INNOVATIVE FOOD HOLDINGS INC
Form 10-Q
August 14, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington D. C. 20549

FORM 10-Q

r Quarterly report pursuant to Section 13 or 15(d) of the Securities and Exchange Act of 1934.

For the quarterly period ended June 30, 2008

r Transition report pursuant to Section 13 or 15(d) of the Exchange Act for the transition period from _________ to _________.

Commission File Number: 0-9376

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

Florida	20-1167761
(State of or Other Jurisdiction of Incorporation or Organization)	(IRS Employer I.D. No.)

1923 Trade Center Way
Naples, Florida 34109
(Address of Principal Executive Offices)

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

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES þ NO r

Indicate by check mark whether the registrant is a shell company (as defined in Regulation 12b-2 of the Exchange Act):

YES r NO þ

State the number of shares outstanding of each of the issuer's classes of Common equity, as of the latest practicable date:

181,787,638 Common Shares (post-reverse split) outstanding as of August 5, 2008

Transitional Small Business Disclosure Format:

YES r NO þ

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

(Check One):

Large Accelerated filer r	Accelerated filer r
Non-accelerated filer r (Do not check if a smaller reporting company)	Smaller reporting company þ

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Innovative Food Holdings, Inc.
Consolidated Balance Sheets

ASSETS	June 30, 2008	December 31, 2007
Current assets	(UNAUDITED)	
Cash and cash equivalents	$ 28,461	$ 74,610
Accounts receivable, net.	141,823	243,148
Interest receivable	7,147	7,147
Loan receivable, net	285,000	285,000
Prepaid expenses	1,600	7,030
Total current assets	464,031	616,935
Property and equipment, net	67,805	83,823
Total assets	$ 531,836	$ 700,758
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
Current liabilities		
Accounts payable and accrued liabilities	$ 721,736	$ 765,614
Accrued interest, net	378,767	316,058
Accrued interest - related parties, net	157,440	142,621
Notes payable , current portion, net of discount	767,618	927,870
Notes payable - related parties, current portion, net of discount	305,000	278,000
Warrant liability	1,595,299	580,648
Conversion option liability	1,793,899	612,429
Penalty for late registration of shares	882,236	330,840
Total current liabilities	6,601,995	3,954,080
Note payable	13,470	16,083
Total liabilities	6,615,465	3,970,163
Stockholder's deficiency		
Common stock, $0.0001 par value; 500,000,000 shares authorized 181,787,638 shares issued 171,787,638 outstanding at June 30, 2008 and December 31, 2007	18,179	18,179
Additional paid-in capital	841,890	737,462
Accumulated deficit	(6,943,698)	(4,025,046)
Total stockholder's deficiency	(6,083,629)	(3,269,405)
Total liabilities and (deficiency in) stockholders' equity	$ 531,836	$ 700,758

See notes to consolidated financial statements.

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

	For the Three Months Ended June 30 2008	For the Three Months Ended June 30 2007	For the Six Months Ended June 30 2008	For the Six Months Ended June 30 2007
Revenue	$ 1,681,854	$ 1,704,209	$ 3,285,232	$ 3,304,408
Cost of goods sold	1,292,741	1,260,890	2,579,634	2,406,112
Gross margin	389,113	443,319	705,598	898,296
Selling, general and administrative expenses	534,271	427,873	865,348	827,764
Total operating expenses	534,271	427,873	865,348	827,764
Operating income (loss)	(145,158)	15,446	(159,750)	70,532
Other (income) expense:				
Interest (income) expense	149,231	81,859	265,625	158,133
Cost of penalty for late registration of shares	-	14,280	-	51,712
Change in fair value of warrant liability	396,136	2,076	760,407	(27,753)
Change in fair value of conversion option liability	469,846	(20,259)	1,181,470	92,744
(Gain) loss from marking to market - registration penalty	220,560	(11,280)	551,400	(38,464)
Total other (income) expense	1,235,773	66,676	2,758,902	236,372
Loss before income taxes	(1,380,931)	(51,230)	(2,918,652)	(165,840)
Income tax expense	-	-	-	-
Net loss	$ (1,380,931)	$ (51,230)	$ (2,918,652)	$ (165,840)
Net loss per share - basic (post reverse-splits)	$ (0.01)	$ (0.00)	$ (0.02)	$ (0.00)
Weighted average shares outstanding - basic (post reverse-splits)	171,787,638	148,666,209	171,787,638	148,595,605

