

INNOVATIVE FOOD HOLDINGS INC
Form 10KSB
July 31, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-KSB

x Annual report under Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2007

OR

o Transition report under Section 13 or 15(d) of the Securities Exchange Act of 1934

COMMISSION FILE NUMBER: 0-9376

INNOVATIVE FOOD HOLDINGS, INC.
(Name of Small Business Issuer in its Charter)

FLORIDA
(State or other jurisdiction of incorporation or
organization)

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

1923 Trade Center Way, Suite One Naples, Florida
(Address of Principal Executive Offices)

34109
(Zip Code)

(239) 596-0204
(Issuer's Telephone Number, including Area Code)

SECURITIES REGISTERED UNDER SECTION 12(B) OF THE EXCHANGE ACT:

NONE

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

Edgar Filing: INNOVATIVE FOOD HOLDINGS INC - Form 10KSB

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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

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

On April 14, 2008, 171,787,638 shares of our common stock were outstanding.

The aggregate market value of the voting and non-voting stock held by non-affiliates was approximately \$3,650,929 as of April 14, 2008, based upon a closing price of \$0.03 (post-reverse split) for the issuer's common stock on such date.

The Issuer's revenues for the fiscal year ended December 31, 2007 were \$6,733,402.

Check whether the issues is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act Yes No

INNOVATIVE FOOD HOLDINGS, INC.

INDEX TO ANNUAL REPORT ON FORM 10-KSB
FILED WITH THE SECURITIES AND EXCHANGE COMMISSION
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007

ITEMS IN FORM 10-KSB

PART I

PAGE

| | | |
|---------|--|---|
| Item 1. | <u>Description of Business</u> | 2 |
| Item 2. | <u>Description of Property</u> | 7 |
| Item 3. | <u>Legal Proceedings</u> | 7 |
| Item 4. | <u>Submission of Matters to a Vote of Security Holders</u> | 7 |

PART II

| | | |
|----------|---|----|
| Item 5. | <u>Market for Common Equity, Related Stockholder Matters and Small Business Issuer Purchases of Equity Securities</u> | 8 |
| Item 6. | <u>Management's Discussion and Analysis</u> | 9 |
| Item 7. | <u>Financial Statements</u> | 14 |
| Item 8. | <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u> | 35 |
| Item 8A. | <u>Controls and Procedures</u> | 35 |
| Item 8B. | <u>Other Information</u> | 35 |

PART III

| | | |
|----------|--|----|
| Item 9. | <u>Directors, Executive Officers, Promoters and Control Persons: Compliance with Section 16(a) of the Exchange Act</u> | 36 |
| Item 10. | <u>Executive Compensation</u> | 37 |
| Item 11. | <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u> | 39 |
| Item 12. | <u>Certain Relationships and Related Transactions and Director Independence</u> | 40 |
| Item 13. | <u>Exhibits</u> | 41 |
| Item 14. | <u>Principal Accountant Fees and Services</u> | 42 |
| | <u>Signatures</u> | 43 |

Table of Contents

FORWARD LOOKING INFORMATION
MAY PROVE INACCURATE

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

PART I

ITEM 1. Description of Business

Our History

We were initially formed in June 1979 as Alpha Solarco Inc., a Colorado corporation. From June 1979 through February 2003, we were either inactive or involved in discontinued business ventures. We changed our name to Fiber Application Systems Technology, Ltd in February 2003. In January 2004, we changed our state of incorporation by merging into Innovative Food Holdings, Inc. (IVFH), a Florida corporation formed for that purpose. As a result of the merger we changed our name to that of Innovative Food Holdings, Inc. In January 2004 we also acquired Food Innovations, Inc., a Delaware corporation, for 25,000,000 shares (post-reverse split) of our common stock.

Our Operations

Our business is currently conducted by our subsidiary, Food Innovations, Inc. ("FII"), which was incorporated in the state of Delaware on January 9, 2002. Since its incorporation our subsidiary has been in the business of providing premium restaurants with the freshest origin-specific perishables and specialty products shipped directly from our network of vendors within 24 – 72 hours. Our customers include restaurants, hotels, country clubs, national chain accounts, casinos, and catering houses. In our business model, we take orders from our customers and then forward the orders to our various suppliers for fulfillment. In order to preserve freshness, we do not warehouse or store our products, thereby significantly reducing our overhead. Rather, we carefully select our suppliers based upon, among other factors, their reliability and access to overnight courier services.

Our Products

We distribute over 3,000 perishable and specialty food products, including origin-specific seafood, domestic and imported meats, exotic game and poultry, artisanal cheeses, caviar, wild and cultivated mushrooms, micro-greens, heirloom and baby produce, organic farmed and manufactured food products, estate-bottled olive oils and aged vinegars. We are constantly adding other products that food distributors cannot effectively warehouse, including organic products and specialty grocery items. We offer our customers access to the best food products available nationwide, quickly and cost-effectively. Some of our best-selling items include:

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

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

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

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

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

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

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

In 2007 seafood accounted for 14% of sales, meat and game accounted for 22% of sales, specialty items accounted for 38% of sales, produce accounted for 6% of sales, cheese accounted for 10% of sales, chocolate accounted for 5% of sales, and poultry accounted for 5% of sales.

Customer Service and Logistics

Our “live” chef-driven customer service department is available by telephone every weekday, from 7 a.m. to 7 p.m., Florida time. The team is made up of four chefs who are full-time employees of the Company, and who are experienced in all aspects of perishable and specialty products. By employing chefs to handle customer service, we are able to provide our customers with extensive information about our products, including:

Flavor profile and eating qualities

Recipe and usage ideas

Origin, seasonality, and availability

Cross utilization ideas and complementary uses of products

Our logistics team tracks every package to ensure timely delivery of products to our customers. The logistics manager receives tracking information on all products ordered, and packages are monitored from origin to delivery. In the event that delivery service is interrupted, our logistics department begins the process of expediting the package to its destination. The customer is then contacted before the expected delivery commitment time allowing the customer

ample time to make arrangements for product replacement or menu changes. Our logistics manager works directly with our vendors to ensure our strict packaging requirements are in place at all times.

Chef Advisory Board

In addition to our in-house chefs, we rely upon the assistance of our Chef Advisory Board. The Chief Advisory Board provides the Company with “on the ground” industry information and information on the latest food trends. The Chief Advisory Board was not compensated in 2006.

Chef Joseph Amendola

Chef Joe Amendola was the American Culinary Federation Chef of the Year for 2002. With over sixty years of experience, Chef Amendola is world renowned as more than a culinary professional. He is the author of *The Bakers Manual*, *Understanding Baking*, *Ice Carving Made Easy*, *Professional Baking and Practical Cooking*, and *Baking for Schools and Institutions*, all of which are used in culinary institutes around the world. For over forty years he served as senior vice president, acting president, director of development, dean of students, and baking instructor at the Culinary Institute of America in Hyde Park, NY. During that period more than 25,000 persons were graduated from that chef training institute. He has served the Culinary Institute of America as ambassador since 1989.

Chef Don Pintabona

Chef Pintabona graduated from the Culinary Institute of America in 1982. He worked under such chefs as Nishitani in Osaka, Japan; Georges Blanc in Vonnnes, France; and Charles Palmer in New York. He sought out the most unusual local foodstuffs and then developed his own style of contemporary American cuisine. Last year, Chef Pintabona published his own book entitled *The Tribeca Grill Cookbook: Celebrating Ten Years of Taste*. He currently teaches a special course at the Cornell School of Hotel Management. He has been a frequent guest Chef on ABC's “Good Morning America,” he also has been on the Food Network's “Cooking Live” television shows and has been featured in *Bon Appéti*, *Gourmet*, *GQ*, *Nation's Restaurant News*, and the *New York Times*.

Chef Bob Ambrose

Chef Ambrose is a graduate of the Culinary Institute of America and has been employed in the hospitality industry for over 20 years. During his career Chef Ambrose received invitations to cook at many James Beard functions, including The World Gourmet Summit in Singapore. Following his career in hospitality, Chef Ambrose served as a Sales Manager for LaBelle Farms, one of our preferred vendors. He now owns Bella Bella Gourmet Foods.

Table of Contents

Relationship with U.S. Foodservice

In 2003, Next Day Gourmet, L.P., a subsidiary of USF, a \$20 Billion broadline distributor then owned by Dutch grocer Royal Ahold, contracted FII to handle the distribution of over 3,000 perishable and specialty products. Under the current terms of the contract FII is the exclusive supplier of overnight delivered, perishable sea foods, fresh produce, and other exotic fresh foods. Such products are difficult for broadline food distributors to manage profitably and keep in warehouse stock due to their perishable nature and high-end limited customer base. Through USF's sales associates, FII's products are available to USF accounts nationwide, ensuring superior freshness and extended shelf life to their customers. While the current contract with USF expires in September 11, 2008, the extension negotiations are currently underway. We expect to reach an agreement with USF but we can give no assurances that we will do so. During the years ended December 31, 2007, and 2006, Next Day Gourmet L.P. accounted for 95%, and 97% of total sales respectively. Other than our business arrangements with USF, we are not affiliated with either USF or Next Day Gourmet, L.P.

Growth Strategy

Restaurant food sales continue to grow, both in total dollars spent (from \$295 billion in 1995 to over \$558 billion projected for 2008) and in share of the food dollar spent in the United States (from 25% in 1955 to 48% projected for 2008), according to the National Restaurant Association website (www.restaurant.org).

For our continued growth within the food industry we rely heavily on the availability to our customers of our chefs' culinary skills and sales available through our relationship with USF.

In addition to attempting to grow our current business, we are also looking to grow laterally in the food industry generally and are looking into the possibility of acquiring a gourmet food manufacturer or gourmet distributor. We have no specific plans at this point, nor do we know how we would finance any such acquisition. We anticipate that, given our current cash flow situation, any acquisition would involve the issuance of additional shares of our common stock. No acquisition will be consummated without thorough due diligence. No assurance can be given that we will be able to identify and successfully conclude negotiations with any potential target.

Competition

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

Insurance

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

Government Regulation

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

Table of Contents

Employees

We currently employ 11 full-time employees, including 4 chefs and 3 executive officers. We believe that our relations with our employees are satisfactory. None of our employees are represented by a union.

Transactions with Major Customers

Transactions with major customers and related economic dependence information is set forth under the heading Transactions with Major Customers in Note 15 to the Consolidated Financial Statements included in the Financial Statements section hereof and is incorporated herein by reference.

How to Contact Us

Our executive offices are located at 1923 Trade Center Way, Suite One, Naples, Florida 34109; our Internet address is www.foodinno.com ; and our telephone number is (239)596-0204.

Risk Factors

Risks Relating to Our Business:

We Have a History Of Losses Which May Continue, Requiring Us To Seek Additional Sources of Capital Which May Not Be Available, Requiring Us To Curtail Or Cease Operations.

We suffered a net loss of \$661,799 for the year ended December 31, 2007. We cannot assure you that we can achieve or sustain profitability on a quarterly or annual basis in the future. If revenues grow more slowly than we anticipate, or if operating expenses exceed our expectations or cannot be adjusted accordingly, we will incur losses. We will also incur losses if the fair value of warrants, options, etc changes unfavorably. We will incur operating losses until we are able to establish significant sales. Our possible success is dependent upon the successful development and marketing of our services and products, as to which we can give no assurance. Any future success that we might enjoy will depend upon many factors, including factors out of our control or which cannot be predicted at this time. These factors may include changes in or increased levels of competition, including the entry of additional competitors and increased success by existing competitors, changes in general economic conditions, increases in operating costs, including costs of supplies, personnel, marketing and promotions, reduced margins caused by competitive pressures and other factors. These conditions may have a materially adverse effect upon us or may force us to reduce or curtail operations. In addition, we will require additional funds to sustain and expand our sales and marketing activities, particularly if a well-financed competitor emerges. We anticipate that we will require up to approximately \$250,000 in additional funds with no repayment of existing debt of 2008 maturities and maturities in default to fund our continued operations for the next twelve months, depending on revenue from our operations. We can give no assurance that financing will be available in amounts or on terms acceptable to us, if at all. Our inability to obtain sufficient funds from our operations or external sources would require us to curtail or cease operations.

If We Are Unable to Obtain Additional Funding Our Business Operations Will be Harmed and If We Do Obtain Additional Financing Our Then Existing Shareholders May Suffer Substantial Dilution.

Additional capital will be required to effectively support our operations and to otherwise implement our overall business strategy. However, we can give no assurance that financing will be available when needed on terms that are acceptable to us. Our inability to obtain additional capital will restrict our ability to grow and may reduce our ability to continue to conduct business operations. If we are unable to obtain additional financing, we will likely be required to curtail our marketing and development plans and possibly cease our operations. Any additional equity financing (or

equity related financing such as convertible debt financing) may involve substantial dilution to our then existing shareholders.

Our Independent Auditors Have Expressed Substantial Doubt About Our Ability to Continue As a Going Concern, and We Concur With This Assessment

In their report dated July 17, 2008, our independent auditors stated that our financial statements for the year ended December 31, 2007 were prepared assuming that we would continue as a going concern. Our ability to continue as a going concern is an issue raised as a result of our significant losses from operations since inception and our working capital deficiency. We continue to experience net operating losses. Our ability to continue as a going concern is subject to our ability to generate a profit and/or obtain necessary funding from outside sources, including obtaining additional funding from the sale of our securities, increasing sales or obtaining loans and grants from various financial institutions where possible. Our continued net operating losses increase the difficulty in our meeting such goals and we can give no assurance that such methods will prove successful.

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

In 2003, Next Day Gourmet, L.P. initially contracted with our subsidiary to handle the distribution of over 3,000 perishable and specialty food products to USF's customers. Our current contract with USF expires in September 2008. Our sales through USF's sales force generated gross revenues for us of \$6,519,721 in the year ended December 31, 2007, and \$ 6,915,550 in the year ended December 31, 2006. Those amounts contributed 95% and 97%, respectively of our total sales in those periods. Our sales efforts are for the most part dependent upon the efforts of the U.S. Foodservice, Inc. Although we have generated revenues from additional customers other than USF, if we do not renew our contract with USF in September 2008 or if the contract is terminated for any reason and we are unable to generate new sales or offset such loss, we may be forced to cease or curtail our operations. While we have begun discussions with USF to extend the agreement, we can give no assurance that we will be successful and if the agreement terminates in September it could adversely affect our sales in a material fashion to the extent that we may be forced to cease operations.

Table of Contents

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

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

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

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

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

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

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

Shortages in supplies of the food products we sell may impair our ability to provide our services. Our vendors are independent and we cannot guarantee their future ability to source the products that we sell. Many of our products are wild-caught, and we cannot guarantee their availability in the future. Unforeseen strikes and labor disputes may result in our inability to deliver our products in a timely manner. Since our customers rely on us to deliver their orders within 48 hours, delivery delays could significantly harm our business.

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

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

Health Concerns Could Affect Our Success.

We require our vendors to produce current certification that the vendor is H.A.C.C.P. compliant, and a current copy of their certificate of liability insurance. However, unforeseen health issues concerning food may adversely affect our sales and our ability to continue operating our business.

