SUNTRUST BANKS INC
Form 4
March 13, 2007

FORM 4

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

OMB APPROVAL

OMB Number: 3235-0287
Expires: January 31, 2005
Estimated average burden hours per response... 0.5

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
Farnsworth Thomas C Jr

(Last) (First) (Middle)

5865 RIDGEWAY CENTER PARKWAY, SUITE 315

(Street)

MEMPHIS, TN 38120

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
SUNTRUST BANKS INC [STI]

3. Date of Earliest Transaction (Month/Day/Year)
03/12/2007

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock								507,366	D	
Common Stock								247	I	Spouse
Common Stock								1,200	D (1)	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

number.

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)	
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount Number Shares
Option (2)	$ 49.34							04/25/2001	04/25/2011	Common Stock	1,773
Option (2)	$ 56.11							04/24/2002	04/24/2012	Common Stock	1,473
Option (2)	$ 40.99							04/23/2003	04/23/2013	Common Stock	2,489
Option (3)	$ 67.64							08/18/2004	04/25/2011	Common Stock	431
Phantom Stock Units (4)	(4)	03/12/2007		A		17.6574		(4)	(4)	Common Stock	17.657

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Farnsworth Thomas C Jr 5865 RIDGEWAY CENTER PARKWAY SUITE 315 MEMPHIS, TN 38120	X			

Signatures

David A. Wisniewski, Attorney-in-Fact for Thomas C. Farnsworth, Jr.	03/13/2007
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Restricted stock held under SunTrust Banks, Inc. 2004 Stock Plan. The plan is exempt under Rule 16(b)-3.

(2) Granted pursuant to the National Commerce Financial Corporation Amended and Restated Long-Term Incentive Plan.

(3) Granted pursuant to the National Commerce Financial Corporation 2003 Stock and Incentive Plan.

(4) The phantom stock units were accrued under the SunTrust Banks, Inc. Directors Deferred Compensation Plan and are to be settled upon the reporting person's retirement. Directors fees are deferred into this plan and are accounted for as if invested in SunTrust common stock. These phantom stock units convert to common stock on a one-for-one basis.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. lize new products in the broadline foodservice industry and get products distributed via national broadline food distributors. OFB and Oasis function as outsourced national sales and brand management teams for emerging organic and specialty food CPG companies of a variety of sizes and business stages, and provides emerging and unique CPG specialty food brands with distribution and shelf placement access in all of the major metro markets in the food retail industry.

Our Products

We distribute over 7,000 perishable and specialty food and food related products, including origin-specific seafood, domestic and imported meats, exotic game and poultry, artisanal cheeses, freshly prepared meals, caviar, wild and cultivated mushrooms, micro-greens, organic farmed and manufactured food products, estate-bottled olive oils and aged vinegars. We are constantly adding other products that many food distributors cannot effectively warehouse and distribute, including certain organic products and certain specialty food items. We offer our nationwide customers access to the best food products available from around the world, quickly, most direct, and cost-effectively.

Some of the items we sell 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

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Customer Service and Logistics

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

- Flavor profile and eating qualities
- Recipe and usage ideas
- Origin, seasonality, and availability
- Cross utilization ideas and complementary uses of products

Our logistics team manages the shipping and delivery process of every package to ensure timely delivery of products to our customers. The logistics manager receives shipping 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 or potentially reshipping the package with a goal of 100% customer satisfaction for our customers. Our logistics manager works directly with our suppliers on an ongoing basis, to ensure that the appropriate packaging and shipping specifications are in place at all times.

Relationship with U.S. Foods

We have historically sold the majority of our products, $29,854,522 and $25,434,695 for the years ended December 31, 2017 and 2016, respectively (72% of total sales in the years ended December 31, 2017 and 2016) through a distributor relationship between FII and Next Day Gourmet, L.P., a subsidiary of U.S. Foods, a leading broadline distributor. On January 26, 2015 we executed a contract between Food Innovations, Inc., our wholly-owned subsidiary, and U.S. Foods. The term of the Agreement is from January 1, 2015 through December 31, 2016 and provides for a limited number of automatic annual renewals thereafter if no party gives the other 30 days’ notice of its intent not to renew. Based on the terms, the Agreement was extended through December 31, 2018. Effective January 1, 2018 the Agreement was further amended to remove the cap on renewals, and provide for an unlimited number of additional 12-month terms unless either party notifies the other in writing, 30 days prior to the end date, of its intent not to renew.