See notes to consolidated financial statements.

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

	For the Six Months Ended June 30 2008	For the Six Months Ended June 30 2007
Cash flows from operating activities:		
Net loss	$ (2,918,652)	$ (165,840)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	20,397	29,967
Stock issued as bonuses to employee and board members	-	8,125
Amortization of discount on notes payable and interest on notes payable	189,175	27,000
Cost of penalty due to late registration of shares	-	51,712
Change in fair value of warrant liability	760,411	(27,753)
Change in fair value of conversion option liability	1,181,470	92,744
(Gain) loss from marking to market-penalty	551,396	(38,464)
Changes in assets and liabilities:		
Accounts receivable, net	101,325	125,190
Prepaids	-	(2,730)
Accounts payable and accrued expenses	75,080	(164,909)
Net cash used in operating activities	(39,398)	(64,958)
Cash flows from investing activities:		
Acquisition of property and equipment	(4,379)	(13,138)
Net cash used in investing activities	(4,379)	(13,138)
Cash flows from financing activities:		
Principal payments on debt	(2,372)	(3,348)
Net cash used in financing activities	(2,372)	(3,348)
Decrease in cash and cash equivalents	(46,149)	(81,444)
Cash and cash equivalents at beginning of period	74,610	118,518
Cash and cash equivalents at end of period	$ 28,461	$ 37,074
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ -	$ -
Taxes	$ -	$ -
Revaluation of conversion option liability	$ 1,181,470	$ 92,744

Revaluation of warrant liability	$	760,411	$	(27,753)
Cost of penalty for late registration of shares	$	-	$	51,712
Revaluation of penalty for late registration of shares	$	551,396	$	(38,464)
Cancellation of shares of common stock	$	-	$	557
Issuance of warrants for the extension of notes payable	$	254,240	$	-
Common stock issued to employees as bonus	$	-	$	8,125
Common stock issued for conversion of accrued interest	$	-	$	4,000

See notes to consolidated financial statements.

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INNOVATIVE FOOD HOLDINGS, INC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2008
(Unaudited)

1. BASIS OF PRESENTATION AND NATURE OF BUSINESS OPERATIONS

Basis of Presentation

The accompanying unaudited consolidated financial statements of Innovative Food Holdings, Inc., and its wholly owned subsidiaries, Food Innovations, Inc. ("FII") and Food New Media Group, Inc. ("FNM") (collectively, the "Company, or "IVFH"), have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. FNM was recently formed on November 27, 2007. They do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for a complete financial statement presentation. U.S. accounting principles also contemplate continuation of the Company as a going concern.

Acquisition and Corporate Restructure

We were initially formed in September 1979 as Alpha Solarco Inc., a Colorado corporation. From September 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 Food Innovations, Inc. ('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 Innovative Food Holdings, Inc. ("IVFH") exchanged 25,000,000 shares (post-reverse split) of IVFH for 25,000,000 shares (post-reverse split) of Fiber Application Systems (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 IVFH. The 25,000,000 shares (post-reverse split) of IVFH 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.

2. NATURE OF ACTIVITED AND SIGNIFICANT ACCOUNTING POLICIES

Business Activity

FII is in the business of providing premium white tablecloth restaurants with the freshest origin-specific perishables and specialty 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.

