of the Company at a conversion price of \$0.25 per share. This note was included in the 2012 Notes Payable Extension Agreement and the 2013 Notes Payable Extension Agreement. | 4,900 | 4,900 |
| Convertible secured note payable to Asher Brand due May 15, 2014. This note bears interest at the rate of 5% per annum. This note contains a cross-default provision, and is secured by a majority of the Company's assets. The note and accrued interest are convertible into common stock of the Company at a conversion price of \$0.25 per share. This note was included in the 2012 Notes Payable Extension Agreement and the 2013 Notes Payable Extension Agreement. | 5,000 | 5,000 |
| Convertible secured note payable to Lane Ventures due May 15, 2014. This note bears interest at the rate of 5% per annum. This note contains a cross-default provision, and is secured by a majority of the Company's assets. The note and accrued interest are convertible into common stock of the Company at a conversion price of \$0.25 per share. This note was included in the 2012 Notes Payable Extension Agreement and the 2013 Notes Payable Extension Agreement. | 6,000 | 6,000 |
| Convertible secured note payable Alpha Capital due May 15, 2014. This note bears interest at the rate of 5% per annum. This note contains a cross-default provision, and is secured by a majority of the Company's assets. The note and accrued interest are convertible into common stock of the Company at a conversion price of \$0.25 per share. This note was included in the 2012 Notes Payable Extension Agreement and the 2013 Notes Payable Extension Agreement. | 120,000 | 120,000 |
| Convertible secured note payable Alpha Capital due May 15, 2014. This note bears interest at the rate of 5% per annum. This note contains a cross-default provision, and is secured by a majority of the Company's assets. The note and accrued interest are convertible into common stock of the Company at a conversion price of \$0.25 per share. This note was included in the 2012 Notes Payable Extension Agreement | 16,957 | 16,957 |

and the 2013 Notes Payable Extension Agreement.

| | | |
|---|-------|-------|
| Convertible secured note payable to Osher Capital Partners LLC due May 15, 2014. This note bears interest at the rate of 5% per annum. This note contains a cross-default provision, and is secured by a majority of the Company's assets. The note and accrued interest are convertible into common stock of the Company at a conversion price of \$0.25 per share. This note was included in the 2012 Notes Payable Extension Agreement and the 2013 Notes Payable Extension Agreement. | 7,609 | 7,609 |
|---|-------|-------|

| | | |
|---|-------|-------|
| Convertible secured note payable to Assameka Capital, Inc. due May 15, 2014. This note bears interest at the rate of 5% per annum. This note contains a cross-default provision, and is secured by a majority of the Company's assets. The note and accrued interest are convertible into common stock of the Company at a conversion price of \$0.25 per share. This note was included in the 2012 Notes Payable Extension Agreement and the 2013 Notes Payable Extension Agreement. | 5,435 | 5,435 |
|---|-------|-------|

| | | |
|--|---------|---------|
| 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 are unsecured. 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 conversion price of \$0.25 per share. | 110,500 | 110,500 |
|--|---------|---------|

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| | September 30, 2013 | December 31, 2012 |
|---|--------------------------|----------------------|
| Convertible secured note payable to Alpha Capital due May 15, 2014. This note bears interest at the rate of 5% per annum. This note contains a cross-default provision, and is secured by a majority of the Company's assets. The note and accrued interest are convertible into common stock of the Company at a conversion price of \$0.25 per share. This note was included in the 2012 Notes Payable Extension Agreement and the 2013 Notes Payable Extension Agreement. | 10,000 | 10,000 |
| Convertible secured note payable to Alpha Capital due May 15, 2014. This note bears interest at the rate of 5% per annum. This note contains a cross-default provision, and is secured by a majority of the Company's assets. The note and accrued interest are convertible into common stock of the Company at a conversion price of \$0.25 per share. This note was included in the 2012 Notes Payable Extension Agreement and the 2013 Notes Payable Extension Agreement. | 230,000 | 230,000 |
| Convertible secured note payable to Alpha Capital, due May 15, 2014. This note bears interest at the rate of 5% per annum. This note contains a cross-default provision, and is secured by a majority of the Company's assets. The note and accrued interest are convertible into common stock of the Company at a conversion price of \$0.25 per share. This note was included in the 2012 Notes Payable Extension Agreement and the 2013 Notes Payable Extension Agreement. | 21,478 | 21,478 |
| Convertible secured note payable to Osher Capital Partners LLC due May 15, 2014. This note bears interest at the rate of 5% per annum. This note contains a cross-default provision, and is secured by a majority of the Company's assets. The note and accrued interest are convertible into common stock of the Company at a conversion price of \$0.25 per share. This note was included in the 2012 Notes Payable Extension Agreement and the 2013 Notes Payable Extension Agreement. | 9,638 | 9,638 |
| Convertible secured note payable to Assameka Capital, Inc. due May 15, 2014. This note bears interest at the rate of 5% per annum. This note contains a cross-default provision, and is secured by a majority of the Company's assets. The note and accrued interest are convertible into common stock of the Company at a conversion price of \$0.25 per share. This note was included in the 2012 Notes Payable Extension Agreement and the 2013 Notes Payable Extension Agreement. | 6,884 | 6,884 |
| Convertible secured note payable to Momona Capital due May 15, 2014. This note contains a cross default provision. This note contains a cross-default provision, and is secured by a majority of the Company's assets. This note bears interest at the rate of 5% per annum. The note and accrued interest are convertible into common stock of the Company at a conversion price of \$0.25 per share. This note was included in the 2012 Notes Payable Extension Agreement and the 2013 Notes Payable Extension Agreement. | 25,310 | 25,310 |
| Convertible secured note payable to Lane Ventures due May 15, 2014. This note bears interest at the rate of 5% per annum. This note contains a cross-default provision, and is secured by a majority of the Company's assets. The note and | 10,124 | 10,124 |