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

The issuance of shares upon conversion of convertible notes and exercise of warrants may result in substantial dilution to the interests of other stockholders since the note/warrant holders may ultimately convert or exercise and sell the full amount of shares issuable on conversion / exercise. Although, for the most part, such note/warrant holders may not convert their convertible notes and/or exercise their warrants if such conversion or exercise would cause them to own more than 4.99% of our outstanding common stock unless waived in writing by the investor with 60 day notice to the Company, this restriction does not prevent them from converting and/or exercising some of their holdings, selling off those shares, and then converting the rest of their holdings. In this way, they could sell more than this limit while never holding more than this limit. We anticipate that eventually, over time, the full amount of the convertible notes will be converted into shares of our common stock, in accordance with the terms of the secured convertible notes.

Table of Contents

If We Are Required for any Reason to Repay Our Outstanding Convertible Notes or if We Elect to Make Monthly Payments in Cash as Opposed to Stock, We Would Be Required to Deplete Our Working Capital, If Available, or Raise Additional Funds.

We are required to repay our convertible notes commencing in August 2005 with respect to the convertible notes issued in connection with the February 2005 Securities Purchase Agreement and in February 2006 in connection with the August 2005 Securities Purchase at the rate of 1/18th of the outstanding principal on the convertible note on a monthly basis. We may make such monthly payment in either cash or shares of common stock that are registered under the Securities Act of 1933, as amended. If we are required to repay the secured convertible notes, we would be required to use our limited working capital and/or raise additional funds (which may be unavailable) which would have the effect of causing further dilution and lowering shareholder value.

We Are Currently In default Under Certain Convertible Notes Which Could Result in Legal Action Against Us, Which Could Require the Sale of Substantial Assets.

We are currently in default under certain of our outstanding convertible notes which could require the early repayment of the convertible notes, including a default interest rate of 15% on the outstanding principal balance of the notes if the default is acted upon by the note holders and not cured within the specified grace period. If we were unable to repay the notes when required, the note holders could commence legal action against us and foreclose on all of our assets to recover the amounts due. Any such action would require us to curtail or cease operations.

Risks Relating to Our Common Stock:

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

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

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

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

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

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

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

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

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

ITEM 2. Description of Property

We lease approximately 2,800 square feet of space at 1923-1925 Trade Center Way, Naples, Florida, all of which is currently used for our principal executive offices and sales operations. The lease for these premises expires in September 2008 and is with a non-affiliated landlord. The aggregate base rent is \$4,257 per month for the remainder of the term of the lease. We intend to negotiate an extension of that lease; however, if we are unable to do so, we expect that we will be able to lease or acquire other similar space in close proximity to our existing space. We believe that appropriate space is and will be available if needed at acceptable prices

ITEM 3. Legal Proceedings

In September 2006 we commenced an action in New York Supreme Court, Nassau County, against Pasta Italiana, Inc. Robert Yandolino and Lloyd Braider to collect on outstanding promissory notes totaling \$345,000 (plus interest and collection expenses) of which \$65,000 were personally guaranteed by the two individual defendants. The defendants have counterclaimed for an unspecified amount of damages due to our alleged breach of an agreement to purchase the corporate defendant. As of December 31, 2007 the action had barely commenced and its outcome is too speculative to predict. However, we think it unlikely at this time that we will suffer a net material loss on our loan.

ITEM 4. Submission of Matters to a Vote of Security Holders

None.

7

Table of Contents

PART II

ITEM 5. Market For Common Equity, Related Stockholder Matters and Small Business Issuer Purchases of Equity Securities

Market Information

Prices for our common stock are quoted in the Pink Sheets. Since March 2004, our common stock has traded under the symbol "IVFH". Prior thereto, our common stock traded under the symbol "FBSN". 171,787,638 shares (post-reverse split) of common stock were outstanding as of December 31, 2007. The following table sets forth the high and low sales prices of our common stock as reported in the Pink Sheets for each full quarterly period within the two most recent fiscal years.

| | HIGH | | LOW |
|--------------------------------------|----------|----|--------|
| Fiscal Year Ending December 31, 2007 | | | |
| First Quarter | \$ 0.005 | \$ | 0.002 |
| Second Quarter | 0.004 | | 0.002 |
| Third Quarter | 0.005 | | 0.002 |
| Fourth Quarter | 0.008 | | 0.002 |
| Fiscal Year Ending December 31, 2006 | | | |
| First Quarter | \$ 0.055 | \$ | 0.0314 |
| Second Quarter | 0.07 | | 0.04 |
| Third Quarter | 0.037 | | 0.008 |
| Fourth Quarter | 0.008 | | 0.003 |

The quotations listed above reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions. They have also been adjusted to reflect the effect of historical reverse splits. see spreadsheet

We were inactive for many years until the first quarter of 2003 when we absorbed a new business, received new management and underwent a significant reverse split. Unfortunately, this new business venture was unsuccessful and has unwound clearing the way for our current business which we absorbed during the first quarter of 2004, along with new management and another significant reverse split of our common stock. We believe that these activities contributed to the large fluctuations in the price of our stock during 2003 and 2004.

Security Holders

On December 31, 2007, there were approximately 5,262 record holders of our common stock. In addition, we believe there are numerous beneficial owners of our common stock whose shares are held in "street name."

Dividends

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

Recent Sales and Other Issuances of Our Equity Securities

On January 26, 2004, through a share exchange, the shareholders of FII converted 10,000 shares (post-reverse split) of FII common stock outstanding into 25,000,000 shares (post-reverse split) of IVFH. On January 29, 2004, in a transaction known as a reverse acquisition, the shareholders of IVFH exchanged 25,000,000 shares (post-reverse split) of IVFH for 25,000,000 shares (post-reverse split) of Fiber Application Systems Technology, Ltd. (formerly known as Alpha Solarco) ("Fiber"), a publicly-traded company. The shareholders of IVFH thus assumed control of Fiber, and Fiber changed its name to Innovative Food Holdings, Inc. The 25,000,000 shares (post-reverse split) of Innovative Food Holdings are shown on the Company's balance sheet at December 31, 2003 as the shares outstanding. The par value of the 25,000,000 shares (post-reverse split), or \$2,500, was charged to additional paid-in capital. There were 157,037 shares (post-reverse split) outstanding of Fiber at the time of the reverse acquisition; the par value of these shares, or \$16, was charged to additional paid-in capital at the time of the reverse acquisition.

The Company had a 1-for-200 reverse split of its common stock effective March 8, 2004. There were a total of 30,011,706 shares issued and outstanding immediately before the reverse split, and 157,037 shares issued and outstanding immediately after the reverse split.

During the twelve months ended December 31, 2007, the Company also had the following transactions:

The Company cancelled 5,573,158 shares (post reverse-split) of common stock for which were issued but not outstanding.

The Company recorded a discount to the convertible notes payable for the accrued interest in the amount of \$128,079 during the twelve months ended December 31, 2007.

The Company issued 3,250,000 shares (post-reverse split) of common stock for an employee bonuses. The fair value of these shares in the amount of \$8,125 was charged to operations during the three months ended June 30, 2007.

Table of Contents

The Company issued 800,000 shares (post-reverse split) of common stock for the conversion of \$4,000 of accrued interest on a note payable.

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

Derivative Securities Currently Outstanding

The Company has issued convertible notes payable in the aggregate principal amount of \$966,000 with and accrued interest of \$378,465 which if converted to common stock, will result in our issuance of approximately 254,222,520 shares (post-reverse split) of common stock at a conversion rates ranging from \$0.005 to \$0.010 per share (post-reverse split). The Company has warrants to purchase an additional 189,000,000 shares (post-reverse split) of common stock at December 31, 2007. The Company has also committed to issue, pursuant to a penalty calculation regarding the registration of shares of our common stock, an additional 110,280,000 shares (post-reverse split) of common stock. The Company also has outstanding at December 31, 2007 options to purchase 15,500,000 shares (post-reverse split) of common stock. The total number of additional shares of common stock issuable at December 31, 2007 is 569,002,520. The company does not currently have sufficient shares of common stock authorized to satisfy these additional issuances of shares.

Securities Authorized for Issuance Under Equity Compensation Plans

We do not currently have any equity compensation plans.

ITEM 6. Management's Discussion and Analysis

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 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 3a51-1 under the Exchange Act) during the three year period preceding the date(s) on which those forward looking statements were first made, except to the extent otherwise specifically provided by rule, regulation or order of the Securities and Exchange Commission. We caution readers that certain important factors may affect our actual results and could cause such results to differ materially from any forward-looking statements which may be deemed to have been made in this Report or which are otherwise made by or on behalf of us. For this purpose, any statements contained in this report that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the generality of the foregoing, words such as "may", "will", "expect", "believe", "explore", "consider", "anticipate", "intend", "could", "estimate", "plan", "propose" or "continue" or the negative variations of those words or comparable terminology are intended to identify forward-looking statements. Factors that may affect our results include, but are not limited to, the risks and uncertainties associated with:

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

Our ability to implement our business plan,

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

Table of Contents

- 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 client 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.

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.

Critical Accounting Policy and Estimates

Our Management's Discussion and Analysis of Financial Condition and Plan of Operations section discusses our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, management evaluates its estimates and judgments, including those related to revenue recognition, accrued expenses, financing operations, and contingencies and litigation. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. There are no significant accounting estimates inherent in the preparation of our financial statements.

Background

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

In January 2004, we changed our state of incorporation by merging into Innovative Food Holdings, Inc. ("IVFH"), a Florida shell corporation. As a result of the merger we changed our name to that of Innovative Food Holdings, Inc. In

February 2004 we also acquired Food Innovations, Inc. ("FII") a Delaware corporation incorporated on January 9, 2002 and through FII we are in the business of national food distribution using third-party shippers.

Transactions With a Major Customer

Transactions with a major customer and related economic dependence information is set forth (1) following our discussion of Liquidity and Capital Resources, (2) under the heading Transactions with Major Customers in Note 12 to the Consolidated Financial Statements, and (3) as the fourth item under Risk Factors ..

RESULTS OF OPERATIONS

The following is a discussion of our financial condition and results of operations for the years ended December 31, 2007 and 2006, respectively.

10

Table of Contents

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

Year Ended December 31, 2007 Compared to Year Ended December 31, 2006

Revenue

Revenue decreased by \$340,686, or approximately 5%, to \$6,733,402 for the year ended December 31, 2007 from \$7,074,088 in the prior year. A substantial portion of the decrease was attributable to a decrease of \$50,331 in cheese products, a decrease of \$18,912 in chocolates, a decrease of \$78,426 in discontinued products, a decrease of \$181,916 in meat and game products, a decrease of \$83,368 in poultry product, a decrease of \$49,599 in produce, a decrease of \$107,071 in seafood products. Our expansion of specialty product line offerings was responsible for an additional \$228,938 in sales. We continue to assess the potential of new revenue sources from the manufacture and sale of proprietary food products and will implement that strategy if 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 fresh produce 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.

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 sales

Our cost of sales for the year ended December 31, 2007 was \$5,051,629, a decrease of \$320,720 or approximately 6% compared to cost of sales of \$5,372,349 for the year ended December 31, 2006. The primary reason for the increase in the cost of sales was an associated decrease in sales volume compared to 2006.

Selling, general, and administrative expenses

Selling, general, and administrative expenses decreased by \$356,485 or approximately 17%, to \$1,732,105 during the year ended December 31, 2007 from \$2,088,590 for the year ended December 31, 2006. The decrease was attributable primarily to corporate overhead, with such cost decreases including professional fees incurred, primarily with respect to addressing matters relating to our past compliance with corporate and securities laws and regulations, and other non-allocable SG&A.

Penalty for Late Registration of Shares

During the twelve months ended December 31, 2007, the Company accrued a liability for the issuance of 22,760,000 shares (the "Penalty Shares") of the Company's common stock pursuant to a penalty calculation with regard to the late registration of common stock underlying convertible notes payable. The Company charged to operations the amount of \$64,984, during the twelve months ended December 31, 2007, representing the fair value of the Penalty Shares. This was \$1,603,808 less than the \$1,668,792 charged in 2006. The Company accrued the issuance of an additional 22,760,000 Penalty Shares during prior periods for a total of 110,280,000 Penalty Shares issuable. During the year ended December 31, 2007, the Company revalued the 110,280,000 Penalty Shares using the Black-Scholes

valuation method, and at December 31, 2007 the Company had a total liability for the issuance of Penalty Shares in the amount of \$330,840. This revaluation resulted in a loss of \$3,296 which the Company recorded in operations during the year ended December 31, 2007.

Change in Fair Value of Warrant and Option Liability

At December 31, 2007, the Company has outstanding warrants and options to purchase an aggregate 204,500,000 shares of the Company's common stock. The Company valued this warrant liability at December 31, 2007 at \$580,648. This revaluation resulted in a loss of \$59,042 which the Company included in operations for the year ended December 31, 2007. This is a decrease of \$5,638,583 or approximately 101% compared to a gain of \$5,579,541 from the revaluation of the warrant and option liability which the Company recorded during the twelve months ended December 31, 2006.

Change in Fair Value of Conversion Option Liability

At December 31, 2007, the Company had outstanding a liability to issue an aggregate of 254,222,520 shares of the Company's common stock pursuant to convertible notes payable. The Company revalued this liability at December 31, 2007 at \$612,429. This revaluation resulted in a loss of \$175,222 which the Company included in operations for the year ended December 31, 2007. This is an decrease of \$6,841,290 or approximately 103% compared to a gain of \$6,666,068 from the revaluation of the conversion option liability which the Company recorded during the twelve months ended December 31, 2006.

Interest (income) expense

Interest (income) expense decreased by \$76,582 or approximately 20% to \$308,923 during the twelve months ended December 31, 2007, compared to \$385,505 during the twelve months ended December 31, 2006. The primary reason for the decrease was a decrease in the amortization of the beneficial conversion features associated with convertible notes payable.

Table of Contents

Net Income

For the reasons above, the Company had a net loss for the period ended December 31, 2007 of \$661,799, an decrease of \$12,799,212 or approximately 1064% to compared net income of \$12,137,413 during the twelve months ended December 31, 2006. We noted that these "profits" are a result of the application of various accounting rules as they apply to the Company and that these "profits" have no impact on our cashflows.

Liquidity and Capital Resources at December 31, 2007

As of December 31, 2007, the Company had current assets of \$616,935, consisting of cash of \$74,610, loans receivable of \$ 285,000, interest receivable of \$7,147, other current assets of \$7,030, and trade accounts receivable of \$243,148. Also, at December 31, 2007, the Company had current liabilities of \$3,954,080, consisting of accounts payable and accrued liabilities of \$765,614, accrued interest of \$316,058; accrued interest – related parties of \$142,621; current portion of notes payable of \$927,870; current portion of notes payable – related parties of \$278,000; warrant liability of \$580,648; conversion option liability of \$612,429; and penalty for late registration of shares of \$330,840. This resulted in a working capital deficit of \$3,337,145.