Interim Financial Information

The accompanying unaudited interim consolidated financial statements have been prepared by the Company, in accordance with generally accepted accounting principles pursuant to Regulation S-X of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in audited financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. Accordingly, these interim financial statements should be read in conjunction with the Company's financial statements and related notes as contained in form 10-KSB for the year ended December 31, 2007. In the opinion of management, the interim consolidated financial statements reflect all adjustments, including normal recurring adjustments, necessary for fair presentation of the interim periods presented. The results of the operations for the three and six months ended June 30, 2008 are not necessarily indicative of the results of operations to be expected for the full year.

Reclassification

Certain reclassifications have been made to conform prior periods' data to the current presentation. These reclassifications had no effect on reported income.

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. However, the Company has reported a net loss of $1,380,931 and $2,918,652 for the three and six months ended June 30, 2008. The Company also had an accumulated deficit of $6,943,698 and a working capital deficiency of $6,137,964 as of June 30, 2008.

The Company cannot be certain that anticipated revenues from operations will be sufficient to satisfy its ongoing capital requirements. Management's belief is based on the Company's operating plan, 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 growth, 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.

Management plans to take the following steps that it believes will be sufficient to provide the Company with the ability to continue as a going concern. Management intends to raise financing through the sale of its stock or debt instruments in private placements to individual investors. Management may raise funds in the public markets, though there currently are no plans to do so. Management believes that with this financing, the Company will be able to generate additional revenues that will allow the Company to continue as a going concern. The company expects this to be accomplished by hiring additional personnel and focusing sales and marketing efforts on the distribution of product through key marketing channels currently being developed by the Company. The Company also intends to pursue the acquisition of certain strategic industry partners where appropriate.

Revenue Recognition

The Company recognizes revenue upon shipment of the product from the vendor. 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 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 requires 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 September 15, 2003. For revenue arrangements occurring on or after August 1, 2003, the Company revised its revenue recognition.

Income Taxes

The Company accounts for income taxes using the liability method. Under the liability method, deferred income taxes are determined based on differences between the financial reporting and tax bases of assets and liabilities. They are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company is required to adjust its deferred tax liabilities in the period when tax rates or the provisions of the income tax laws change. Valuation allowances are established to reduce deferred tax assets to the amounts expected to be realized.

Disclosures about Fair Value of Financial Instruments

The carrying amounts of the Company's financial instruments, which include accounts receivable and accounts payable, approximate fair value at June 30, 2008.

Inventories

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

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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 an 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" for the periods beginning in 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 as of and for the twelve months ended September 30, 2006 reflect the impact of SFAS 123(R). In accordance with the modified prospective transition method, the company's Consolidated Financial Statements for the prior periods have not been restated to reflect, and do not include, the impact of SFAS 123 (R). Stock based compensation expense recognized under SFAS 123(R) for the three and months ended June 30, 2008 was $0.

Stock-based compensation expense recognized during the period 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 as of June 30, 2008, and changes during the periods then ended are presented below:

	Number of Shares		Weighted Average Exercise Price
Options outstanding at December 31, 2007	15,500,000	$	0.0.21
Granted	20,000,000		0.007
Exercised	-		-
Cancelled / Expired	-		-
Options outstanding at March 31, 2008	35,500,000	$	0.013
Exercisable	15,300,000	$	0.015
Not exercisable	20,200,000	$	0.012
Granted	-		-
Exercised	-		-
Cancelled/ Expired	-		-
Options outstanding at June 30, 2008	35,500,000	$	0.013
Exercisable	15,400,000	$	0.018
Not Exercisable	20,100,000	$	0.009

Aggregate intrinsic value of options outstanding and options exercisable at June 30, 2008, 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 $0.008 (post-reverse split) at June 30, 2008, and the exercise price multiplied by the number of options outstanding. As of June 30, 2008 total unrecognized stock-based compensation expense related to non-vested stock options was $157,404. The total fair value of options vested was $0 for the three and six month periods ended June 30, 2008, and 2007.