accrued interest are convertible into common stock of the Company at a conversion price of \$0.25 per share. This note was included in the 2012 Notes Payable Extension Agreement and the 2013 Notes Payable Extension Agreement.

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. During the three months ended September 30, 2013, the Company made payments in the aggregate amount of \$117,491 on this note, consisting of \$108,205 of principal and \$9,287 of interest. During the nine months ended September 30, 2013, the Company made payments in the aggregate amount of \$352,474 on this note, consisting of \$321,002 of principal and \$31,472 of interest.

753,264 1,074,267

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| | September 30, 2013 | December 31, 2012 |
|--|---|--|
| 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. During the three months ended September 30, 2013, the Company made payments in the aggregate amount of \$1,842 on this note, consisting of \$1,587 of principal and \$255 of interest. During the nine months ended September 30, 2013, the Company made payments in the aggregate amount of \$5,526 on this note, consisting of \$4,647 of principal and \$879 of interest. | 9,164 | 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. During the three months ended September 30, 2013, the Company made payments in the aggregate amount of \$1,558 on this note, consisting of \$1,331 of principal and \$227 of interest. During the nine months ended September 30, 2013, the Company made payments in the aggregate amount of \$4,674 on this note, consisting of \$3,911 of principal and \$763 of interest. | 10,122 | 14,033 |
| Secured mortgage note payable for the acquisition of land and building in Bonita Springs, Florida in the amount of \$546,000. Principal payments of \$4,550 and interest at the rate of Libor plus 3% are due monthly. The balance of the principal amount will be due March 2018. During the three months ended September 30, 2013, the Company made payments in the aggregate amount of \$17,934 on this note, consisting of \$13,650 of principal and \$4,284 of interest. During the nine months ended September 30, 2013, the Company made payments in the aggregate amount of \$41,890 on this note, consisting of \$31,850 of principal and \$10,040 of interest. | \$ 514,150 | - |
| Total | \$ 2,310,182 | \$ 2,175,593 |
| Less: Discount | (1,356,785) | (1,868,482) |
| Net | \$ 953,397 | \$ 307,111 |
| | For the Three Months Ended September 30, | For the Nine Months Ended September 30, |
| | 2013 | 2012 |
| Discount on Notes Payable amortized to interest expense: | \$ 175,271 | \$ 5,100 |
| | \$ 1,337,934 | \$ 6,408 |

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 charged to interest expense to the extent that the value of these instruments exceeds the face value of the notes.

The Company revalued the conversion options at each reporting period, and charged any change in value to operations. During the three months ended September 30, 2013 and 2012, the Company recorded a gain of \$0 and \$665,802, respectively, due to the change in value of the conversion option liability. During the nine months ended September 30, 2013 and 2012, the Company recorded a gain of \$0 and \$197,798, respectively, due to the

change in value of the conversion option liability.

When convertible notes payable are satisfied by payment or by conversion to equity, the Company revalues the related conversion option liability at the time of the payment or conversion. The conversion option liability is then relieved by this amount, which is charged to additional paid-in capital. During the three months ended September 30, 2013 and 2012, conversion option liabilities in the amounts of \$0 and \$7,004, respectively, were transferred from liability to equity due to the conversion or payment of the related convertible notes payable. During the nine months ended September 30, 2013 and 2012, conversion option liabilities in the amounts of \$0 and \$27,050, respectively, 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.

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Effective December 27, 2012, the Company entered into 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 was 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. The Company also agreed that for as 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. 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.

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.

Effective August 22, 2013, the Company entered into agreements (the "2013 Notes Payable Extension Agreement") with certain convertible notes holders regarding twenty-five convertible notes in the aggregate amount of \$912,982 in principal and \$744,246 in accrued interest. Pursuant to the 2013 Notes Payable Extension Agreement, the maturity date of each note and accrued interest was extended to May 15, 2014; the interest rate was changed to 5%; and the expiration of each warrant associated with each of the notes was extended to February 1, 2016 or February 1, 2017.