During the twelve months ended December 31, 2007, the Company had cash provided by operating activities of \$3,392. The Company charged to operations \$8,125 for stock issued to employees as a bonus, and \$49,415 for depreciation and amortization. The Company used net cash from financing activities of \$6,690. The Company used cash of \$40,610 in investing activities, which consisted of purchase of property and equipment of \$40,610.

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

The Company's cash on hand may be insufficient to fund its planned operating needs. Management is continuing to pursue new debt and/or equity financing and is continually evaluating the Company's cash and capital needs.

The Company expects that any sale of additional equity securities or convertible debt will result in additional dilution to our stockholders. The Company can give no assurance that it will be able to generate adequate funds from operations, that funds will be available, or the Company will be able to obtain such funds on favorable terms and conditions. If the Company cannot secure additional funds it will not be able to continue as a going concern.

By adjusting its operation and development to the level of available resources, management believes it has sufficient capital resources to meet projected cash flow through the next twelve months. The Company also intends to increase market share and cash flow from operations by focusing its sales activities on specific market segments. However, if thereafter, the Company is not successful in generating sufficient liquidity from operations or in raising sufficient capital resources, on terms acceptable to us, this could have a material adverse effect on our business, results of operations, liquidity and financial condition. Currently, we do not have any material long-term obligations other than those described in Note 8 to the financial statements included in this report, nor have we identified any long-term obligations that we contemplate incurring in the near future. As we seek to increase our sales of perishables, as well as identify new and other consumer oriented products and services, we may use existing cash reserves, long-term financing, or other means to finance such diversification.

The independent auditors report on our December 31, 2007 financial statements state that our recurring losses raise substantial doubts about our ability 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.

Transactions With Major Customers

The Company's largest customer, US Foodservice, Inc. and its affiliates, accounted for approximately 95% and 97% of total sales in the years ended December 31, 2007, and 2006, respectively. A contract with Next Day Gourmet, LP, a subsidiary of U.S. Foodservice, expires September 11, 2008. Negotiations are underway to extend the existing contract or to sign a new contract, and the company has continued to have US Foodservice, Inc. as a customer. Of our remaining approximately 19 active customers in the year ended December 31, 2007, no other single customer contributed 1% or more to our net revenue.

We continue to conduct business with U.S. Food Services.

Critical Accounting Policy and Accounting Estimate Discussion

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

Table of Contents

revenue recognition and concentration of credit risk. We base our estimates on historical experience and on various other assumptions that is 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.

Stock-Based Compensation

In December 2002, the FASB issued SFAS No. 148 - Accounting for Stock-Based Compensation - Transition and Disclosure. This statement amends SFAS No. 123 - Accounting for Stock-Based Compensation, providing alternative methods of voluntarily transitioning to the fair market value based method of accounting for stock based employee compensation. SFAS 148 also requires disclosure of the method used to account for stock-based employee compensation and the effect of the method in both the annual and interim financial statements. The provisions of this statement related to transition methods are effective for fiscal years ending after December 15, 2002, while provisions related to disclosure requirements are effective in financial reports for interim periods beginning after December 31, 2003.

We elected to continue to account for stock-based compensation plans using the intrinsic value-based method of accounting prescribed by APB No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Under the provisions of APB No. 25, compensation expense is measured at the grant date for the difference between the fair value of the stock and the exercise price.

From its inception, the Company has incurred significant costs in connection with the issuance of equity-based compensation, which is comprised primarily of our common stock and warrants to acquire our common stock, to non-employees. The Company anticipates continuing to incur such costs in order to conserve its limited financial resources. The determination of the volatility, expected term and other assumptions used to determine the fair value of equity based compensation issued to non-employees under SFAS 123 involves subjective judgment and the consideration of a variety of factors, including our historical stock price, option exercise activity to date and the review of assumptions used by comparable enterprises.

We account for equity based compensation, issued to non-employees in exchange for goods or services, in accordance with the provisions of SFAS No.123 and EITF No. 96-18, "Accounting for Equity Instruments That are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services".

ITEM 7. Financial Statements

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying balance sheets of Innovative Food Holdings, Inc and subsidiary (“the Company”) as of December 31, 2007 and 2006 and the related statements of operations, stockholders' deficiency, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have nor were we engaged to perform, an audit of its Internal Control over financial reporting. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 16, the Company has incurred significant losses from operations since its inception and has a working capital deficiency. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 16. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Bernstein & Pinchuk LLP
New York, New York
July 17, 2008

Table of Contents

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

| | December 31, 2007 | December 31, 2006 |
|--|-------------------------|-------------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 74,610 | \$ 118,518 |
| Accounts receivable net of allowance of \$10,000 (note 2) | 243,148 | 315,699 |
| Interest receivable (note 4) | 7,147 | 7,147 |
| Loan receivable, net of allowance of \$75,000 (note 4) | 285,000 | 285,000 |
| Prepaid expenses and other current assets (note 3) | 7,030 | 15,509 |
| Total current assets | 616,935 | 741,873 |
| Property and equipment, net of accumulated depreciation (note 5) | 83,823 | 92,628 |
| | \$ 700,758 | \$ 834,501 |
| LIABILITIES AND STOCKHOLDERS' DEFICIENCY | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities (note 6) | \$ 765,614 | \$ 886,145 |
| Accrued interest, net of discount of 421,387 in 2006 (note 7) | 316,058 | 172,950 |
| Accrued interest - related parties, (note 7) | 142,621 | 105,194 |
| Amount due under bank credit line (note 8) | - | 24,272 |
| Notes payable, current portion (note 8) | 927,870 | 927,421 |
| Notes payable - related parties, current portion (note 8) | 278,000 | 384,000 |
| Warrant liability | 580,648 | 521,606 |
| Conversion option liability | 612,429 | 437,207 |
| Penalty for late registration of shares (note 10) | 330,840 | 262,560 |
| Total current liabilities | 3,954,080 | 3,721,355 |
| Note payable | 16,083 | 20,956 |
| | 3,970,163 | 3,742,311 |
| Stockholder's deficiency | | |
| Common stock, \$0.0001 par value; 500,000,000 shares authorized | | |
| 181,787,638 and 151,310,796 shares issued and 171,787,638 and 151,310,796 outstanding at December 31, 2007 and 2006, respectively | 18,179 | 15,131 |
| Additional paid-in capital | 737,462 | 440,306 |
| Accumulated deficit | (4,025,046) | (3,363,247) |
| Total (deficiency in) stockholder's deficiency | (3,269,405) | (2,907,810) |
| Total liabilities and (deficiency) in stockholders' equity | \$ 700,758 | \$ 834,501 |

See notes to condensed consolidated financial statements.

Table of Contents

Innovative Food Holdings, Inc. and subsidiary
Condensed Consolidated Statements of Operations

| | For the Year Ended December 31 2007 | For the Year Ended December 31 2006 |
|---|--|--|
| Revenue | \$ 6,733,402 | \$ 7,074,088 |
| Cost of goods sold | 5,051,629 | 5,372,349 |
| Gross margin | 1,681,773 | 1,701,739 |
| Selling, General and administrative expenses | 1,732,105 | 2,088,590 |
| Total operating expenses | 1,732,105 | 2,088,590 |
| Operating loss | (50,332) | (386,851) |
| Other (income) expense: | | |
| Interest (income) expense | 308,923 | 385,505 |
| Cost of penalty for late registration of shares | 64,984 | 1,668,792 |
| Change in fair value of warrant liability | 59,042 | (5,579,541) |
| Change in fair value of conversion option liability | 175,222 | (6,666,068) |
| Revaluation of penalty for late registration of shares | 3,296 | (2,332,952) |
| | 611,467 | (12,524,264) |
| (Loss) income before income taxes | (661,799) | 12,137,413 |
| Income tax expense | - | - |
| Net (loss) income | \$ (661,799) | \$ 12,137,413 |
| Net (loss) income per share - basic (post reverse-splits) | \$ (0.00) | \$ 0.09 |
| Net (loss) income per share - diluted (post reverse-splits) | \$ (0.00) | \$ 0.02 |
| Weighted average shares outstanding - basic (post reverse-splits) | 154,106,110 | 128,144,848 |
| Weighted average shares outstanding - diluted (post reverse-splits) | 154,106,110 | 506,197,505 |

See notes to condensed consolidated financial statements.

Table of Contents

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

| | For the Year Ended December 31 2007 | For the Year Ended December 31 2006 |
|--|--|--|
| Cash flows from operating activities: | | |
| Net (loss) income | \$ (661,799) | \$ 12,137,413 |
| Adjustments to reconcile net (loss) income to net cash provided by operating activities: | | |
| Depreciation and amortization | 49,415 | 54,298 |
| Value of warrants and options issued | - | 84,895 |
| Stock issued to employees for services performed | 8,125 | 49,901 |
| Note payable issued for officer salary | - | 9,000 |
| Amortization of discount on notes payable and interest on notes payable | 54,000 | 9,000 |
| Cost of penalty due to late registration of shares | 64,984 | 1,668,792 |
| Change in fair value of warrant liability | 59,042 | (5,579,541) |
| Change in fair value of conversion option liability | 175,222 | (6,666,068) |
| Revaluation of penalty for late registration of shares | 3,296 | (2,332,952) |
| Changes in assets and liabilities: | | |
| Accounts receivable, net | 72,551 | 123,411 |
| Prepaid expenses | 8,479 | (14,002) |
| Accounts payable and accrued expenses | 170,077 | 634,628 |
| Net cash provided by operating activities | 3,392 | 178,775 |
| Cash flows from investing activities: | | |
| Loan to Pasta Italiana | - | (190,000) |
| Acquisition of property and equipment | (40,610) | (26,445) |
| Net cash used in investing activities | (40,610) | (216,445) |
| Cash flows from financing activities: | | |
| Proceeds from issuance of debt | - | 160,000 |
| Principal payments on debt | (6,690) | (14,065) |
| Net cash (used in) provided by financing activities | (6,690) | 145,935 |
| Increase (decrease) in cash and cash equivalents | (43,908) | 108,265 |
| Cash and cash equivalents at beginning of year | 118,518 | 10,203 |
| Cash and cash equivalents at end of year | \$ 74,610 | \$ 118,468 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid during the period for: | | |
| Interest | \$ - | \$ - |
| Taxes | \$ - | \$ - |

Edgar Filing: INNOVATIVE FOOD HOLDINGS INC - Form 10KSB

| | | | | |
|--|----|---------|----|-------------|
| Notes payable issued for acquisition of computer equipment | \$ | - | \$ | 25,787 |
| Value of warrants issued | \$ | - | \$ | 28,143 |
| Common stock issued for conversion of notes payable and accrued interest | \$ | 164,000 | \$ | 70,255 |
| Common stock issued to employees as bonuses | \$ | 8,125 | \$ | 49,901 |
| Value of warrants and options issued as compensation | \$ | - | \$ | 67,500 |
| Revaluation of conversion option liability | \$ | 175,222 | \$ | (6,666,068) |
| Revaluation of warrant liability | \$ | 59,042 | \$ | (5,579,541) |
| Cost of penalty for late registration of shares | \$ | 64,984 | \$ | 1,668,792 |
| Revaluation of penalty for late registration of shares | \$ | 3,296 | \$ | (2,332,952) |
| Cancellation of shares of common stock | \$ | 557 | \$ | - |

See notes to condensed consolidated financial statements.

Table of Contents

Innovative Food Holdings, Inc. and subsidiary
Condensed Consolidated Statements of Changes in Stockholders' Deficiency
For the two years ended December 31, 2007

| | Common Stock Amount | Common Stock Value | APIC | Common Stock Subscribed | Accumulated Deficit | Total |
|--|------------------------|-----------------------|------------|-------------------------------|------------------------|-----------------|
| Balance at December 31, 2005 | 104,742,037 | \$ 10,474 | \$ 47,825 | \$ 36,000 | \$ (15,500,660) | \$ (15,406,361) |
| Issuance of shares previously subscribed | 600,000 | 60 | 35,940 | (36,000) | - | - |
| Common shares issued for conversion of note payable | 34,718,759 | 3,472 | 142,256 | - | - | 145,728 |
| Discount due to interest accrued on convertible notes payable | - | - | 156,510 | - | - | 156,510 |
| Common shares issued for acquisition, to be cancelled | 10,000,000 | 1,000 | (1,000) | - | - | - |
| Common shares issued to employee as bonus | 900,000 | 90 | 32,310 | - | - | 32,400 |
| Common shares issued to officer as bonus | 350,000 | 35 | 17,465 | - | - | 17,500 |
| Discount due to convertible note payable | - | - | 9,000 | - | - | 9,000 |
| Income for the year ended December 31, 2006 | - | - | - | - | 12,137,413 | 12,137,413 |
| | 151,310,796 | \$ 15,131 | \$ 440,306 | \$ - | \$ (3,363,247) | \$ (2,907,810) |

Edgar Filing: INNOVATIVE FOOD HOLDINGS INC - Form 10KSB

| | | | | | | | |
|--|-------------|-------|---------|---------|---------|-----------|---------------|
| Balance at December 31, 2006 | | | | | | | |
| Common shares cancelled | (5,573,158) | (557) | 557 | - | - | - | - |
| Common shares issued for employee bonuses | 3,250,000 | 325 | 7,800 | - | - | - | 8,125 |
| Common shares issued for conversion of accrued interest | 800,000 | 80 | 3,920 | - | - | - | 4,000 |
| Common stock issued for conversion of note payable | 32,000,000 | 3,200 | 156,800 | - | - | - | 160,000 |
| Discount due to convertible note payable | | - | - | 128,079 | - | - | 128,079 |
| Loss for the year ended December 31, 2007 | | - | - | - | - | (661,799) | (661,799) |
| Balance at December 31, 2007 | 181,787,638 | \$ | 18,179 | \$ | 737,462 | \$ | - |
| | | | | | | | \$(4,025,046) |
| | | | | | | | \$(3,269,405) |

See notes to condensed consolidated financial statements.

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC. AND SUBSIDIARY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Acquisition and Corporate Restructure

We were initially formed in June 1979 as Alpha Solarco Inc., a Colorado corporation. From June 1979 through February 2004, we were either inactive or involved in discontinued business ventures. In February 2003 we changed our name to Fiber Application Systems Technology, Ltd.

On January 26, 2004, through a share exchange, the shareholders of FII converted 10,000 shares (post-reverse split) of FII common stock outstanding into 25,000,000 shares (post-reverse split) of IVFH. On January 29, 2004, in a transaction known as a reverse acquisition, the shareholders of IVFH exchanged 25,000,000 shares (post-reverse split) of IVFH for 25,000,000 shares (post-reverse split) of Fiber Application Systems Technology, Ltd. (formerly known as Alpha Solarco) (“Fiber”), a publicly-traded company. The shareholders of IVFH thus assumed control of Fiber, and Fiber changed its name to Innovative Food Holdings, Inc. The 25,000,000 shares (post-reverse split) of Innovative Food Holdings are shown on the Company’s balance sheet at December 31, 2003 as shares outstanding. These shares are shown at their par value of \$2,500 as a decrease of additional paid-in capital at the acquisition date of January 29, 2004. There were 157,037 shares (post-reverse split) outstanding in Fiber at the time of the reverse acquisition; the par value of these shares, or \$16, was transferred from additional paid-in capital at the time of the reverse acquisition.