Earnings (Loss) per Common Share

The Company computes earnings per share under SFAS 128. Net loss per common share is computed by dividing net loss by the weighted average number of shares of common stock and dilutive common stock equivalents outstanding during the year. Dilutive common stock equivalents consist of shares issuable upon conversion of convertible notes and the exercise of the Company's stock options and warrants (calculated using the treasury stock method).

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Management Estimates

The presentation of financial statements in conformity with generally accepted accounting principles 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 reporting period. Actual results could differ from those estimates.

Comprehensive Income

The Company has no items of other comprehensive income (loss) for the three and six months ended June 30, 2008.

3. PER SHARE INFORMATION

The Company computes earnings per share under Financial Accounting Standard No.128, "Earnings Per Share" (SFAS 128). Net loss per common share is computed by dividing net loss by the weighted average number of shares of common stock and dilutive common stock equivalents outstanding during the year. Dilutive common stock equivalents consist of shares issuable upon conversion of convertible notes and the exercise of the Company’s stock options and warrants (calculated using the treasury stock method).

4. ACCOUNTS RECEIVABLE

At June 30, 2008 and December 31, 2007, accounts receivable consists of:

	June 30, 2008	December 31, 2007
Accounts receivable from customers	$ 151,823	$ 253,148
Allowance for doubtful accounts	(10,000)	(10,000)
Accounts receivable, net	$ 141,823	$ 243,148

5. LOAN RECEIVABLE

The balance of loan receivable consisted of loans to Pasta Italiana, Inc. in the aggregate amount of $360,000 as of June 30, 2008. These notes bear interest in the amount of 8% per annum. These notes matured on August 24, 2006. At June 30, 2008, the Company has reserved $75,000 of the loan receivable. The Company stopped accruing interest income on this note at December 31, 2005. At June 30, 2008, interest receivable is $7,147.

6. PROPERTY AND EQUIPMENT

A summary of property and equipment at June 30, 2008, is as follows:

	June 30, 2008	December 31, 2007
Computer equipment	$ 292,608	$ 288,229
Furniture and fixtures	63,564	63,564
	356,172	351,793
Less accumulated depreciation and amortization	(288,367)	(267,970)
Total	$ 67,805	$ 83,823

Depreciation and amortization expense amounted to $20,397, and $29,967, respectively, for the six months ended June 30, 2008 and 2007.

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7. ACCRUED INTEREST

At June 30, 2008 the Company has the following accrued interest on its balance sheet:

	Gross	Discount	Net
Non-related parties	$ 378,767	$ -	$ 378,767
Related parties	157,440	-	157,440
Total	$ 536,207	$ -	$ 536,207

Accrued interest on some of the Company's notes payable is convertible into common stock of the Company at a price of $0.005 per share (post-reverse split) (note 9). There is a beneficial conversion feature embedded in this convertible accrued interest. The Company is amortizing this beneficial conversion feature over the life of the related party notes payable. During the six months ended June 30, 2008, and 2007 the amounts of $68,428 and $66,709 were credited to additional paid-in capital as a discount on accrued interest.

8. NOTES PAYABLE AND NOTES PAYABLE TO RELATED PARTIES

At June 30, 2008, the Company has outstanding notes payable in the aggregate amount of $1,086,088 including amounts of non-current of $13,470.

During the six months ended June 30, 2008, the Company issued 43,200,000 warrants to purchase additional shares of common stock to two investors for consideration for extending the maturity date of some of the notes payable. The value of the warrants in the amount of $254,240 was taken as a discount to the notes payable. During the six months ended June 30, 2008, the warrants are amortized on a straight-line basis over the one year extension of the notes maturity date, as a result the amount of $84,747 was expensed.