Pursuant to debt extinguishment accounting, the Company charged to interest expense the unamortized amount of the discount on the related convertible notes at August 22, 2013 in the amount of \$491,606. Prior to August 22, 2013, the Company had amortized \$637,663 of the discount. At August 22, 2013, the Company recorded a new discount on the convertible notes which was attributable to the conversion feature and related warrants in the aggregate amount of \$826,238, which was charged to additional paid-in capital. The discount will be amortized over the term of the related notes.

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 three and nine months ended September 30, 2013, this discount was amortized to interest expense in the amount of \$2,980 and \$6,389, respectively.

At September 30, 2013 and 2012, the Company had unamortized discounts to notes payable in the aggregate amount of \$1,356,785 and \$1,069,229, respectively.

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The following table illustrates certain key information regarding our conversion option valuation assumptions at September 30, 2013 and 2012:

| | 2013 | September 30, 2012 | |
|---|---------|-----------------------|----------------|
| Number of conversion options outstanding | | 4,847,192 | 5,539,260 |
| Value at September 30, | - | | 1,284,577 |
| Number of conversion options issued during the period | - | | - |
| Value of conversion options issued during the period | - | | - |
| Number of conversion options exercised or underlying notes paid during the period | - | | 34,664 |
| Value of conversion options exercised or underlying notes paid during the period | - | | \$ 7,004 |
| Revaluation loss (gain) during the period | N/A | | \$ (197,798) |
| Black-Scholes model variables: | | | |
| Volatility | 186.46 | % | 214.36 % |
| Dividends | - | | - |
| Risk-free interest rates | 0.42 to | 0.82 % | 0.14 to 0.41 % |
| Term (years) | 0.04 to | 6.74 | 10 |

11. RELATED PARTY TRANSACTIONS

For the nine months ended September 30, 2013:

Pursuant to the terms of an employment agreement, the Company made cash payments to its Chief Executive Officer in the amount of \$90,500 for previously-accrued bonuses. Also pursuant to the terms of his employment agreement, the Company issued options to its Chief Executive Officer as follows: Four year options to purchase 50,000 shares of the Company's common stock at a price of \$0.40 per share which vest on December 31, 2014; four year options to purchase 50,000 shares of the Company's common stock at a price of \$0.40 per share which vest on December 31, 2015; five year options to purchase 100,000 shares of the Company's common stock at a price of \$0.57 per share which vest on December 31, 2014; five year options to purchase 62,500 shares of the Company's common stock at a price of \$1.60 per share which vest on December 31, 2013; and five year options to purchase 62,500 shares of the Company's common stock at a price of \$1.60 per share which vest on December 31, 2014. The Company also accrued the amount of \$27,937 for the value of Restricted Stock Units ("RSU's") due to its Chief Executive Officer under the terms of his employment agreement.

Pursuant to the terms of an employment agreement, the Company made cash payments to its President in the amount of \$90,500 for previously-accrued bonuses. Also pursuant to the terms of his employment agreement, the Company issued options to its President as follows: Four year options to purchase 50,000 shares of the Company's common stock at a price of \$0.40 per share which vest on December 31, 2014; four year options to purchase 50,000 shares of the Company's common stock at a price of \$0.40 per share which vest on December 31, 2015; five year options to purchase 100,000 shares of the Company's common stock at a price of \$0.57 per share which vest on December 31, 2014; five year options to purchase 62,500 shares of the Company's common stock at a price of \$1.60 per share which vest on December 31, 2013; and five year options to purchase 62,500 shares of the Company's

common stock at a price of \$1.60 per share which vest on December 31, 2014.

Pursuant to the terms of an employment agreement, the Company made cash payments to Chief Information and Principal Accounting Officer \$25,000 for previously-accrued bonuses. Also pursuant to the terms of his employment agreement, the Company issued options to its Chief Information and Principal Accounting Officer as follows: Four year options to purchase 25,000 shares of the Company's common stock at a price of \$0.40 per share which vested on January 1, 2013; four year options to purchase 25,000 shares of the Company's common stock at a price of \$0.40 per share which vest on January 1, 2015; three year options to purchase 25,000 shares of the Company's common stock at a price of \$0.40 per share which vest on January 1, 2016; five year options to purchase 25,000 shares of the Company's common stock at a price of \$0.57 per share which vest on January 1, 2018; five year options to purchase 30,000 shares of the Company's common stock at a price of \$1.60 per share which vest on January 1, 2014; and five year options to purchase 30,000 shares of the Company's common stock at a price of \$1.60 per share which are scheduled to vest on January 1, 2015.

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For the nine months ended September 30, 2012:

Pursuant to the terms of an employment agreement, the Company made cash payments to its Chief Executive Officer in the amount of \$34,650 for previously-accrued bonuses.

Pursuant to the terms of an employment agreement, the Company made cash payments to its President in the amount of \$34,650 for previously-accrued bonuses.

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.