The Company had a 1-for-200 reverse split of its common stock effective March 8, 2004. There were a total of 30,011,706 shares issued and outstanding immediately before the reverse split, and 157,037 shares issued and outstanding immediately after the reverse split.

Business Activity

FII is in the business of providing premium white tablecloth restaurants with the freshest origin-specific perishables and specialty products direct from its network of vendors to the end users (restaurants, hotels, country clubs, national chain accounts, casinos, and catering houses) within 24 - 72 hours, except as stated hereafter, eliminating all wholesalers and distributors. We currently sell the majority of our products through a distributor relationship with Next Day Gourmet, L.P., a subsidiary of US Foodservice, Inc. (“USF”), a \$20 Billion broadline distributor.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported periods. Actual results could materially differ from those estimates.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Food Innovations, Inc. All material intercompany transactions have been eliminated upon consolidation of these entities.

Revenue Recognition

The Company recognizes revenue upon shipment of the product to the customer. Shipping and handling costs incurred by the Company are included in cost of goods sold.

For revenue from product sales, the Company recognizes revenue in accordance with Staff Accounting Bulletin ("SAB") No. 104, "Revenue Recognition," which superseded SAB No. 101, "Revenue Recognition in Financial Statements." SAB No. 104 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has

Table of Contents

occurred; (3) the selling price is fixed and determinable; and (4) collectibility is reasonably assured. Determination of criteria (3) and (4) are based on management's judgments regarding the fixed nature of the selling prices of the products delivered and the collectibility of those amounts. Provisions for discounts and rebates to customers, estimated returns and allowances, and other adjustments are provided for in the same period the related sales are recorded. The Company defers any revenue for which the product has not been delivered or is subject to refund until such time that the Company and the customer jointly determine that the product has been delivered or no refund will be required. SAB No. 104 incorporates Emerging Issues Task Force ("EITF") No. 00-21, "Multiple-Deliverable Revenue Arrangements." EITF No. 00-21 addresses accounting for arrangements that may involve the delivery or performance of multiple products, services and/or rights to use assets. The effect of implementing EITF No. 00-21 on the Company's consolidated financial position and results of operations was not significant. This issue addresses determination of whether an arrangement involving more than one deliverable contains more than one unit of accounting and how the arrangement consideration should be measured and allocated to the separate units of accounting. EITF No. 00-21 became effective for revenue arrangements entered into in periods beginning after June 15, 2003. For revenue arrangements occurring on or after August 1, 2003, the Company revised its revenue recognition policy to comply with the provisions of EITF No. 00-21.

Cash and Cash Equivalents

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

Accounts Receivable

The Company provides an allowance for doubtful accounts equal to the estimated uncollectible amounts. The Company's estimate is based on historical collection experience and a review of the current status of trade accounts receivable. It is reasonably possible that the Company's estimate of the allowance for doubtful accounts will change. Accounts receivable are presented net of an allowance for doubtful accounts of \$10,000 at December 31, 2007 and 2006.

Property and Equipment

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

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

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

Inventories

The Company does not currently maintain any material amount of inventory.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets, including tax loss and credit carryforwards, and liabilities are measured using enacted tax rates expected to

apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Deferred income tax expense represents the change during the period in the deferred tax assets and deferred tax liabilities. The components of the deferred tax assets and liabilities are individually classified as current and non-current based on their characteristics. Realization of the deferred tax asset is dependent on generating sufficient taxable income in future years. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Fair Value of Financial Instruments

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

Long-Lived Assets

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

As of December 31, 2007, the Company's management believes there is no impairment of its long-lived assets. There can be no assurance,

Table of Contents

however, that market conditions will not change which could result in impairment of long-lived assets in the future.

Comprehensive Income

Statement of Financial Accounting Standards No. 130 ("SFAS 130"), "Reporting Comprehensive Income," establishes standards for reporting and displaying of comprehensive income, its components and accumulated balances. Comprehensive income is defined to include all changes in equity except those resulting from investments by owners and distributions to owners. Among other disclosures, SFAS 130 requires that all items that are required to be recognized under current accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. The Company does not have any items of comprehensive income in any of the periods presented.

Basic and Diluted Loss Per Share

In accordance with SFAS No. 128, "Earnings Per Share," the basic loss per common share is computed by dividing net loss available to common stockholders less preferred dividends by the weighted average number of common shares outstanding. Diluted loss per common share is computed similarly to basic loss per common share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were not anti-dilutive. The Company has excluded all out standing warrants, options, and shares issuable upon conversion of preferred stock to common stock from the calculation of diluted net loss per share because these securities are anti-dilutive.

Liquidity

As reflected in the accompanying consolidated financial statements, the Company had net income (loss) of (\$661,799), and \$12,137,413 for the years ended December 31, 2007 and 2006, respectively, but this variance was principally due to changes in fair values of warrant, conversion option and registration penalty liabilities rather than improved operations in 2006. The Company has an accumulated deficit of \$4,025,046 at December 31, 2007. In addition, the Company's current liabilities exceeded its current assets by \$3,337,145, as of December 31, 2007, respectively. Consequently, its operations are subject to all risks inherent in the establishment of a new business enterprise. (see note 16)

Concentrations of Credit Risk

Financial instruments and related items, which potentially subject the Company to concentrations of credit risk, consist primarily of cash, cash equivalents and trade receivables. The Company places its cash and temporary cash in investments with credit quality institutions. At times, such investments may be in excess of applicable government mandated insurance limit. Concentrations of credit risk with respect to trade receivables are limited to the large number of customers comprising the Company's customer base.

Reclassification

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

Stock-Based Compensation

On January 1, 2006 the company adopted Statement of Financial Accounting Standards No. 123 (revised 2004) "Share-Based Payment" ("SFAS 123 (R) which requires the measurement and recognition of compensation expense

for all share-based payment awards made to employees and directors including employee stock options and employee stock purchases related to a Employee Stock Purchase Plan based on the estimated fair values. SFAS 123 (R) supersedes the company's previous accounting under Accounting Principles Board Opinion No.25, "Accounting for Stock Issued to Employees" ("APB 25") for the periods beginning fiscal 2006.

The company adopted SFAS 123 (R) using the modified prospective transition method, which required the application of the accounting standard as of January 1, 2006. The company's Consolidated Financial Statements reflect the impact of SFAS 123(R). Stock based compensation expense recognized under SFAS 123 (R)

Stock-based compensation expense to be recognized is based on the value of the portion of share-based payment awards that is ultimately expected to vest during the period.

A summary of option activity (post-reverse split) under the Plan as of December 31, 2007, and changes during the period then ended are presented below:

| | Options | Weighted-Average Exercise Price |
|----------------------------------|------------|------------------------------------|
| Outstanding December 31, 2006 | 15,500,000 | \$ 0.021 |
| Issued | - | - |
| Exercised | - | - |
| Forfeited or expired | | |
| Outstanding at December 31, 2007 | 15,500,000 | \$ 0.021 |
| Non-vested at December 31, 2007 | 15,300,000 | \$ 0.010 |
| Exercisable at December 31, 2007 | 200,000 | \$ 0.500 |

Table of Contents

Aggregate intrinsic value of options outstanding and options exercisable at December 31, 2007 was \$0. Aggregate intrinsic value represents the difference between the company's closing stock price on the last trading day of the fiscal period, which was \$0.003 (post-reverse split) as of December 31, 2007, and the exercise price multiplied by the number of options outstanding. As of December 31, 2007, total unrecognized stock-based compensation expense related to non-vested stock options was \$0. The total fair value of options vested was \$300 for the year ended December 31, 2007.

Significant Recent Accounting Pronouncements

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities." SFAS 159 permits entities to choose to measure many financial instruments, and certain other items, at fair value. SFAS 159 applies to reporting periods beginning after November 15, 2007. The adoption of SFAS 159 is not expected to have a material impact on the Company's financial condition or results of operations.

2. ACCOUNTS RECEIVABLE

At December 31, 2007 and 2006, accounts receivable consists of:

| | December 31, 2007 | December 31, 2006 |
|------------------------------------|----------------------|----------------------|
| Accounts receivable from customers | \$ 253,148 | \$ 325,699 |
| Allowance for doubtful accounts | (10,000) | (10,000) |
| Accounts receivable, net | \$ 243,148 | \$ 315,699 |

3. PREPAID EXPENSES AND OTHER CURRENT ASSETS

At December 31, 2007 and 2006, other prepaid expenses and current assets consist of the following:

| | December 31, 2007 | December 31, 2006 |
|---------------------|----------------------|----------------------|
| Prepaid expenses | \$ 7,030 | \$ 13,734 |
| Employee receivable | - | 1,775 |
| Total | \$ 7,030 | \$ 15,509 |

4. LOAN RECEIVABLE AND INTEREST RECEIVABLE

The balance of loan receivable consisted of a loan to Pasta Italiana, Inc in the amount of \$360,000 at December 31, 2007 and 2006. These notes bear interest in the amount of 15% per annum, and matured on August 24, 2006. At December 31, 2005, the Company has reserved \$75,000 of the loan receivable and recognized interest income from this loan in the amount of \$7,147. During the year ended December 31, 2007 the Company recognized no interest income on this note

5. PROPERTY AND EQUIPMENT

A summary of property and equipment at December 31, 2007 and 2006, is as follows:

| | December 31, 2007 | December 31, 2006 |
|--------------------------------|----------------------|----------------------|
| Computer hardware and software | \$ 288,228 | \$ 228,970 |

Edgar Filing: INNOVATIVE FOOD HOLDINGS INC - Form 10KSB

| | | |
|--|-----------|-----------|
| Furniture and fixtures | 63,565 | 82,213 |
| | 351,793 | 311,183 |
| Less accumulated depreciation and amortization | (267,970) | (218,555) |
| Total | \$ 83,823 | \$ 92,628 |

Depreciation and amortization expense for property and equipment amounted to \$49,415 and \$54,298 for the year ended December 31, 2007 and 2006, respectively.

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at December 31, 2007 and 2006 is as follows:

| | December 31, 2007 | December 31, 2006 |
|---------------------------------------|----------------------|----------------------|
| Accounts payable and accrued expenses | \$ 764,540 | \$ 880,130 |
| Accrued commissions | 1,074 | 6,015 |
| Total | \$ 765,614 | \$ 886,145 |

Table of Contents

7. 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 price ranging from of \$0.005 to \$0.10 per share (post reverse-split). There is a beneficial conversion feature embedded in the convertible accrued interest. The Company is amortizing this beneficial conversion feature over the life of the related party notes payable. During the twelve months ended December 31, 2007 and 2006, the amounts of \$128,079, and \$156,510, respectively, were credited to additional paid-in capital as a discount on accrued interest. Of this amount, a total of \$29,703 was expensed to interest during the twelve months ended December 31, 2007; \$35,999 was expensed to interest during the twelve months ended December 31, 2006.

At December 31, 2007, the Company has the following accrued interest on its balance sheet:

| | Gross | Discount | Net |
|---------------------|------------|----------|------------|
| Non-related parties | \$ 316,058 | \$ - | \$ 316,058 |
| Related parties | 142,621 | - | 142,621 |
| Total | \$ 458,679 | \$ - | \$ 458,679 |

At December 31, 2006, the Company has the following accrued interest on its balance sheet:

| | Gross | Discount | Net |
|---------------------|------------|-----------|------------|
| Non-related parties | \$ 194,337 | \$ 21,387 | \$ 172,950 |
| Related parties | 105,194 | - | 105,194 |
| Total | \$ 299,531 | \$ 21,387 | \$ 278,144 |

8. NOTES PAYABLE AND NOTES PAYABLE TO RELATED PARTIES

The Company has a line of credit with Wachovia Bank in the amount of \$25,000. The outstanding balance as of December 31, 2007 and 2006 was \$0, and \$24,272, respectively. As of December 31, 2007, the Company no longer has a line of credit by Wachovia Bank.

At December 31, 2007, and 2006, the Company has outstanding notes payable in the aggregate amount of \$1,221,953, and \$1,332,377, respectively. Notes payable and notes payable to related parties at December 31, 2007, and 2006, consisted of the following:

| | December 31, 2007 | December 31, 2006 |
|--|-------------------|-------------------|
| Convertible note payable in the original amount of \$350,000 to Alpha Capital Aktiengesellschaft ("Alpha Capital"), dated February 25, 2005. This note consists of \$100,000 outstanding under a previous note payable which was cancelled on February 25, 2005, and \$250,000 of new borrowings. We did not meet certain of our obligations under the loan documents relating to this issuance. These lapses include not reserving the requisite number of treasury shares, selling subsequent securities without offering a right of first refusal, not complying with reporting obligations, not having our common shares quoted on the OTC:BB and not timely registering certain securities. This note entered technical default status on May 16, 2005. The note originally carried interest at the rate of 8% per annum, and was due in full on February 24, 2007. Upon default, the note's interest rate increased to 15% per annum, and the note became immediately due. The note is convertible into common stock of the Company at a conversion price of \$0.005 per share (post-reverse | \$ 345,000 | 345,000 |
| | \$ | |

split). A beneficial conversion feature in the amount of \$250,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2005. Accrued interest is convertible into common stock of the Company at a conversion price of \$0.005 per share (post-reverse split). Interest in the amount of \$13,043 was accrued on this note during the twelve months ended December 31, 2007, and 2006, respectively. During the twelve months ended December 31, 2006 the note holder converted \$5,000 into shares of common stock. During the twelve months ended December 31, 2006 the holder of the note converted \$27,865 of accrued interest into common stock. This note is in default at December 31, 2007 and 2006.

Table of Contents

Convertible note payable in the amount of \$160,000 to Michael Ferrone, a board member and related party, dated March 11, 2004. The note bears interest at the rate of 8% per annum, and was originally due in full on March 11, 2006. On February 25, 2005, an amendment to the convertible note was signed which extended the term, which resulted in a new maturity date of October 12, 2006. The note is convertible by the holder into common stock of the Company at a conversion of \$0.005 per share (post-reverse split). A beneficial conversion feature in the amount of \$160,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2004. Accrued interest is convertible by the holder into common stock of the Company at maturity of the note at a price of \$0.005 per share (post-reverse split) Interest in the amount of \$1,262 and \$3,226 was accrued on this note during the twelve months ended December 31, 2007, and 2006, respectively. During the three months ended December 31, 2007, the note holder converted a total of \$160,000 of principal into 32,000,000 shares of common stock.

| | | |
|--|---|---------|
| | - | 160,000 |
|--|---|---------|

Convertible note payable in the original amount of \$100,000 to Joel Gold, a board member and related party, dated October 12, 2004. The note bears interest at the rate of 8% per annum, and was due in full on October 12, 2006. The note is convertible by the holder into common stock of the Company at a conversion price of \$0.005 per share (post-reverse split). A beneficial conversion feature in the amount of \$100,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2004. Accrued interest is convertible by the holder into common stock of the Company at maturity of the note at a price of \$0.005 per share (post-reverse split). Interest in the amount of \$504 was accrued on this note during the twelve months ended December 31, 2007, and 2006, respectively. During the twelve months ended December 31, 2006, \$75,000 of the principal amount was converted into common stock.

| | | |
|--|--------|--------|
| | 25,000 | 25,000 |
|--|--------|--------|

Convertible note payable in the amount of \$85,000 to Briquette Investments, Ltd, dated March 11, 2004. The note bears interest at the rate of 8% per annum, and was due in full on March 11, 2006. The note is convertible into common stock of the Company at a conversion of \$0.005 per share (post-reverse split). A beneficial conversion feature in the amount of \$85,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2004. Accrued interest is convertible by the holder into common stock of the Company at a price of \$0.005 per share (post-reverse split). Interest in the amount of \$766, and \$812 was accrued on this note during the twelve months ended December 31, 2007 and 2006, respectively. During the twelve months ended December 31, 2005, the note holder converted \$44,000 of the note payable into common stock. During the twelve months ended December 31, 2006, the Company made a \$3,000 cash payment on the

| | | |
|--|--------|--------|
| | 38,000 | 38,000 |
|--|--------|--------|

principal amount of the note.