Notes payable and notes payable to related parties at June 30, 2008, consist of the following:

	June 30, 2008	December 31, 2007
Convertible note payable in the original amount of $350,000 to Alpha Capital Aktiengesselschaft ("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 is entered technical default status on May 16, 2005. The note originally carried interest at the rate of 8% per annum, and is 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 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). 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 June 30, 2008. Interest in the amount of $12,901 was	$ 345,000	$ 345,000

accrued on this note during the three months ended June 30, 2008, and 2007, respectively.		
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) . During the twelve months ended December 31, 2006, $75,000 of the principal amount was converted into common stock. Interest in the amount of $498 was accrued on this note during the three months ended June 30, 2008, and 2007, respectively. This note is in default at June 30, 2008.	25,000	25,000

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Convertible note payable in the amount of $85,000 to Briolette Investments, Ltd, dated March 11, 2004. The note bears interest at the rate of 8% per annum, and is 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). 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, 2007, the Company made a $3,000 cash payment on the principal amount of the note. Interest in the amount of $774 was accrued on this note during the three months ended June 30, 2008, and 2007, respectively. This note is in default at June 30, 2008.	38,000	38,000
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 $1,596 was accrued on this note during each of the three months ended June 30, 2008, and 2007, respectively. This note is in default at June 30, 2008.	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). During the twelve months ended December 31, 2006, $10,000 of principal and $589 of accrued interest into shares of common stock. Interest in the amount of $1,496 was accrued on this note during the three months ended June 30, 2008 and 2007, respectively. This note is in default at June 30, 2008.	40,000	40,000
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	50,000	

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 $998 was accrued on this note during each of the three months ended June 30, 2008, and 2007. This note is in default at June 30, 2008.		50,000
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) During the twelve months ended December 31, 2006, the note holder converted $10,000 of principal into common stock. Interest in the amount of $400 was accrued on this note during the three months ended June 30, 2008, and 2007. This note is in default at June 30, 2008.	20,000	20,000
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 is 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 $498, was accrued on this note during the three months ended June 30, 2008, and 2007. This note is in default at June 30, 2008.	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 is 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 $373 was accrued on this note during the three months ended June 30, 2008, and 2007. This note is in default at June 30, 2008.	25,000	25,000

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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 $200, was accrued on this note during the three months ended June 30, 2008, and 2007. This note is in default at June 30, 2008.	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 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 $200 was accrued on this note during the three months ended June 30, 2008, and 2007. This note is in default at June 30, 2008.	10,000	10,000
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 $200 was accrued on this note during the three months ended June 30, 2008, and 2007. This note is in default at June 30, 2008.	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	10,000	10,000

of $0.01 per share (post-reverse split). Interest in the amount of $200 was accrued on this note during the three months ended June 30, 2008, and 2007. This note is in default at June 30, 2008.		
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 $160 was accrued on this note during the each of the three months ended June 30, 2008, and 2007. This note is in default at June 30, 2008.	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 $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 $100 was accrued on this note during the each of the three months ended June 30, 2008, and 2007. This note is in default at June 30, 2008.	5,000	5,000
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 $4,487 was accrued on this note during the three months ended June 30, 2008, and 2007. This note is in default at June 30, 2008.	120,000	120,000

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 $1,122 was accrued on this note during the three months ended June 30, 2008 and 2007, respectively. This note is in default at June 30, 2008.	30,000	30,000
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 $861 was accrued on this note during the three months ended June 30, 2008 and 2007, respectively. During the three months ended March 31, 2007, 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 June 30, 2008.	23,000	23,000
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	23,000	23,000