12. 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 by April 30, 2014 (see note 3). This obligation had a fair value of \$131,000 at the time of the Artisan acquisition. During the nine months ended September 30, 2013, the Company made a payment in the amount of \$112,500 against this liability, and accrued an additional \$101,930. The amount ultimately payable to Mr. Vohaska pursuant to this obligation could increase in future periods to a maximum of an additional \$187,500.

13. 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 ownership, the Company's future use of its existing net operating losses may be limited.

14. EQUITY

Reverse Stock Split

On June 13, 2012, the Company implemented a reverse split of its common stock (the "Reverse Split") in the ratio 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.

Common Stock

During the nine months ended September 30, 2013, the Company issued 279,310 shares of common stock for settlement of a note. This issuance of shares was accrued in a prior period, and was carried as common stock subscribed in the Company's balance sheet at December 31, 2012.

During the nine months ended September 30, 2013, the Company issued 341,794 shares of common stock for the conversion of the principal of a convertible note in the amount of \$50,000 and accrued interest in the amount of \$35,448, for a total conversion value of \$85,448.

During the nine months ended September 30, 2013, the Company purchased 400,000 shares of the Company's outstanding common stock. The purchase price was \$100,000 and the Company recorded the transaction at cost to Treasury Stock. In addition, the Company has an additional 214,713 shares of common stock which are held in treasury stock at a cost of \$99.

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Warrants

The following table summarizes the significant terms of warrants outstanding at September 30, 2013. 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 | Number of warrants Outstanding | Weighted average remaining contractual life (years) | Weighted average exercise price of outstanding Warrants | Number of warrants Exercisable | Weighted average exercise price of exercisable Warrants |
|--------------------------|--------------------------------|---|---|--------------------------------|---|
| \$ 0.010 | 1,500,000 | 6.63 | \$ 0.010 | 1,500,000 | \$ 0.010 |
| \$ 0.250 | 794,000 | 5.71 | \$ 0.250 | 794,000 | \$ 0.250 |
| \$ 0.550 | 1,570,000 | 1.64 | \$ 0.550 | 1,570,000 | \$ 0.550 |
| \$ 0.575 | 3,080,000 | 3.34 | \$ 0.575 | 3,080,000 | \$ 0.575 |
| | 6,944,000 | 3.94 | \$ 0.410 | 6,964,000 | \$ 0.410 |

Transactions involving warrants are summarized as follows:

| | Number of Warrants | Weighted Average Exercise Price |
|--|--------------------|---------------------------------|
| Warrants exercisable at December 31, 2012 | 6,964,000 | \$ 0.41 |
| Granted | - | - |
| Exercised | - | - |
| Cancelled / Expired | (20,000) | 0.01 |
| Warrants outstanding at September 30, 2013 | 6,944,000 | \$ 0.41 |

The Company did not issue any warrants during the nine months ended September 30, 2013. During the three months ended September 30, 2013, The Company extended the term of the warrants to purchase a total of 3,080,000 shares of common stock at a price of \$0.575 per share and a total of 1,570,000 shares of common stock at a price of \$0.55 per share to February 1, 2017; and warrants to purchase a total of 794,000 shares of common stock at a price of \$0.25 per share to February 1, 2016. At August 22, 2013, the Company recorded a new discount on the convertible notes which was attributable to the conversion feature and related warrants in the aggregate amount of \$826,238, which was charged to additional paid-in capital. The discount will be amortized over the term of the related notes. During the three months ended June 30, 2012, the Company issued warrants to purchase 1,500,000 shares of common stock; the fair value of these warrants was \$572,777. The Company also extended the term of warrants to purchase 5,440,000 shares of common stock from April 3, 2012 to April 3, 2015. The fair value of this extension of \$842,100 was charged to operations during the three months ended June 30, 2012.

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Options

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

| Range of exercise Prices | Number of options Outstanding | Weighted average Remaining contractual life (years) | Weighted average exercise price of outstanding Options | Number of options Exercisable | Weighted average exercise price of exercisable Options |
|--------------------------|-------------------------------|---|--|-------------------------------|--|
| \$ 0.350 | 1,140,000 | 3.80 | \$ 0.350 | 1,140,000 | \$ 0.350 |
| \$ 0.380 | 132,500 | 1.50 | \$ 0.380 | 132,500 | \$ 0.380 |
| \$ 0.400 | 275,000 | 3.26 | \$ 0.400 | 25,000 | \$ 0.400 |
| \$ 0.450 | 132,500 | 1.75 | \$ 0.450 | 132,500 | \$ 0.450 |
| \$ 0.474 | 132,500 | 2.00 | \$ 0.474 | 132,500 | \$ 0.474 |
| \$ 0.480 | 132,500 | 2.25 | \$ 0.480 | 132,500 | \$ 0.480 |
| \$ 0.570 | 225,000 | 4.26 | \$ 0.570 | - | \$ N/A |
| \$ 1.60 | 310,000 | 4.26 | \$ 1.60 | - | \$ N/A |
| | 2,480,000 | 3.43 | \$ 0.552 | 1,695,000 | \$ 0.381 |