24

Table of Contents

Convertible note payable in the amount of \$80,000 to Brown Door, Inc., dated March 11, 2004. The note bears interest at the rate of 8% per annum, and was due in full on March 11, 2006. The note is convertible into common stock of the Company at a conversion of \$0.005 per share (post-reverse split). A beneficial conversion feature in the amount of \$80,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2004. Accrued interest is convertible by the holder into common stock of the Company at maturity of the note at a price of \$0.005 per share (post-reverse split). Interest in the amount of \$1,614 was accrued on this note during the twelve months ended December 31, 2007, and 2006.

80,000 80,000

Convertible note payable in the amount of \$50,000 to Whalehaven Capital Fund, Ltd. (“Whalehaven Capital”) dated February 25, 2005. We did not meet certain of our obligations under the loan documents relating to this issuance. These lapses include not reserving the requisites numbers of treasury shares, selling subsequent securities without offering a right of first refusal, not complying with reporting obligations, not having our common shares quoted on the OTC:BB and not timely registering certain securities. This note is in technical default as of May 16, 2005. The note originally carried interest at the rate of 8% per annum, and was due in full on February 24, 2007. Upon default, the note’s interest rate increased to 15% per annum, and the note became due immediately. The note is convertible into common stock of the Company at a conversion of \$0.005 per share (post-reverse split). A beneficial conversion feature in the amount of \$50,000 was recorded as a discount to the note, and was amortized to interest expense during the three months ended March 31, 2005. Accrued interest is convertible into common stock of the Company at a price of \$0.005 per share (post-reverse split). Interest in the amount of \$1,513 was accrued on this note during the twelve months ended December 31, 2007 and 2006, respectively. During the twelve months ended December 31, 2006, \$5,000 of principal was converted into common stock. During the twelve months ended December 31, 2006 the holder of the note converted \$5,000 of principal and \$589 of accrued interest into shares of common stock. This note is in default at December 31, 2007 and 2006.

40,000 40,000
50,000 50,000

Convertible note payable in the amount of \$50,000 to Oppenheimer & Co., / Custodian for Joel Gold IRA, a

related party, dated March 14, 2004. The note bears interest at the rate of 8% per annum, and was due in full on October 12, 2006. The note is convertible into common stock of the Company at a conversion of \$0.005 per share (post-reverse split). A beneficial conversion feature in the amount of \$50,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2005. Accrued interest is convertible into common stock of the Company at a price of \$0.005 per share (post-reverse split). Interest in the amount of \$1,009 was accrued on this note during the twelve months ended December 31, 2007, and 2006.

Convertible note payable in the original amount of \$30,000 to Huo Hua dated May 9, 2005. The note bears interest at the rate of 8% per annum, and was due in full on October 12, 2006. The note is convertible into common stock of the Company at a conversion of \$0.005 per share (post-reverse split). A beneficial conversion feature in the amount of \$30,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2005. Accrued interest is convertible into common stock of the Company at a price of \$0.005 per share (post-reverse split). Interest in the amount of \$404 was accrued on this note during the twelve months ended December 31, 2007 and 2006, respectively. During the twelve months ended December 31, 2006, the note holder converted \$10,000 of principal into common stock.

20,000

20,000

Table of Contents

Convertible note payable in the amount of \$25,000 to Joel Gold a board member and related party, dated January 25, 2005. The note bears interest at the rate of 8% per annum, and was due in full on January 25, 2007. The note is convertible into common stock of the Company at a conversion of \$0.025 per share. A beneficial conversion feature in the amount of \$25,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2005. Accrued interest is convertible into common stock of the Company at a price of \$0.025 per share. Interest in the amount of \$504 was accrued on this note during the twelve months ended December 31, 2007 and 2006, respectively.

25,000 25,000

Convertible note payable in the amount of \$25,000 to The Jay & Kathleen Morren Trust dated January 25, 2005. The note bears interest at the rate of 6% per annum, and was due in full on January 25, 2007. The note is convertible into common stock of the Company at a conversion of \$0.005 per share (post-reverse split). A beneficial conversion feature in the amount of \$25,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2005. Accrued interest is convertible into common stock of the Company at a price of \$0.005 per share (post-reverse split) Interest in the amount of \$377 was accrued on this note during the twelve months ended December 31, 2007 and 2006.

25,000 25,000

Convertible note payable in the amount of \$10,000 to Lauren M. Ferrone, a relative of a board member and related party, dated October 12, 2004. The note bears interest at the rate of 8% per annum, and was originally due in full on October 12, 2005. On February 25, 2005, an amendment to the convertible notes was signed which extended the term, which resulted in a new maturity date of October 12, 2006. The note is convertible into common stock of the Company at a conversion of \$0.01 per share (post-reverse split). A beneficial conversion feature in the amount of \$10,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2004. Accrued interest is convertible into common stock of the Company at a price of \$0.01 per share (post-reverse split). Interest in the amount of \$202 was accrued on this note during the twelve months ended December 31, 2007, and 2006. This note is in default at December 31, 2006.

10,000 10,000

Convertible note payable in the amount of \$10,000 to Richard D. Ferrone, a relative of a board member and related party, dated October 12, 2004. The note bears interest at the rate of 8% per annum, and was originally due in full on October 12, 2005. On February 25, 2005, an amendment to the convertible notes was signed which extended the term, which resulted in a new maturity date of October 12, 2006. The note is convertible into common stock of the Company at a conversion

10,000 10,000

of \$0.01 per share (post-reverse split). A beneficial conversion feature in the amount of \$10,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2004. Accrued interest is convertible into common stock of the Company at a price of \$0.01 per share (post-reverse split). Interest in the amount of \$202 was accrued on this note during the twelve months ended December 31, 2007, and 2006. This note is in default at December 31, 2006.

Table of Contents

Convertible note payable in the amount of \$10,000 to Christian D. Ferrone, a relative of a board member and related party, dated October 12, 2004. The note bears interest at the rate of 8% per annum, and was originally due in full on October 12, 2005. On February 25, 2005, an amendment to the convertible notes was signed which extended the term, which resulted in a new maturity date of October 12, 2006. The note is convertible into common stock of the Company at a conversion of \$0.01 per share (post-reverse split). A beneficial conversion feature in the amount of \$10,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2004. Accrued interest is convertible into common stock of the Company at a price of \$0.01 per share (post-reverse split). Interest in the amount of \$202 was accrued on this note during the twelve months ended December 31, 2007, and 2006. This note is in default..

10,000

10,000

Convertible note payable in the amount of \$10,000 to Andrew I. Ferrone, a relative of a board member and related party, dated October 12, 2004. The note bears interest at the rate of 8% per annum, and was originally due in full on October 12, 2005. On February 25, 2005, an amendment to the convertible notes was signed which extended the term, which resulted in a new maturity date of October 12, 2006. The note is convertible into common stock of the Company at a conversion of \$0.01 per share (post-reverse split). A beneficial conversion feature in the amount of \$10,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2004. Accrued interest is convertible into common stock of the Company at a price of \$0.01 per share (post-reverse split). Interest in the amount of \$202 was accrued on this note during the twelve months ended December 31, 2007, and 2006. This note is in default.

10,000

10,000

Convertible note payable in the amount of \$8,000 to Adrian Neilan dated March 11, 2004. The note bears interest at the rate of 8% per annum, and is due in full on October 12, 2006. The note is convertible into common stock of the Company at a conversion of \$0.005 per share (post-reverse split). A beneficial conversion feature in the amount of \$8,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2004. Accrued interest is convertible into common stock of the Company at a price of \$0.005 per share (post-reverse split). Interest in the amount of \$161 was accrued on this note during the twelve months ended December 31, 2007, and 2006, respectively.

8,000

8,000

Convertible note payable in the amount of \$5,000 to Matthias Mueller dated March 11, 2004. The note bears interest at the rate of 8% per annum, and was due in full on October 12, 2006. The note is convertible into common stock of the Company at a conversion of

5,000

5,000

\$0.005 per share (post-reverse split). A beneficial conversion feature in the amount of \$5,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2005. Accrued interest is convertible into common stock of the Company at a price of \$0.005 per share (post-reverse split). Interest in the amount of \$101 was accrued on this note during the twelve months ended December 31, 2007, and 2006.

Table of Contents

Convertible note payable in the amount of \$120,000 to Alpha Capital dated August 25, 2005. We did not meet certain of our obligations under the loan documents relating to this issuance. These lapses include not reserving the requisite number of treasury shares, selling subsequent securities without offering a right of first refusal, not complying with reporting obligations, not having our common shares quoted on the OTC:BB and not timely registering certain securities. This note is in technical default as of November 13, 2005. The note originally carried interest at the rate of 8% per annum, and was due in full on August 25, 2007. Upon default, the note's interest rate increased to 15% per annum and the note became immediately due. The note is convertible into common stock of the Company at a conversion of \$0.005 per share (post-reverse split). A beneficial conversion feature in the amount of \$120,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2005. Accrued interest is convertible into common stock of the Company at a price of \$0.005 per share (post-reverse split). Interest in the amount of \$4,537 was accrued on this note during the twelve months ended December 31, 2007 and 2006, respectively. This note is in default at December 31, 2006.

| | |
|---------|---------|
| 120,000 | 120,000 |
| 30,000 | 30,000 |

Convertible note payable in the amount of \$30,000 to Whalehaven Capital dated August 25, 2005. We did not meet certain of our obligations under the loan documents relating to this issuance. These lapses include not reserving the requisite number of treasury shares, selling subsequent securities without offering a right of first refusal, not complying with reporting obligations, not having our common shares quoted on the OTC:BB and not timely registering certain securities. This note was in technical default as of November 13, 2006. The note originally carried interest at the rate of 8% per annum, and was due in full on August 25, 2007. Upon default, the note's interest rate increased to 15% per annum and the note became immediately due. The note is convertible into common stock of the Company at a conversion of \$0.005 per share (post-reverse split). A beneficial

conversion feature in the amount of \$30,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2005. Accrued interest is convertible into common stock of the Company at a price of \$0.005 per share (post-reverse split). Interest in the amount of \$41,132 was accrued on this note during the twelve months ended December 31, 2007 and 2006, respectively. This note is in default at December 31, 2006.

Convertible note payable in the original amount of \$25,000 to Asher Brand, dated August 25, 2005. We did not meet certain of our obligations under the loan documents relating to this issuance. These lapses include not reserving the requisite number of treasury shares, selling subsequent securities without offering a right of first refusal, not complying with reporting obligations, not having our common shares quoted on the OTC:BB and not timely registering certain securities. This note was in technical default as of November 13, 2006. The note originally carried interest at the rate of 8% per annum, and was due in full on August 25, 2007. Upon default, the note's interest rate increased to 15% per annum and the note became immediately due. The note is convertible into common stock of the Company at a conversion of \$0.005 per share (post-reverse split). A beneficial conversion feature in the amount of \$25,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2005. Accrued interest is convertible into common stock of the Company at a price of \$0.005 per share (post-reverse split). Interest in the amount of \$870 was accrued on this note during the twelve months ended December 31, 2007 and 2006, respectively. During the three months ended September 30, 2006, the holder of the note converted \$2,000 of principal and \$3,667 of accrued interest into common stock. This note is in default.

23,000

23,000

28

Table of Contents

Convertible note payable in the original amount of \$25,000 to Momona Capital, dated August 25, 2005. We did not meet certain of our obligations under the loan documents relating to this issuance. These lapses include not reserving the requisite number of treasury shares, selling subsequent securities without offering a right of first refusal, not complying with reporting obligations, not having our common shares quoted on the OTC:BB and not timely registering certain securities. This note was in technical default at November 13, 2005. The note originally carried interest at the rate of 8% per annum, and was due in full on August 25, 2007. Upon default, the note's interest rate increased to 15% per annum and the note became immediately due. The note is convertible into common stock of the Company at a conversion of \$0.005 per share (post-reverse split). A beneficial conversion feature in the amount of \$25,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2005. Accrued interest is convertible into common stock of the Company at a price of \$0.005 per share (post-reverse split). Interest in the amount of \$870 was accrued on this note during the twelve months ended December 31, 2007 and 2006, respectively. During the twelve months ended December 31, 2006, the holder of the note converted \$2,000 of principal and \$3,667 of accrued interest into common stock. This note is in default at December 31, 2006.

23,000 23,000

Convertible note payable in the amount of \$10,000 to Lane Ventures dated August 25, 2005. We did not meet certain of our obligations under the loan documents relating to this issuance. These lapses include not reserving the requisite number of treasury shares, selling subsequent securities without offering a right of first refusal, not complying with reporting obligations, not having our common shares quoted on the OTC:BB and not timely registering certain securities. This note was in technical default at November 13, 2005. The note originally carried interest at the rate of 8% per annum, and was due in full on August 25, 2007. Upon default, the note's interest rate increased to 15% per annum and the note became immediately due. The note is convertible into common stock of the Company at a conversion of \$0.005 per share (post-reverse split). A beneficial conversion feature in the amount of \$10,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2005. Accrued interest is convertible into common stock of the Company at a price of \$0.005 per share (post-reverse split). Interest in the amount of \$226 was accrued on this note during the twelve months ended December 31, 2007 and 2006, respectively. During the twelve months ended December 31, 2006, the holder of the note converted \$4,000 of principal and \$1,467 of accrued interest into common stock. This note is in default at December 31, 2006.

6,000

6,000

Note payable in the amount of \$120,000 to Alpha Capital, dated February 7, 2006. The originally carried interest at the rate of 15% per annum, and

120,000

120,000

was originally due in full on February 7, 2007. The Company is not in compliance with various terms of this note, including making timely payments of interest, and this note was in technical default at May 8, 2006. At this time, the interest rate increased to 20% and the note became immediately due and payable. During the three months ended September 30, 2007, the Company extended the due date of the notes one year, to October 31, 2007; at the same time, the Company added a convertibility feature, allowing the noteholders to convert the notes and accrued interest into common stock of the Company at a rate of \$0.005 per share. Interest in the amount of \$6,049 was accrued on this note during the twelve months ended December 31, 2007 and 2006. This note is in default at December 31, 2007.