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 $861 was accrued on this note during the three months ended June 30, 2008 and 2006. During the twelve months ended December 31, 2007, 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 June 30, 2008.		
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 $224 was accrued on this note during the three months ended June 30, 2008 and 2007, respectively. During the twelve months ended December 31, 2007, 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 June 30, 2008.	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 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 year ended December 31, 2007, the Company extended the due dates of the notes one month to October 31, 2007, at the same time the Company added a convertibility feature, allowing the note holders to convert the notes and accrued interest into common stock of the company at a rate of $0.005 per share. During the three months ended March 31, 2008, the Company extended the note one year, to March 4, 2009. Interest in the amount of $5,984 was accrued on this note during the three months ended June 30, 2008 and 2007.	120,000	120,000
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 year ended December 31, 2007, the Company extended the due dates of the notes one month	30,000	30,000

to October 31, 2007, at the same time the Company added a convertibility feature, allowing the note holders to convert the notes and accrued interest into common stock of the company at a rate of $0.005 per share. During the three months ended March 31, 2008, the Company extended the note one year, to March 4, 2009. Interest in the amount of $1,496 was accrued on this note during the three months ended June 30, 2008 and 2007.

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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 $1,497 and $1,513, was accrued on this note during the three months ended June 30, 2008 and 2007, respectively. This note is in default at June 30, 2008.	75,000	75,000
Note payable in the amount of $10,000 to Alpha Capital, dated May 19, 2006. The note bears interest at the rate of 15% per annum, and was due in full on November 19, 2006. During the year ended December 31, 2007, the Company extended the due dates of the notes one month to October 31, 2007, at the same time the Company added a convertibility feature, allowing the note holders to convert the notes and accrued interest into common stock of the company at a rate of $0.005 per share. During the three months ended March 31, 2008, the Company extended the due date of the notes for one year to March 4, 2009. Interest in the amount of $498 was accrued on this note during the three months ended June 30, 2008 and 2007.	10,000	10,000
Twenty convertible notes payable in the amount of $4,500 each to Sam Klepfish, the Company's Chief Executive Officer and a related party, dated the first of every month starting 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 a rate of 8% per annum. These notes and accrued interest are convertible into common stock as a rate of $0.005 per share. Interest in the aggregate amount of $1,652 and $611 was accrued on these notes during the three months ended June 30, 2008 and 2007.	90,000	63,000
Six convertible notes payable in the amount of $1,500 each to a consultant. These notes do not bear interest. The notes are convertible into shares of the Company common stock at a price of $0.005 per share.	9,000	-
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. Payment of principal and interest were made on theses notes in the amount of $1,202 and $470 during the three months ended June 30, 2008 and $2,375 and $969 during the six months ended June 30, 2008.	18,581	20,953
	$ 1,255,581	$ 1,221,953
Less: discount to note payable	(169,493)	-
	$ 1,086,088	$ 1,221,953
Less: Current maturities	(1,072,618)	(1,205,870)
Long-term portion	$ 13,470	$ 16,083
Total Non-related parties	$ 781,088	$ 943,953
Total related parties	305,000	278,000
	$ 1,086,088	$ 1,221,953

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.

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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 $12,445,576 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 June 30, 2008, the conversion option liability was valued at $1,793,899. The revaluation resulted in a loss during the three and six months ended June 30, 2008, of $220,560 and $551,400.

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

	Risk Free Interest Rate	Expected Dividend Yield	Expected Option Life	Volatility
March 31, 2008	3.50%	-	10	213.70%

9. RELATED PARTY TRANSACTIONS

The Company engaged in the following transactions with related parties:

Three months ended June 30, 2008:

The Company issued three convertible notes payable in the amount of $4,500 each (a total of $13,500) for additional salary due to the Company's Chief Executive Officer.

Common Stock

During the three months ended June 30, 2008, the Company had the following transactions:

The Company recorded a discount to the accrued convertible interest on notes payable in the amount of $29,801 during the three months ended June 30, 2008. This amount was credited to additional paid-in capital during the three months ended June 30, 2008.

The company recorded a discount to the convertible notes payable in the amount of $18,000 during the three months ended June 30, 2008. This amount was credited to additional paid-in capital during the three months ended June 30, 2008.