Transactions involving stock options are summarized as follows:

| | Number of Shares | Weighted Average Exercise Price |
|---|------------------|---------------------------------|
| Options outstanding at December 31, 2012 | 2,070,000 | \$ 0.290 |
| Granted | 810,000 | \$ 0.906 |
| Exercised | - | - |
| Cancelled / Expired | (400,000) | \$ 0.35 |
| Options outstanding at September 30, 2013 | 2,480,000 | \$ 0.552 |

Aggregate intrinsic value of options outstanding and exercisable at September 30, 2013 and 2012 was \$1,247,370 and \$0, respectively. Aggregate intrinsic value represents the difference between the Company's closing stock price on the last trading day of the fiscal period, which was \$1.05 and \$0.24 as of September 30, 2013 and 2012, respectively, and the exercise price multiplied by the number of options outstanding.

During the three months ended September 30, 2013 and 2012, the Company charged \$0 and \$0, respectively, to operations related to recognized stock-based compensation expense for employee stock options. During the nine months ended September 30, 2013 and 2012, the Company charged \$35,662 and \$186,299, respectively, to operations related to recognized stock-based compensation expense for employee stock options.

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 was 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.

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

| | September 30, 2013 | | December 31, 2012 | |
|--------------------------|-----------------------|---------|----------------------|--------|
| Volatility | 186.46- | 189.28% | 92.52- | 114.30 |
| Dividends | \$ | - | \$ | - |
| Risk-free interest rates | 0.04 - | 0.37% | 0.06- | 0.17% |
| Term (years) | 0.45 - | 4 | 0.01- | 5.00 |

15. EMPLOYMENT AGREEMENTS

Chief Executive Officer

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 of the Company’s common stock at a price of \$0.40 per share; a five year option to purchase 100,000 shares of the Company’s common stock at a price of \$0.57 per share; and a six year option to purchase 125,000 shares of the Company’s common stock at a price of \$1.60 per share; various performance-based bonus provisions; and a stock grant of 200,000 shares of the Company’s common stock which vest only if the 30 day average trading price of the Company’s common stock equals or exceeds \$1.75 per share and has average volume of at least 25,000 shares per day for 30 consecutive days.

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 of the Company’s common stock at a price of \$0.40 per share; a five year option to purchase 100,000 shares of the Company’s common stock at a price of \$0.57 per share; and a six year option to purchase 125,000 shares of the Company’s common stock at a price of \$1.60 per share; various performance-based bonus provisions; and a stock grant of 75,000 shares of the Company’s common stock which vest only if the 30 day average trading price of the Company’s common stock equals or exceeds \$1.75 per share and has average volume of at least 25,000 shares per day for 30 consecutive days.

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 PAO – CIO Employment Agreement”). The 2013 PAO – 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 PAO – CIO Employment Agreement also provides a four year option to purchase 75,000 shares of the Company’s common stock at a price of \$0.40 per share; a five year option to purchase 25,000 shares of the Company’s common stock at a price of \$0.57 per share; and a five year option to purchase 60,000 shares of the Company’s common stock at a price of \$1.60 per share; various performance-based bonus provisions; and a stock grant in the amount of \$15,000 in shares of the Company’s common stock.

16. SUBSEQUENT EVENTS

Issuance of Common Stock

Subsequent to September 30, 2013, the Company issued 107,783 shares of common stock for the cashless exercise of warrants at exercise prices ranging from \$0.25 to \$0.575 per share, and an additional 584,437 shares of common stock for the conversion of notes payable and accrued interest at a conversion price of \$0.25 per share. The Company has received exercise notices concerning the cashless exercise of warrants at prices ranging from \$0.025 to 0.575 per share which will result in the issuance of an additional 105,232 shares of common stock.

Board Appointment

The Company has appointed its President, Justin Weirnasz, to its Board of Directors effective November 14, 2013. Mr. Weirnasz will continue as President of the Company and its subsidiaries pursuant to the 2013 President Employment Agreement described above.

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

FORWARD LOOKING STATEMENTS

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

Certain information contained in this discussion and elsewhere in this report may include "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, and is subject to the safe harbor created by that act. The safe harbor created by the Private Securities Litigation Reform Act will not apply to certain "forward looking statements" because we issued "penny stock" (as defined in Section 3(a)(51) of the Securities Exchange Act of 1934 and Rule 3(a)(51-1) under the Exchange Act) during the three year period preceding the date(s) on which those forward looking statements were first made, except to the extent otherwise specifically provided by rule, regulation or order of the Securities and Exchange Commission. We caution readers that certain important factors may affect our actual results and could cause such results to differ materially from any forward-looking statements which may be deemed to have been made in this Report or which are otherwise made by or on our behalf. 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 dependence on one major customer,
- 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.