Note payable in the amount of \$30,000 to Whalehaven Capital dated February 7, 2006. The note originally carried interest at the rate of 15% per annum, and was due in full on February 7, 2007. The Company is not in compliance with various terms of this note, including making timely payments of interest, and this note was in technical default at May 8, 2006. At this time, the interest rate increased to 20% and the note became immediately due and payable. . During the three months ended September 30, 2007, the Company extended the due date of the notes one year, to October 31, 2007; at the same time, the Company added a convertibility feature, allowing the noteholders to convert the notes and accrued interest into common stock of the Company at a rate of \$0.005 per share. Interest in the amount of \$1,134 was accrued on this note during the twelve months ended December 31, 2007 and 2006. This note is in default at December 31, 2007

30,00030,000

Table of Contents

Note payable in the amount of \$75,000 to Michael Ferrone, dated August 2, 2004. The note bears interest at the rate of 8% per annum, and was due in full on February 2, 2005. Interest in the amount of \$1,513 was accrued on this note during the twelve months ended December 31, 2007, and 2006, respectively. This note is in default at December 31, 2006.

| | |
|--------|--------|
| 75,000 | 75,000 |
|--------|--------|

Fourteen 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, pursuant to the Company's employment agreement with Mr. Klepfish, the amount of \$4,500 in salary is accrued each month to a note payable. These notes bear interest at the rate of 8% per annum. These notes and accrued interest are convertible into common stock of the Company at a rate of \$0.005 per share. Interest in the aggregate amount of \$1,144 and \$89 was accrued on these notes during the twelve months ended December 31, 2007 and 2006.

| | |
|--------|-------|
| 63,000 | 9,000 |
|--------|-------|

Note payable in the amount of \$10,000 to Alpha Capital, dated May 19, 2006. During the three months ended September 30, 2007, the Company extended the due date of the notes one year, to October 31, 2007; at the same time, the Company added a convertibility feature, allowing the noteholders to convert the notes and accrued interest into common stock of the Company at a rate of \$0.005 per share. The note bears interest at the rate of 15% per annum, and was due in full on November 19, 2006. Interest in the amount of \$504 was accrued on this note during the twelve months ended December 31, 2007 and 2006. This note is in default at December 31, 2007.

| | |
|--------|--------|
| 10,000 | 10,000 |
|--------|--------|

Note payable in the original amount of \$25,787 to Microsoft Corporation dated May 3, 2006. The note bears interest at the rate of 9.7% per annum, and is payable in 60 monthly payments of \$557 beginning October 1, 2006. Negative interest in the amount of \$2,269 and \$1,263 was capitalized to this note during the twelve months ended December 31, 2007 and 2006, respectively. Principal and interest in the amounts of \$4,421 and \$1,040, respectively, were paid on this note during the twelve months ended December 31, 2007 and 2006, respectively..

| | |
|--------|--------|
| 20,953 | 25,377 |
|--------|--------|

| | | | |
|-------------------------------|--------|-------------|-------------|
| Total | \$ | 1,221,953 | 1,332,377 |
| Less: Current maturities | | (1,205,870) | (1,311,421) |
| Long-term portion | \$ | 16,083 | 20,956 |
| Total Non-related parties | \$ | 943,953 | 948,377 |
| Total related parties | | 278,000 | 384,000 |

| | | | |
|-------|----|-----------|-----------|
| Total | \$ | 1,221,953 | 1,332,377 |
|-------|----|-----------|-----------|

Accounting for Conversion Options Embedded in Convertible Notes and Convertible Interest

The Company has certain convertible notes payable which contain embedded beneficial conversion features. Through August 2005, the beneficial conversion features of these convertible notes were accounted for by the equity method, whereby the intrinsic value of the beneficial conversion features were considered discounts to the notes. These discounts were immediately amortized to interest expense. During September 2005, the number of shares of the Company's common stock issued and issuable exceeded the number of shares of common stock the Company had authorized, and this triggered a change in the manner in which the Company accounts for these beneficial conversion features. In accordance with Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended ("SFAS 133"), the debt features provision contained in the terms governing the Notes are not clearly and closely related to the characteristics of the Notes. Accordingly, the features qualified as embedded derivative instruments at September 30, 2005 and because they do not qualify for any scope exception within SFAS 133, they were required by SFAS 133 to be accounting for separately from the debt instrument and recorded as derivative financial instruments. In September 2005, the Company valued the beneficial conversion features of its notes payable using the Black-Scholes valuation method, and arrived at an aggregate value of \$12,528,662. Pursuant to Emerging Issues Task Force Issue 00-19 "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock" ("EITF 00-19") "If a contract is reclassified from permanent or temporary equity to an asset or a liability, the change in fair value of the contract during the period the contract was classified as equity should be accounted for as an adjustment to stockholders' equity." Accordingly, during the year ended December 31, 2005, the Company charged the amount of \$12,445,536 to stockholders' equity. \$5,665,290 of this amount was charged to additional paid-in capital, which brought the balance of additional paid-in capital to \$0. The remainder, or \$6,780,286, was charged to accumulated deficit. During subsequent periods, the conversion option liability will be revalued, and any change in value charged to operations. At December 31, 2007 and 2006, the conversion option liability was valued at \$612,429 and \$437,207, respectively. The revaluations resulted in (gain) loss during the year ended December 31, 2007 and 2006 of \$175,222 and \$(6,666,068).

The Company valued these embedded conversion options using the Black-Scholes option pricing model with the following assumptions:

Table of Contents

| | Risk Free Interest Rate | Expected Dividend Yield | Expected Option Life | Volatility |
|-------------------|-------------------------------|-------------------------------|----------------------------|------------|
| December 31, 2007 | 4.25% | - | 10 years | 194.46% |

9. RELATED PARTY TRANSACTIONS

Twelve months ended December 31, 2007:

The Company issued twelve convertible notes payable in the amount of \$4,500 each for additional salary due to the Company's Chief Executive Officer.

Twelve months ended December 31, 2006:

The Company has two convertible notes payable in the aggregate amount of \$9,000 to its Chief Executive Officer for additional salary.

The Company issued 350,000 shares of common stock with a fair value of \$17,465 to an officer for services.

The Company issued options to purchase 5,000,000 shares of common stock to each of three board members (an aggregate of 15,000,000 options) with a total fair value of \$67,500.

10. PENALTY FOR LATE REGISTRATION OF SHARES

During the twelve months ended December 31, 2007 and 2006, the Company accrued liabilities for the issuance of 22,760,000 and 58,560,000 shares, respectively (post-reverse split) (the "Penalty Shares") of the Company's stock pursuant to a penalty calculation with regard to the late registration of shares underlying convertible notes payable. At December 31, 2007, there were a total of 110,280,000 Penalty Shares issuable. The Company charged to operations \$64,984 and \$1,668,792, during the twelve months ended December 31, 2007 and 2006, respectively, representing the fair values of the Penalty Shares accrued. During the twelve months ended December 31, 2007 and 2006, the Company revalued these 22,760,000 and 58,560,000 Penalty Shares (post-reverse split). This resulted in (gain) loss of \$3,296 and \$(2,332,952), respectively. The liability carried on the Company's balance sheets at December 31, 2007 and 2006 representing the value of the Penalty Shares is \$330,840 and \$262,500, respectively.

11. INCOME TAXES

The Company has adopted Financial Accounting Standard No. 109 which requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statement or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between financial statements and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Temporary differences between taxable income reported for financial reporting purposes and income tax purposes are insignificant.

For income tax reporting purposes, the Company's aggregate unused net operating losses approximate \$800,000 which expire through 2027, subject to limitations of Section 382 of the Internal Revenue Code, as amended. The deferred tax asset related to the carryforward is approximately \$280,000. The Company has provided a valuation reserve against the full amount of the net operating loss benefit, because in the opinion of management

based upon the earning history of the Company, it is more likely than not that the benefits will not be realized.

Components of deferred tax assets as of December 31, 2007, and 2006 are as follows:

| | December 31, 2007 | December 31, 2006 |
|---------------------------------|----------------------|----------------------|
| Non Current: | | |
| Net operating loss carryforward | \$ 280,000 | \$ 875,000 |
| Valuation allowance | (280,000) | (875,000) |
| Net deferred tax asset | \$ -- | \$ - |

12. COMMON STOCK

On January 26, 2004, through a share exchange, the shareholders of FII converted 10,000 shares (post-reverse split) of FII common stock outstanding into 25,000,000 shares (post-reverse split) of IVFH. On January 29, 2004, in a transaction known as a reverse acquisition, the shareholders of IVFH exchanged 25,000,000 shares (post-reverse split) of IVFH for 25,000,000 shares (post-reverse split) of Fiber Application

Table of Contents

Systems Technology, Ltd. (formerly known as Alpha Solarco) (“Fiber”), a publicly-traded company. The shareholders of IVFH thus assumed control of Fiber, and Fiber changed its name to Innovative Food Holdings, Inc. The 25,000,000 shares (post-reverse split) of Innovative Food Holdings are shown on the Company’s balance sheet at December 31, 2003 as shares outstanding. These shares are shown at their par value of \$2,500 as a decrease of additional paid-in capital at the acquisition date of January 29, 2004. There were 157,037 shares (post-reverse split) outstanding in Fiber at the time of the reverse acquisition; the par value of these shares, or \$16, was transferred from additional paid-in capital at the time of the reverse acquisition.

The Company had a 1-for-200 reverse split of its common stock effective March 8, 2004. There were a total of 30,011,706 shares issued and outstanding immediately before the reverse split, and 157,037 shares issued and outstanding immediately after the reverse split.

During the twelve months ended December 31, 2007, the Company also had the following transactions:

The Company cancelled 5,573,158 shares (post reverse-split) of common stock for which were issued but not outstanding.

The Company recorded a discount to the convertible notes payable for the accrued interest in the amount of \$128,079 during the twelve months ended December 31, 2007.

The Company issued 3,250,000 shares (post-reverse split) of common stock for an employee bonuses. The fair value of these shares in the amount of \$8,125 was charged to operations 2007.

The Company issued 800,000 shares (post-reverse split) of common stock for the conversion of \$4,000 of accrued interest on a note payable.

The Company issued 32,000,000 shares (post-reverse split) of common stock for the conversion of \$160,000 of principal of a note payable.

Warrants

The following table summarizes the changes in warrants and outstanding and the related prices of the Company’s common stock issued to non-employees of the Company. These warrants were granted as part of a financing agreement (amounts have been adjusted to reflect the reverse stock split):

| Range of exercise prices | Number of shares outstanding | Weighted average remaining contractual life (years) | Weighted average exercise price of outstanding warrants | Number of shares exercisable | Weighted average exercise price of exercisable options |
|--------------------------|------------------------------|---|---|------------------------------|--|
| \$ 0.0050 | 136,500,000 | 2.17 | \$ 0.0050 | 136,500,000 | \$ 0.0050 |
| \$ 0.0110 | 10,500,000 | 2.64 | \$ 0.0110 | 10,500,000 | \$ 0.0110 |
| \$ 0.0115 | 42,000,000 | 2.64 | \$ 0.0115 | 42,000,000 | \$ 0.0115 |
| | 189,000,000 | 2.30 | | 189,000,000 | |

Transactions involving warrants are summarized as follows:

| | Number of Shares | Weighted Average Exercise Price |
|---|---------------------|--|
| Warrants exercisable at December 31, 2006 | 189,000,000 | \$ 0.03 |
| Granted | - | - |
| Exercised | - | - |
| Cancelled / Expired | - | - |
| Warrants exercisable at December 31, 2007 | 189,000,000 | \$ 0.03 |

Options

In May 2004, the Company issued options to purchase 500,000 shares (post-reverse split) of common stock to an employee. The options vest 100,000 annually over the next five years. The Company expensed the value of the shares issued of \$135,673 to operations during the twelve months ended December 31, 2004.

In December 2006, the Company agreed to issued 5,000,000 options to purchase additional shares (post-reverse split) of common stock to each of

Table of Contents

the Company's three directors, pursuant to a board resolution for services performed in 2006. The options were issued in April 2007.

The following table summarizes the changes outstanding and the related prices for the shares of the Company's common stock issued to employees of the Company (post-reverse split):

| Range of exercise prices | Number of shares outstanding | Weighted average remaining contractual life (years) | Weighted average exercise price of outstanding options | Number of shares exercisable | Weighted average exercise price of exercisable options |
|--------------------------|------------------------------|---|--|------------------------------|--|
| \$ 0.500 | 500,000 | 3.89 | \$ 0.500 | 15,000,000 | \$ 0.005 |
| 0.005 | 15,000,000 | 1.38 | 0.005 | 300,000 | 0.500 |
| | 15,500,000 | 3.81 | | 15,300,000 | \$ 0.015 |

Options not vested are not exercisable.

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

| | Number of Shares | Weighted Average Exercise Price |
|--|------------------|---------------------------------|
| Options exercisable at December 31, 2006 | 15,500,000 | \$ 0.021 |
| Granted | - | - |
| Exercised | - | - |
| Cancelled / Expired | - | - |
| Options exercisable at December 31, 2007 | 15,500,000 | \$ 0.02 |
| Non-vested at December 31, 2007 | 15,300,000 | \$ 0.01 |
| Vested at December 31, 2007 | 200,000 | \$ 0.50 |

Accounting for Warrants and Freestanding Derivative Financial Instruments

The Company accounts for the issuance of common stock purchase warrants and other freestanding derivative financial instruments in accordance with the provisions of EITF 00-19. Based on the provisions of EITF 00-19, the Company classifies, as equity, any contracts that (i) require physical settlement or net-share settlement or (ii) gives the Company a choice of net-cash settlement or settlement in its own shares (physical settlement or net-share settlement). The Company classifies as assets or liabilities any contract that (i) require net-cash or (ii) give the counterparty a choice of net-cash settlement in shares (physical or net-share settlement).

The fair value of these warrants is determined utilizing the Black-Scholes valuation model. Through August 2005, these warrants were accounted for by the equity method, whereby the fair value of the warrants was charged to additional paid-in capital. During September, 2005, the number of shares of the Company's common stock issued and issuable exceeded the number of shares of common stock the Company had authorized, and this triggered a change in

the manner in which the Company accounts for these warrants and the Company began to account for these warrants utilizing the liability method. Pursuant to EITF 00-19, "If a contract is reclassified from permanent or temporary equity to an asset or a liability, the change in fair value of the contract during the period the contract was classified as equity should be accounted for as an adjustment to stockholders' equity." Accordingly, during the year ended December 31, 2005, the Company charged the amount of \$10,374,536 to stockholders' equity. At the same time, the Company changed the way in which it accounts for the beneficial conversion feature of convertible notes payable (see note 8).