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Warrants

The following table summarizes the warrants outstanding at June 30, 2008 (post reverse-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
$ 0.0005	139,700,000	1.78	$ 0.005	139,700,000
$ 0.0110	18,500,000	3.24	$ 0.110	18,500,000
$ 0.0115	74,000,000	3.24	$ 0.115	74,000,000
	232,200,000	2.36		$ 232,200,000

Transaction involving warrants are summarized as follows:

	Number of Shares	Weighted Average Exercise Price
Warrants exercisable at December 31, 2007	189,000,000	$ 0.027
Granted	43,200,000	0.011
Exercised	-	
Cancelled / Expired	-	-
Warrants exercisable at March 31, 2008	232,200,000	$ 0.024
Granted	-	-
Exercised	-	-
Cancelled/exercised	-	-
Warrants exercisable at June 30, 2008	232,200,000	$ 0.024

Options

On December 31, 2007, the Company issued 20,000,000 options to purchase additional shares of common stock at a price of $0.007 per share for services to be provided during the year ended December 31, 2008. 5,000,000 options were granted to each of the Company's three directors, and 5,000,000 to the Company's president. These shares vest on December 31, 2008.

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The following table summarizes the options outstanding at June 30, 2008:

Range of exercise prices	Number of Options outstanding	Weighted Average remaining contractual life (years)	Weighted average exercise price of Outstanding Options	Number of Options exercisable	Weighted average exercise price of exercisable options
$ 0.005	15,000,000	3.39	$ 0.005	15,000,000	$ 0.005
0.007	20,000,000	4.75	0.007	-	0.007
0.500	500,000	0.88	0.500	400,000	0.500
	35,500,000	4.12		15,400,000	$ 0.018

	Number of Options	Weighted Average Exercise Price
Options outstanding at December 31, 2007	15,500,000	$ 0.0.21
Granted	20,000,000	0.007
Exercised	-	-
Cancelled / Expired	-	-
Options outstanding at March 31, 2008	35,500,000	$ 0.013
Exercisable	15,300,000	$ 0.015
Not exercisable	20,200,000	$ 0.012
Granted	-	-
Exercised	-	-
Cancelled/ Expired	-	-
Options outstanding at June 30, 2008	35,500,000	$ 0.013
Exercisable	15,400,000	$ 0.018
Not Exercisable	20,100,000	$ 0.009

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).

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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 three and six months ended June 30, 2008, the Company recognized a loss of $396,844 and $761,115, respectively, for the increase in the fair value of the warrant liability and recorded this gain in operations during the three and six months ended June 30, 2008. The fair value of these instruments was estimated at June 30, 2008, using the Black-Scholes option pricing model with the following assumptions: risk free interest rate: 3.50%; expected dividend yield: 0%; expected option life: 5 years; and volatility: 206.67%.

Insufficient Authorized but Unissued Shares of Common Stock

The Company has a potential obligation to issue 704,865,040 shares of common stock upon the conversion of convertible notes and accrued interest, warrants and penalty shares issuable at June 30, 2008. The Company had 171,787,638 shares of common stock outstanding at June 30, 2008 and 500,000,000 shares of common stock authorized at June 30, 2008. The Company has potentially exceeded its shares authorized by 376,652,678 at June 30, 2008.

10. PENALTY FOR LATE REGISTRATION OF SHARES

At June 30, 2008, the Company had a liability in the amount of $882,236 for the issuance of 110,280,000 shares of the Company's common stock pursuant to a penalty calculation with regard to the late registration of shares underlying convertible notes payable. The Company reported a loss of $220,560 and $551,400 and a gain of $11,280 and $38,464 during the three and six months ended June 30, 2008 and 2007, respectively, representing the change in the fair value of these shares during the period.

11. SUBSEQUENT EVENTS

Effective July 30, 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 30, 2008, Mr. Justin Wiernasz, age 42, was promoted to the position of President. 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 million restricted shares, which vest immediately and 5 million options exercisable for five years at an exercise price of $0.007 per share to Mr. Wiernasz, upon his