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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 following table illustrates certain key information regarding our warrants and warrant valuation assumptions at September 30, 2013, and 2012:

| | September 30, | |
|--|---------------|--------------|
| | 2013 | 2012 |
| Number of warrants outstanding | 6,944,000 | 6,964,000 |
| Value at September 30, | N/A | \$ 1,532,424 |
| Number of warrants issued during the period | - | - |
| Value of warrants issued during the period | - | \$ - |
| Value of warrants extended during the period | - | \$ 842,100 |
| Revaluation loss during the period | N/A | \$ (383,467) |
| Black-Scholes model variables: | | |
| Volatility | 186.46% | % |

| | | |
|--------------------------|--------------|--------------|
| | | 117.77 – |
| | | 214.36 |
| Dividends | - | \$ - |
| Risk-free interest rates | 0.03 – 0.82% | 0.41 – 1.11% |
| Term (years) | 0.04 – 6.74 | 7.63 |

(b) Embedded conversion features of notes payable:

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

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The Company values embedded conversion features utilizing the Black-Scholes valuation model. Conversion options are valued upon issuance, and re-valued at each financial statement reporting date. Any change in value is charged to income or expense during the period. The following table illustrates certain key information regarding our Conversion options and conversion option valuation assumptions at September 30, 2013 and 2012:

| | September 30, | |
|---|---------------|--------------|
| | 2013 | 2012 |
| Number of conversion options outstanding | 4,847,192 | 5,539,260 |
| Value at September 30, | N/A | \$ 1,284,577 |
| Number of conversion options issued during the period | - | - |
| Value of conversion options issued during the period | N/A | \$ - |
| Number of conversion options exercised or underlying notes paid during the period | - | 34,664 |
| Value of conversion options exercised or underlying notes paid during the period | - | \$ 7,004 |
| Revaluation loss during the period | N/A | \$ (197,798) |
| Black-Scholes model variables: | | |
| Volatility | 186.46% | 214.36% |
| Dividends | - | - |
| | | 0.14 to |
| Risk-free interest rates | 0.03 – 0.82% | 0.41.% |
| Term (years) | 0.45 – 6.74 | 10 |

(c) Stock options:

The Company accounts for options in accordance FASB ASC 718-40. Options are valued upon issuance, and re-valued at each financial statement reporting date, utilizing the Black-Scholes valuation model. Option expense is recognized over the requisite service period of the related option award. Any change in value is charged to income or expense during the period. The following table illustrates certain key information regarding our options and option assumptions at September 30, 2013 and 2012:

| | September 30, | |
|--|---------------|------------|
| | 2013 | 2012 |
| Number of vested options outstanding | 2,480,000 | 1,570,000 |
| Value at September 30, | \$ N/A | \$ 308,544 |
| Number of options issued during the period | - | - |
| Number of options vested during the period | - | - |
| Value of options vested during the period \$ | - | - |
| Number of options recognized during the period pursuant to SFAS 123(R) | - | - |
| Value of options recognized during the period pursuant to SFAS 123(R) | \$ - | \$ - |

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| | | | | |
|--------------------------------------|----|-----------|----|--------------|
| Revaluation (gain) during the period | \$ | - | \$ | (39,938) |
| Black-Scholes model variables: | | | | |
| Volatility | | 186.46% | | 214.36 % |
| Dividends | \$ | - | \$ | - |
| | | 0.42 - | | |
| Risk-free interest rates | | 0.82% | | 0.14 – 0.41% |
| Term (years) | | 0.04-6.74 | | 0.75 – 4.59 |

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.

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

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 by April 30, 2014. The purchase price was primarily financed via a loan from Alpha Capital in the principal amount of \$1,200,000. Prior to the acquisition, Artisan was a vendor and had sold products to the Company.

Transactions With a Major Customer

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

Relationship with U.S. Foods

In February 2010, one of our subsidiaries, Food Innovations, signed a new contract with U.S. Foods (“USF”). This 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. During the three months ended September 30, 2013 and 2012, sales to USF accounted for 71.5% and 65.4% of total sales, respectively. During the nine months ended September 30, 2013 and 2012, sales to USF accounted for 70.8% and 76.4% of total sales, respectively.

RESULTS OF OPERATIONS

The following is a discussion of our financial condition and results of operations for the three and nine months ended September 30, 2013 and 2012.

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

Three Months Ended September 30, 2013 Compared to Three Months Ended September 30, 2012

Revenue

Revenue increased by \$874,673, or approximately 17%, to \$6,005,091 for the three months ended September 30, 2013 from \$5,130,418 in the prior year. The increase was attributable to year-over-year organic sales growth.

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.