The accounting guidance shows that the warrants and options which are a derivative liability should be revalued each reporting period. The recorded value of such warrants can fluctuate significantly based on fluctuations in the market value of the underlying securities of the issuer of the warrants and options, as well as in the volatility of the stock price during the term used for observation and the term remaining for warrants and options. During the twelve months ended December 31, 2007 and 2006, the Company recognized (gain) loss of \$59,042 and \$(5,579,541), respectively, for the decrease in the fair value of the warrant liability and recorded the gains in operations during the twelve months ended December 31, 2007 and 2006. The fair value of these instruments was estimated as December 31, 2007, using the Black-Scholes option pricing model with the following assumptions: risk free interest rate: 4.25%; expected dividend yield: 0%; expected option life: 5 years; and volatility: 194.46%. The fair value of these instruments was estimated as December 31, 2006, using the Black-Scholes option pricing model with the following assumptions: risk free interest rate: 4.75%; expected dividend yield: 0%; expected option life: 5 years; and volatility: 152.50%.

Table of Contents

Insufficient Authorized but Unissued Shares of Common Stock

The Company has a potential obligation to issue 612,334,320 and 697,210,916 shares (post-reverse split) of common stock upon the conversion of convertible notes and accrued interest, warrants and penalty shares issuable at December 31, 2007, and 2006, respectively. The Company had 171,787,638 and 151,310,796 shares (post-reverse split) of common stock outstanding at December 31, 2007, and 2006, respectively, and 500,000,000 shares (post-reverse split) of common stock authorized at December 31, 2007 and 2006. The Company has exceeded its shares authorized by 284,121,958 and 197,210,916 shares (post-reverse split) at December 31, 2007 and 2006, respectively.

13. EMPLOYMENT AGREEMENTS

Z. ZACKARY ZIAKAS

Food Innovations, Inc. and Z. Zackary Ziakas are parties to an employment agreement which, among other things:

That Mr. Ziakas will serve as the Company's Chief Operating Officer,

For a term of five (5) years, commencing May 17, 2004, subject to earlier termination by either party in accordance with the Employment Agreement,

That Mr. Ziakas' salary shall be \$95,000 per annum, payable by the Company in regular installments in accordance with the Company's general payroll practices.

Salary will automatically increase by 10% on a yearly basis.

SAM KLEPFISH

The Company and its Chief Executive Officer Sam Klepfish are parties to an oral agreement which provides, among other things:

Mr. Klepfish is to receive a monthly salary in the amount of \$10,028

Mr. Klepfish received an additional monthly salary of \$4,500 which is not paid in cash, but is recorded on a monthly basis as a convertible note payable. These notes payable are convertible into common stock of the Company at a rate of \$0.005 per share.

14. COMMITMENTS AND CONTINGENCIES

The Company has two rented 2,800 square feet of office space in Naples, Florida, the location of the Company's operations. The lease expires on September 30, 2008. The aggregate rent for the two rented offices is currently \$51,084 per annum. We intend to negotiate an extension of that lease; however, if we are unable to do so, we expect that we will be able to lease or acquire other similar space in close proximity to our existing space. We believe that appropriate space is and will be available if needed at acceptable prices.

At December 31, 2007, commitments for minimum rental payments were a total of \$38,320 all due in 2008.

15. MAJOR CUSTOMER

The Company's largest customer, US Foodservice, Inc. and its affiliates, accounted for approximately 95% and 97% of total sales in the years ended December 31, 2007 and 2006, respectively. A contract with Next Day Gourmet, LP, a subsidiary of U.S. Foodservice, expires September 11, 2008. Negotiations are underway to extend the existing contract or to sign a new contract, and the company has continued to have US Foodservice, Inc. as a customer.

16. GOING CONCERN

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Company as a going concern. Although the Company has reported a loss of \$661,799 for the year ended December 31, 2007, it had an accumulated deficit of \$4,025,046 as of December 31, 2007. The Company's net loss of \$661,799 was generated primarily by non-cash transaction, including non-cash losses of \$ 64,984 on the change in fair value of warrant liabilities; \$175,222 on the change in fair value of conversion option liabilities; and \$308,923 of interest accruals. The Company cannot be certain that anticipated revenues from operations will be sufficient to satisfy its ongoing capital requirements. Management believes the Company will generate sufficient capital from operations and from debt and equity financing in order to satisfy current liabilities in the succeeding twelve months. Management's belief is based on the Company's operating plane, which in turn is based on assumptions that may prove to be incorrect. If the Company's financial resources are insufficient the Company may require additional financing in order to execute its operating plan and continue as a going concern. The Company cannot predict whether this additional financing will be in the form of equity or debt, or be in another form. The Company may not be able to obtain the necessary additional capital on a timely basis, on acceptable terms, or at all. In any of these events, the Company may be unable to implement its current plans for expansion, repay its debt obligations as they become due or respond to competitive pressures, any of which circumstances would have a material adverse effect on its business, prospects, financial condition and results of operations. The Company has not made the financial statements which would be necessary should the Company not be able to continue as a going concern.

17. SUBSEQUENT EVENTS

On March 12, 2008, we executed amendments to restructure an aggregate of \$150,000 of senior secured notes which were due February 7, 2007. The amendments extended the due date of the notes to March 4, 2009 and were in consideration of our issuance of an aggregate of: 30 million Class A warrants exercisable at \$0.0115 per share, 7.5 million Class B warrants exercisable at \$0.011 per share, and 3 million Class C warrants exercisable at \$0.005 per share. All of these warrants have essentially similar terms to the warrants we issued to such investors on February 24, 2005, except that the underlying common stock does not have registration rights.

On March 12, 2008, we also extended, to March 4, 2009, the due date of an additional \$10,000 note that was due November 19, 2006 in consideration of adding a convertibility feature, at a conversion price of \$0.005 per share, to the note and the issuance of 2 million Class A warrants exercisable at \$0.0115 per share, 500,000 Class B warrants exercisable at \$0.011 per share, and 200,000 Class C warrants exercisable at \$0.005 per share. All of these warrants have essentially similar terms to the warrants we issued to such investors on February 24, 2005, except that the underlying common stock does not have registration rights.

On January 22, 2008, we extended, to December 31, 2009, the due date of a \$75,000 note previously extended to March 31, 2008 in consideration of adding a convertibility feature, at a conversion price of \$0.005 per share, to the note.

Effective July 31, 2008, Mr. Ziakas resigned his position as our Chief Operating Officer and assumed the non-executive officer position of Vice President of Procurement. Mr. Ziakas' existing employment agreement has been terminated and he will continue working for us as an employee-at-will with an annual salary of \$105,000.

Effective on July 31, 2008, Mr. Justin Wiernasz, age 42, was promoted to the position of President of Innovative Food Holdings, Inc. Mr. Wiernasz was the Executive Vice President of Marketing and Sales and Chief Marketing Officer of our operating subsidiary, Food Innovations, Inc. since May 2007 and the President of Food Innovations and our Chief Marketing Officer since December 2007. Prior thereto, he was at U.S. Foodservice, our largest customer for 13 years. From 2005 to 2007 he was the Vice President of Sales & Marketing, U.S. Foodservice, Boston, and prior

thereto, from 2003 to 2005 he was a National Sales Trainer at U.S. Foodservice, Charleston SC, from 1996 to 2003 he was the District Sales Manager at U.S. Foodservice, Western Massachusetts and from 1993 to 1996 he was Territory Manager, U.S. Foodservice, Northampton, Easthampton & Amherst, MA. Prior to that from 1989 to 1993 he was the owner and operator J.J.'s food and spirit, a 110 seat restaurant. Mr. Wiernasz signed an employment agreement dated May 18, 2007 that expires on September 13, 2008 pursuant to which he is currently compensated at an annual rate of \$120,000. The agreement also provides for the earning of a bonus of 10% of his salary, up to 50%, for each \$100,000 of incremental profits we make over the previous year. On January 22, 2008, our Board approved the grant of an aggregate of 3 restricted million shares and 5 million in options exercisable for five years at an exercise price of \$0.007 per share to Mr. Wiernasz, upon his appointment as President of Innovative Food Holdings, all of which vest on December 31, 2008, provided Mr. Wiernasz is then still an employee.

ITEM 8. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

ITEM 8A. Controls and Procedures

Evaluation of disclosure 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 under the Exchange Act 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, without limitation, 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.

As of the end of the period covered by this Annual Report, we conducted an evaluation, under the supervision and with the participation of our Chief Executive Officer and Principal Accounting Officer, of our disclosure controls and procedures (as defined in Rules 13a-15(e) of the Exchange Act). Based on that evaluation, our Chief Executive Officer and Principal Accounting Officer concluded that our disclosure controls and procedures were effective in enabling the Company to record, process, summarize and report information required to be included in the Company's periodic SEC filings within the required time period.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's reports in this annual report.

ITEM 8B. Other Information

Information regarding the sale of equity and debt securities during the fourth quarter of 2004 is disclosed in the "Table of Securities Issued during 2004", in Part II, Item 5.

Table of Contents

PART III

ITEM 9. Directors, Executive Officers, Promoters and control Persons; Compliance with Section 16(a) of the Exchange Act

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

| Name | Age | Position |
|-------------------|-----|-------------------------|
| Sam Klepfish | 37 | Chief Executive Officer |
| Z. Zackary Ziakas | 47 | Chief Operating Officer |
| Michael Ferrone | 61 | Director |
| Joel Gold | 67 | Director |

Directors

Sam Klepfish

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

Joel Gold, Director

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

Michael Ferrone, Director

Michael Ferrone was Executive Producer and Producer, Bob Vila TV Productions, Inc from its founding in 1989 to 2000. Michael co-created and developed the T.V. show, "Bob Vila's Home Again". As Executive Producer, Michael managed all aspects of creation, production, and distribution of the Show. By integrating brand extension and sponsor relations, Michael managed the interrelationships between Bob Vila and business partners including senior executives

at Sears, NBC, CBS, A&E, HGTV, General Motors, and Hearst Publications. In 2002 he co-founded Building Media, Inc., (BMI) a multimedia education, marketing and production company committed to promoting best building practices through better understanding of building science principles. As of 2005, BMI operates as an independently managed, wholly owned subsidiary of DuPont™.

Key Employees

Z. Zackary Ziakas, COO

Mr. Ziakas is the Chief Operating Officer of Innovative Food Holdings and our subsidiary, Food Innovations, Inc. and has held that position since September 2004. From November 2001 through September 2004 Mr. Ziakas was the V.P. of Logistics of our subsidiary Food Innovations. Prior to that Mr. Ziakas was a manager at Mail Boxes Etc.

Effective July 31, 2008, Mr. Ziakas resigned his position as our Chief Operating Officer and assumed the non-executive officer position of Vice President of Procurement. Mr. Ziakas' existing employment agreement has been terminated and he will continue working for us as an employee-at-will with an annual salary of \$105,000.

New Executive Officer in 2008

Effective on July 31, 2008, Mr. Justin Wiernasz, age 42, was promoted to the position of President of Innovative Food Holdings, Inc. Mr. Wiernasz was the Executive Vice President of Marketing and Sales and Chief Marketing Officer of our operating subsidiary, Food Innovations, Inc. since May 2007 and the President of Food Innovations and our Chief Marketing Officer since December 2007. Prior thereto, he was at U.S. Foodservice, our largest customer for 13 years. From 2005 to 2007 he was the Vice President of Sales & Marketing, U.S. Foodservice, Boston, and prior thereto, from 2003 to 2005 he was a National Sales Trainer at U.S. Foodservice, Charleston SC, from 1996 to 2003 he was the District Sales Manager at U.S. Foodservice, Western Massachusetts and from 1993 to 1996 he was Territory Manager, U.S. Foodservice, Northampton, Easthampton & Amherst, MA. Prior to that from 1989 to 1993 he was the owner and operator J.J.'s food and spirit, a 110 seat restaurant. Mr. Wiernasz signed an employment agreement dated May 18, 2007 that expires on September 13, 2008 pursuant to which he is currently compensated at an annual rate of \$120,000. The agreement also provides for the earning of a bonus of 10% of his salary, up to 50%, for each \$100,000 of incremental profits we make over the previous year. On January 22, 2008, our Board approved the grant of an aggregate of 3 restricted million shares and 5 million in options exercisable for five years at an exercise price of \$0.007 per share to Mr. Wiernasz, upon his appointment as President of Innovative Food Holdings, all of which vest on December 31, 2008, provided Mr. Wiernasz is then still an employee.

THE COMMITTEES

The Board of Directors does not currently have an Audit Committee, a Compensation Committee, a Nominating Committee or a Governance Committee. The usual functions of such committees are performed by the entire Board of Directors. We are currently having difficulties attracting additional qualified directors, specifically to act as the audit committee financial expert, inasmuch as we are not current in our public filings and have only limited resources to purchase D & O insurance. However, we believe that at least a majority of our directors are familiar with the contents of financial statements.

Attendance at Meetings

From February, 2004 through December 31, 2004, during 2005 during 2006 and during 2007, the Board of Directors met or acted without a meeting pursuant to unanimous written consent fourteen times, five times, and seven times, respectively. No director attended less than 75% of all scheduled meetings.

Table of Contents

We are not currently subject to the requirements of any stock exchange with respect to having a majority of “independent directors” although we believe that we meet that standard inasmuch as Messrs. Gold and Ferrone are “independent” and only Mr. Klepfish, by virtue of being our Chief Executive Officer, is not independent.

Code of Ethics

We have adopted a Code of Ethics that applies to each of our employees, including our principal executive officer and our principal financial officer, as well as members of our Board of Directors. We have filed a copy of such Code as an exhibit to this annual report.

Section 16(a) Beneficial Ownership Reporting Compliance

From February 17, 2004, the date when current management obtained control of the Company through the fiscal year end at December 31, 2004, none of our officers and directors filed any Forms 3 or 4. This is due to the fact that they were unaware of their filing obligations having not been so advised by their then retained corporate counsel. The SEC's public records reflect that on October 15, 2004, acting under direction of previous counsel, a Form 15 was filed by the Company indicating that the Company was no longer subject to the filing requirements of the Exchange Act. We have recently determined that this filing was in error as we have had, for at least the last three years, more than 45,000 shareholders of record. The Form 15 was withdrawn on June 6, 2006. Each of the persons subject to the reporting requirements of Section 16(a) have now been advised of their filing obligations and they have indicated their intention to file the necessary reports. To our knowledge, based upon responses to questions we directed to such filing persons, none of said filing persons have made any “short-swing” sales under the provisions of Section 16(b) of the Exchange Act.

ITEM 10. Executive Compensation

The following table sets forth information concerning the compensation for services in all capacities rendered to us for the year ended December 31, 2007, of our Chief Executive Officer and our other executive officers whose annual compensation exceeded \$100,000 in the fiscal year ended December 31, 2007, if any. We refer to the Chief Executive Officer and these other officers as the named executive officers.