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Cost of goods sold

Our cost of goods sold for the three months ended September 30, 2013 was \$4,326,573, an increase of \$454,129 or approximately 12% compared to cost of goods sold of \$3,872,444 for the three months ended September 30, 2012. Cost of goods sold is primarily made up of the following expenses for the three months ended September 30, 2013: cost of goods of specialty, meat, game, cheese poultry and other sales categories in the amount of \$3,400,858; and shipping expenses in the amount of \$769,037. The cost of goods sold increase is mainly associated with the increase in sales. Total gross margin was approximately 28% of sales in 2013, compared to approximately 25% of sales in 2012.

In 2013, we continued to 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 \$374,487 or approximately 29% to \$1,282,722 during the three months ended September 30, 2013 compared to \$908,235 for the three months ended September 30, 2012. Selling, general and administrative expenses were primarily made up of the following for the three months ended September 30, 2013: payroll and related expenses, including employee benefits, in the amount of \$697,021; facilities expense in the amount of \$140,890; insurance expense in the amount of \$79,938; amortization and depreciation in the amount of \$68,372; computer support expenses in the amount of \$41,783; consulting and professional fees in the amount of \$34,894; banking and credit card fees expenses in the amount of \$33,299; travel and entertainment expenses in the amount of \$32,371; bad debt expense in the amount of \$12,793 and advertising expense in the amount of \$6,618. The increase in selling, general, and administrative expenses was primarily due to; costs associated with the Company's move into its new facility and improvements in the Company's Florida warehouse, and higher selling expenses and expansion expenses associated with Artisan and The Haley Group and Gourmet Foodservice group. We expect our selling, general, and administrative expenses to remain steady for the remainder of 2013.

Interest expense

Interest expense, net of interest income, increased by \$666,272 or approximately 990% to \$733,554 during the three months ended September 30, 2013, compared to \$67,282 during the three months ended September 30, 2012. Approximately 5% or \$33,283 of the interest expense was accrued or paid interest on the company's notes payable; approximately 95% or \$700,271 of the interest was associated with the amortization of the discounts on the Company's notes payable.

Loss from change in fair value of warrant liability

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. Accordingly, the Company did not revalue these instruments at September 30, 2013. The Company revalued these instruments at September 30, 2012 using the Black-Scholes valuation method. This revaluation resulted in a gain of \$652,644 which the Company included in operations during the three months ended September 30, 2012. There was no such comparable gain or loss during the current period.

Loss from change in fair value of conversion option liability

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 conversion options from derivative accounting to equity accounting. Accordingly, the Company did not revalue these instruments at September 30, 2013. The Company revalued these instruments at September 30, 2012 using the Black-Scholes valuation method. This revaluation resulted in a gain of \$665,802, which the Company included in operations during the three months ended September 30, 2012. There was no such comparable gain or loss during the current period.

Net Loss

For the reasons above, the Company had a net loss for the three months ended September 30, 2013 of \$337,758, an increased loss of \$1,938,661 compared to net income of \$1,600,903 during the three months ended September 30, 2012.

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Nine Months Ended September 30, 2013 Compared to Nine Months Ended September 30, 2012

Revenue

Revenue increased by \$4,362,765, or approximately 34%, to \$17,131,361 for the nine months ended September 30, 2013 from \$12,768,596 in the prior year. \$1,848,436, or approximately 42%, of the increase was attributable to the acquisition of Artisan, while \$2,514,329, or approximately 58%, of the increase was attributable to year-over-year organic growth.

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 nine months ended September 30, 2013 was \$12,391,963, an increase of \$2,746,923, or approximately 28%, compared to cost of goods sold of \$9,645,040 for the nine months ended September 30, 2012. Cost of goods sold is primarily made up of the following expenses for the nine months ended September 30, 2013: cost of goods of specialty, meat, game, cheese poultry and other sales categories in the amount of \$9,511,193; and shipping expenses in the amount of \$2,747,154. The cost of goods sold increase is mainly associated with the increase in sales. Total gross margin improved to approximately 28% of sales in 2013, compared to approximately 25% of sales in 2012.

In 2013, we continued to 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 \$1,001,635 or approximately 37% to \$3,691,679 during the nine months ended September 30, 2013 compared to \$2,690,044 for the nine months ended September 30, 2012. Selling, general and administrative expenses were primarily made up of the following for the nine months ended September 30, 2013: payroll and related expenses, including employee benefits, in the amount of \$2,216,726; facilities expense in the amount of \$376,414; amortization and depreciation in the amount of \$196,057; insurance expense in the amount of \$197,901; consulting and professional fees in the amount of \$137,606; bad debt expense in

the amount of \$100,709; computer support expenses in the amount of \$93,912; banking and credit card fees in the amount of \$78,880; travel and entertainment expenses in the amount of \$75,005; share based compensation in the amount of \$35,662; and advertising expense in the amount of \$15,356. The increase in selling, general, and administrative expenses was primarily due to the acquisition of Artisan which has higher selling general and administrative expenses than Innovative Food Holdings' historical levels, costs associated with the Company's move into its new facility and improvements in the Company's Florida warehouse, and higher selling expenses and expansion expenses associated with Artisan and The Haley Group and Gourmet Foodservice Group. We expect our selling, general, and administrative expenses to remain steady for the remainder of 2013.

Interest expense

Interest expense, net of interest income, increased by \$1,282,078 or approximately 772% to \$1,448,111 during the nine months ended September 30, 2013, compared to \$166,033 during the nine months ended September 30, 2012. Approximately 8% or \$110,177 of the interest expense was accrued or paid interest on the company's notes payable; approximately 92% or \$1,337,934 of the interest was associated with the amortization of the discounts on the Company's notes payable.

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Loss from change in fair value of warrant liability

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. Accordingly, the Company did not revalue these instruments at September 30, 2013. The Company revalued these instruments at September 30, 2012 using the Black-Scholes valuation method. This revaluation resulted in a gain of \$383,467 which the Company included in operations during the nine months ended September 30, 2012. There was no such comparable gain or loss during the current period.

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

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 conversion options from derivative accounting to equity accounting. Accordingly, the Company did not revalue these instruments at September 30, 2013. The Company revalued these instruments at September 30, 2012 using the Black-Scholes valuation method. This revaluation resulted in a gain of \$1,284,577, which the Company included in operations during the nine months ended September 30, 2012. There was no such comparable gain or loss during the current period.

Cost of warrant extension

During the nine months ended September 30, 2012, the Company extended the term of warrants to purchase 5,440,000 shares of common stock from April 3, 2012 to April 3, 2015. The fair value of this extension of \$842,100 was charged to operations during the nine months ended September 30, 2012. There was no comparable transaction during the nine months ended September 30, 2013.

Net Income (loss)

For the reasons above, the Company had a net loss for the nine months ended September 30, 2013 of \$400,392 an increased loss of \$407,036 compared to net income of \$6,644 during the nine months ended September 30, 2012.

Liquidity and Capital Resources

As of September 30, 2013, the Company had current assets of \$2,938,029 consisting of cash and cash equivalents of \$1,374,792, trade accounts receivable of \$746,230, inventory of \$805,691, and other current assets of \$11,316. Also at September 30, 2013, the Company had current liabilities of \$2,610,164, consisting of accounts payable and accrued liabilities of \$1,413,809 (of which \$103,217 is payable to related parties); accrued interest of \$790,725 (of which \$46,479 is payable to related parties); current portion of notes payable, net of discounts, of \$257,630; and current portion of notes payable – related parties, net of discounts of \$110,500.

During the nine months ended September 30, 2013, the Company generated cash from operating activities in the amount of \$827,314. This consisted of the Company's net loss of \$(400,392), offset by non-cash charges for the amortization of discount on notes payable of \$1,337,934; depreciation and amortization of \$196,058; increase in allowance for bad debt of \$98,659; and non-cash compensation in the amount of \$35,662. The Company's cash position was also reduced by \$440,607 as a result of changes in the components of current assets and current liabilities as well as a result of the payment of bonuses owed for 2012. The acquisition of Artisan had an effect on the components of the Company's working capital. The following amounts were associated with Artisan at September 30, 2013: cash of \$225,353; accounts receivable of \$296,126; inventory of \$585,851; other current assets of \$8,333;

accounts payable and accrued liabilities of \$367,515; and current portion of lease payable of \$12,364.

The Company had cash used by investing activities of \$438,140 for the nine months ended September 30, 2013, which consisted of \$100,000 for the purchase of treasury stock; and \$338,140 for the acquisition of land, building, and related furniture and fixtures. The Company had cash used by financing activities of \$361,411 for the nine months ended September 30, 2013, which consisted of principal payments on notes payable.

The Company had net working deficit of \$327,865 as of September 30, 2013. 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 10 to the financial statements included in this report. As we seek to increase our sales of new items and enter new markets, acquire new businesses 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.

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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.

Off-Balance Sheet Arrangements

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

Inflation

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

RISK FACTORS

The Company's business and success is subject to numerous risk factors as detailed in its Annual Report on Form 10-K for the year ended December 31, 2012 which is available at no cost at www.sec.gov.

ITEM 4 - CONTROLS AND PROCEDURES

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

(a) Evaluation of disclosure controls and procedures

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

(b) Changes in internal control over financial reporting

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

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

31.1 Section 302 Certification

31.2 Section 302 Certification

32.1 Section 906 Certification

32.2 Section 906 Certification

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema

101.CAL XBRL Taxonomy Extension Calculation Linkbase

101.DEF XBRL Taxonomy Extension Definition Linkbase

101.LAB XBRL Taxonomy Extension Label Linkbase

101.PRE XBRL Taxonomy Extension Presentation Linkbase

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SIGNATURES

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

| SIGNATURE | TITLE | DATE |
|---------------------------------------|--------------------------------|----------------------|
| /s/Sam Klepfish Sam Klepfish | Chief Executive Officer | November 14, 2013 |
| /s/ John McDonald John McDonald | Principal Financial Officer | November 14, 2013 |