SUMMARY COMPENSATION TABLE

| Name and Principal Position | Year | Salary (\$) | Bonus (\$) | Stock Awards (\$) | Option Awards (\$) | Non-Equity Incentive Compensation | | | Total (\$) |
|--|----------|----------------|---------------|-------------------------|--------------------------|---|----------------------------------|--------------------------------------|---------------|
| | | | | | | Non-qualified Plan Compensation (\$) | Deferred Compensation (\$) | All Other Compensation (\$) | |
| Sam Klepfish - Chief Executive Officer | 2007 | 172,577 | -- | -- | -- | -- | -- | -- | -- |
| | 2006 (a) | \$ 115,697 (b) | -- | \$ --17,500 (c) | --22,500 (d) | -- | -- | -- | \$ 190,176 |
| Joe DiMaggio, Jr. | 2006 (e) | \$ -- | -- | -- | -- | -- | -- | -- | -- |

(a) Mr. Klepfish became an executive officer in March 2006 and was the principal executive officer since August 14, 2006.

(b) Consists of \$115,697 of salary. \$9,000 of this amount has been accrued, and is convertible into shares of common stock at the election of Mr. Klepfish at a rate of \$0.005 per share (post-reverse split).

Edgar Filing: INNOVATIVE FOOD HOLDINGS INC - Form 10KSB

(c) Consists of 350,000 shares (post-reverse split) of common stock.

(d) Consists of options to purchase 5,000,000 shares (post-reverse split) of the Company's common stock at a price of \$0.005 per share (post-reverse split).

(e) Mr. DiMaggio was CEO until August 14, 2006.

Outstanding Equity Awards at Fiscal Year-End as of December 31, 2007

| Name | Option Awards | | | | | Stock Awards | | | |
|------|---|---|---|----------------------------|------------------------|---|--|--|--|
| | Number of Securities Underlying Unexercised Options (#) Exercisable | Number of Securities Underlying Unexercised Options (#) Unexercisable | Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#) | Option Exercise Price (\$) | Option Expiration Date | Number of Shares or Units of Stock That Have Not Vested (#) | Market Value of Shares or Units of Stock That Have Not Vested (\$) | Equity Incentive Plan Awards: Number of Shares, Units or Rights That Have Not Vested (#) | Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Rights That Have Not Vested (\$) |
| None | -- | -- | -- | -- | -- | -- | -- | -- | -- |

Director Compensation

| Name | Fees Earned or Paid in Cash (\$) | Stock Awards (\$) | Option Awards (\$) | Non-Equity Incentive Plan Compensation (\$) | Nonqualified Deferred Compensation Earnings (\$) | All Other Compensation (\$) | Total (\$) |
|------|----------------------------------|-------------------|--------------------|---|--|-----------------------------|------------|
| None | -- | -- | -- | -- | -- | -- | -- |

Table of Contents

Employment Agreements

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

SAM KLEPFISH

The Company and its Chief Executive Officer Sam Klepfish are parties to an oral which provides, among other things:

- Mr. Klepfish is to receive a monthly salary in the amount of \$10,028
- Mr. Klepfish's receives an additional monthly salary of \$4,500 which is not paid in cash, but is recorded on a monthly basis as a convertible note payable. These notes payable are convertible into common stock of the Company at a rate of \$0.005 per share.

Food Innovations, Inc. and Joe DiMaggio, Jr. were parties to an employment agreement that was terminated by mutual agreement on August 14, 2006 which, among other things:

- That Joe DiMaggio will serve as the company's CEO
- For a term of five (5) years, commencing July 15, 2002, subject to earlier termination by either party in accordance with the Employment Agreement,
- The Mr. DiMaggios salary shall be \$100,000 per annum, payable by the Company in regular installments in accordance with the Company's general payroll practices,
- Salary will increase if the Company has weekly revenues of more than \$250,000

Z. ZACKARY ZIAKAS

Food Innovations, Inc. and Z. Zackary Ziakas are parties to an employment agreement which provides, among other things:

- That Mr. Ziakas will serve as the Company's Chief Operating Officer,
- For a term of five (5) years, commencing May 17, 2004, subject to earlier termination by either party in accordance with the Employment Agreement,
- The Mr. Ziakas' salary shall be \$95,00 per annum, payable by the Company in regular installments in accordance with the Company's general payroll practices,
- Salary will automatically increase by 10% on a yearly basis.

As described above, Mr. Ziakas' employment arrangements have since changed and Mr. Justin Wiernasz has become an executive officer with an employment agreement.

Table of Contents

ITEM 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Unless otherwise stated, each person listed below uses the Company's address. Pursuant to SEC rules, includes shares that the person has the right to receive within 60 days.

| Name and Address of Beneficial Owners | Number of Shares Beneficially Owned | | Percent of Class |
|---|-------------------------------------|-----|------------------|
| Sam Klepfish | 20,650,000 | (1) | 11.7% |
| Michael Ferrone | 62,424,778 | (2) | 34.5% |
| Joel Gold | 28,886,141 | (3) | 14.4% |
| Z Ziakas | 4,100,000 | (4) | 2.4% |
| Joseph DiMaggio Jr. | 14,800,000 | | 8.6% |
| Christopher Brown | 15,000,000 | | 8.7% |
| Wally Giakas | 20,262,501 | (5) | 10.6% |
| All officers and directors as a whole (4 persons) | 116,060,919 | | 48.8% |

- (1) Includes 350,000 shares (post-reverse split) of common stock held by Mr. Klepfish. Also includes options to purchase 5,000,000 shares (post reverse-split) of the Company's common stock, and 15,300,000 shares issuable upon conversion of convertible notes payable.
- (2) Includes 43,600,000 shares (post-reverse split) of common stock held by Mr. Ferrone, and an aggregate of 420,000 shares (post reverse-split) held by relatives of Mr. Ferrone. Also includes 4,000,000 shares (post-reverse split) issuable upon conversion of notes held by children of Mr. Ferrone; Also includes 8,521,002 shares (post-reverse split) issuable upon conversion of accrued interest on notes payable held by Mr. Ferrone, and 883,776 shares (post-reverse split) issuable upon conversion of accrued interest on notes held by children of Mr. Ferrone. Also includes options to purchase 5,000,000 shares (post-reverse split) of the Company's common stock held by Mr. Ferrone.
- (3) Includes 1,000,000 shares (post-reverse split) of common stock held by Mr. Gold, and options to purchase 5,000,000 shares (post-reverse split) of common stock.
- Also includes 6,000,000 shares (post-reverse split) issuable upon conversion of notes held by Mr. Gold, and 3,301,503 shares (post-reverse split) issuable upon conversion of accrued interest on notes held by Mr. Gold. Also includes 10,000,000 shares (post-reverse split) issuable upon conversion of notes held by Mr. Gold 2,664,638 shares (post-reverse split) issuable upon conversion of accrued interest on notes held by Mr. Gold. Also includes 920,000 shares (post-reverse split) of common stock held by Mr. Gold's spouse.
- (4) Includes 3,800,000 shares (post-reverse split) of common stock held by Mr. Ziakas, and options to purchase 500,000 shares (post-reverse split) of common stock.

Table of Contents

- (5) Includes 125,000,000 shares (post-reverse split) issuable upon conversion of notes payable, and 32,622,529 shares (post-reverse split) issuable upon conversion of accrued interest on notes payable. Also includes 92,000,000 shares (post-reverse split) issuable as a penalty for late registration of shares of common stock underlying convertible notes payable, and warrants to purchase an additional 148,200,000 shares (post-reverse split) of common stock. Also includes 100,000 shares (post-reverse split) of common stock held by the children of Mr. Giakas.

ITEM 12. Certain Relationships and Related Transactions

At various times in 2004, 2005, 2006 and 2007 we entered into note payable agreements with certain related parties. The information concerning those notes is set forth below:

| Note Holder | Relationship | Consideration | Interest Rate | Conversion Price | Principal Balance December 31, 2007 | Principal Balance December 31, 2006 | Principal Balance December 31, 2005 | Principal Balance December 31, 2004 |
|--|-------------------|---------------|---------------|------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| Michael Ferrone | Director | Cash | 8% | \$ 0.005 | \$ - | \$ 160,000 | \$ 160,000 | 160,000 |
| Michael Ferrone | Director | Cash | 8% (a) | \$ 0.005 | 75,000 | 75,000 | 75,000 | 75,000 |
| Joel Gold | Director | Cash | 8% | \$ 0.005 | 50,000 | 50,000 | 50,000 | 50,000 |
| Joel Gold | Director | Cash | 8% | \$ 0.005 | 25,000 | 25,000 | 100,000 | 100,000 |
| Joel Gold | Director | Cash | 8% | \$ 0.005 | 25,000 | 25,000 | 25,000 | - |
| Lauren M. Ferrone (child of Michael Ferrone) | Child of Director | Cash | 8% (a) | \$ 0.005 | 10,000 | 10,000 | 10,000 | 10,000 |
| Richard D. (child of Michael Ferrone) | Child of Director | Cash | 8% (a) | \$ 0.005 | 10,000 | 10,000 | 10,000 | 10,000 |
| Christian D. (child of Michael Ferrone) | Child of Director | Cash | 8% (a) | \$ 0.005 | 10,000 | 10,000 | 10,000 | 10,000 |
| Andrew I. Ferrone (child of Michael Ferrone) | Child of Director | Cash | 8% (a) | \$ 0.005 | 10,000 | 10,000 | 10,000 | 10,000 |

Ferrone)

| | | | | | | | | |
|--------------|--------------------------------------|----------|----|----------|--------|-------|---|---|
| Sam Klepfish | Director and Interim President | Services | 8% | \$ 0.005 | 63,000 | 9,000 | - | - |
|--------------|--------------------------------------|----------|----|----------|--------|-------|---|---|

(a) In default at December 31, 2007, and 2006.

During the year ended December 31, 2007, the Company had the following transactions with related parties:

The Company issued 32,000,000 shares of common stock for the conversion of the \$160,000 convertible note from Michael Ferrone.

40

Table of Contents

During the year ended December 31, 2005, the Company had the following transactions with related parties:

The Company received a loan in the amount of \$25,000 from Joel Gold.

During the year ended December 31, 2004, the Company had the following transactions with related parties:

The Company received loans in the amount of \$160,000 and \$75,000 from Michael Ferrone, and in the amount of \$10,000 from each of four children of Mr. Ferrone.

The Company received loans in the amount of \$50,000 and \$100,000 from Joel Gold.

ITEM 13. Exhibits

EXHIBIT NUMBER

- 3.1 Articles of Incorporation (incorporated by reference to exhibit 3.1 of the Company's annual report on Form 10-KSB for the year ended December 31, 2004 filed with the Securities and Exchange Commission on September 28, 2005).
- 3.2 Bylaws of the Company (incorporated by reference to exhibit 3.2 of the Company's annual report on Form 10-KSB for the year ended December 31, 2006 filed with the Securities and Exchange Commission on April 18, 2008).
- 4.1 Form of Convertible Note (incorporated by reference to exhibit 4.1 of the Company's annual report on Form 10-KSB for the year ended December 31, 2004 filed with the Securities and Exchange Commission on September 28, 2005).
- 4.2 Form of Convertible Note (incorporated by reference to exhibit 4.2 of the Company's annual report on Form 10-KSB for the year ended December 31, 2004 filed with the Securities and Exchange Commission on September 28, 2005).
- 4.3 Form of Warrant - Class A (incorporated by reference to exhibit 4.3 of the Company's annual report on Form 10-KSB for the year ended December 31, 2004 filed with the Securities and Exchange Commission on September 28, 2005).
- 4.4 Form of Warrant - Class B (incorporated by reference to exhibit 4.4 of the Company's annual report on Form 10-KSB for the year ended December 31, 2004 filed with the Securities and Exchange Commission on September 28, 2005).
- 4.5 Form of Warrant - Class C (incorporated by reference to exhibit 4.5 of the Company's annual report on Form 10-KSB for the year ended December 31, 2004 filed with the Securities and Exchange Commission on September 28, 2005).

Table of Contents

- 10.1 Lease of the Company's offices at Naples, Florida (incorporated by reference to exhibit 10.1 of the Company's annual report on Form 10-KSB for the year ended December 31, 2004 filed with the Securities and Exchange Commission on September 28, 2005).
- 10.2 Security and Pledge Agreement – IVFH (incorporated by reference to exhibit 10.2 of the Company's annual report on Form 10-KSB for the year ended December 31, 2004 filed with the Securities and Exchange Commission on September 28, 2005).
- 10.3 Security and Pledge Agreement – FII (incorporated by reference to exhibit 10.3 of the Company's annual report on Form 10-KSB for the year ended December 31, 2004 filed with the Securities and Exchange Commission on September 28, 2005).
- 10.4 Supply Agreement with Next Day Gourmet, L.P. with Next Day Gourmet, L.P. (incorporated by reference to exhibit 10.4 of the Company's annual report on Form 10-KSB for the year ended December 31, 2004 filed with the Securities and Exchange Commission on September 28, 2005).
- 10.5 Subscription Agreement (incorporated by reference to exhibit 10.5 of the Company's annual report on Form 10-KSB for the year ended December 31, 2004 filed with the Securities and Exchange Commission on September 28, 2005).
- 10.6 Management contract between the Company and Joseph DiMaggio, Jr. (incorporated by reference to exhibit 10.2 of the Company's annual report on Form 10-KSB for the year ended December 31, 2005 filed with the Securities and Exchange Commission on April 17, 2006).
- 10.7 Management contract between the Company and Z. Zackary Ziakas (incorporated by reference to exhibit 10.3 of the Company's annual report on Form 10-KSB for the year ended December 31, 2005 filed with the Securities and Exchange Commission on April 17, 2006).
- 10.8 Agreement and Plan of Reorganization between IVFH and FII. (incorporated by reference to exhibit 10.6 of the Company's annual report on Form 10-KSB for the year ended December 31, 2004 filed with the Securities and Exchange Commission on September 28, 2005).

14 Code of Ethics

21 Subsidiaries of the Company

31.1 Rule 13a-14(a) Certification of President

31.2 Rule 13a-14(a) Certification of Principal Financial Officer

32.1 Rule 1350 Certification of President

32.2 Rule 1350 Certification of Principal Financial Officer

ITEM 14. Principal Accountant Fees and Services

Audit Fees

The aggregate fees billed for each of the last three fiscal years for professional services rendered by Bernstein & Pinchuk LLP ("Accountant") for the audit of our annual financial statements, and review of financial statements

included in our Form 10-QSB: 2007: \$30,000; and 2006: \$75,000

Audit-Related Fees

The aggregate fees billed in each of the last two fiscal years for assurance and related services by Accountant that are reasonably related to the performance of the audit or review of our financial statements and are not reported under Audit Fees above: \$0

Tax Fees

The aggregate fees billed in each of the last two fiscal years for professional services rendered by Accountant: \$0.

All Other Fees

The aggregate fees billed in each of the last two fiscal years for products and services provided by Bernstein & Pinchuck, other than the services reported above: \$0.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

INNOVATIVE FOOD HOLDINGS, INC.

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

Dated: July 31, 2008

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

| Name | Title | Date |
|--|---|---------------|
| /s/ Sam Klepfish Sam Klepfish | CEO and Director (Principal Executive Officer) | July 31, 2008 |
| /s/ John McDonald John McDonald | Principal Accounting Officer (Principal Financial Officer) | July 31, 2008 |
| /s/ Joel Gold Joel Gold | Director | July 31, 2008 |
| /s/ Michael Ferrone Michael Ferrone | Director | July 31, 2008 |