Growth Strategy

While the U.S. economic recovery remains fragile, there appears to be much for the specialty food industry to celebrate. Amidst efforts to increase overall efficiency and success, the specialty food industry has experienced general growth in sales through manufacture, retail, and distribution. According to the State of the Specialty Food Industry report completed by the Specialty Food Association and Mintel in 2017, specialty food sales hit $127 billion in the U.S. in 2016 with a 15% percent growth in dollar sales and a 13.1 percent increase in unit sales since 2014. For our continued growth within the specialty foodservice industry and the consumer and chef specialty food industry, we value and strive for a high level of personal customer service, premium quality products, new product introduction and innovation, and continued expansion of our marketing activities with new and existing customers in both the specialty foodservice space and the consumer specialty food space.

We anticipate attempting to grow our current specialty foodservice business both through increased sales of existing products to our existing foodservice customers, the introduction of new products to our foodservice customers, increasing our foodservice customer base, and through further entry into markets such as the consumer market and other markets through a variety of potential sales channels, and sales partnerships and directly online including leveraging the recently acquired assets of iGourmet LLC toward further expansion of our sales and distribution channels.

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

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

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 products and specialty gourmet products, for delivery from same day to 72 hours. Our primary competition in both areas is from local purveyors that supply a limited local market and have a limited range of products and from the other specialty gourmet distributors, and from the national, regional or local expansion of specialty and non-specialty food distributers. In addition , many purveyors are well established, have reputations for success in the development and marketing of these types of products and services and have significantly greater financial, marketing, distribution, personnel and other resources. These financial and other capabilities permit such companies to implement extensive advertising and promotional campaigns, both generally and in response to efforts by additional competitors such as us, to enter into new markets and introduce new products and services.

Insurance

We maintain a general liability insurance policy with a per occurrence limit of $1,000,000 and aggregate policy covering $2,000,000 of liability and non-owned automobile personal injury coverage with a limit of $1,000,000. The Company also carried an Umbrella policy of up to $10,000,000 which covers all entities except Artisan; Artisan carries a separate Umbrella policy of up to $5,000,000. Such insurance may not be sufficient to cover all potential claims against us and additional insurance may not be available in the future at a reasonable price.

Government Regulation

Various federal and state laws currently exist, and more are sure to be adopted, regulating the delivery of fresh food products. We require all third-party vendors to certify that they maintain at least $3,000,000 liability insurance coverage and compliance with Hazard Analysis and Critical Control Point (HACCP), an FDA- and USDA-mandated food safety program, or a similar standard. Any changes in the government regulation of delivering of fresh food products that hinders our current ability and/or cost to deliver fresh products, could adversely impact our net revenues and gross margins and, therefore, our profitability and cash flows could also be adversely affected.

Employees

We currently employ 58 full-time employees, including 6 chefs and 2 executive officers. We believe that our relations with our employees are satisfactory. None of our employees are represented by a union.

Transactions with Major Customers

Transactions with a major customer and related economic dependence information is set forth (1) following our discussion of Liquidity and Capital Resources, (2) Under the heading Major Customer in Note 16 to the Consolidated Financial Statements, (3) in Business – Relationship with U.S. Foods, (4) as the second item under Risk Factors.

How to Contact Us

Our executive offices are located at 28411 Race Track Rd., Bonita Springs, Florida 34135; our Internet address is www.ivfh.com; and our telephone number is (239) 596-0204. The contents of our website are not incorporated in or deemed to be a part of this Annual Report on Form 10-K.

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ITEM 1A. Risk Factors

Prior to 2013, We Have a History of Losses Requiring Us to Seek Additional Sources of Capital.

As of December 31, 2017, we had an accumulated deficit of $26,653,435. We cannot assure you that we can achieve 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, or other extraordinary events occur, we will incur losses. Our possible success is dependent upon the successful development and marketing of our services and products, as well as continued expansion of our products and customers, as to which we can give no assurance. Any future success that we might enjoy will depend upon many factors, including factors out of our control or which cannot be predicted at this time. These factors may include changes in or increased levels of competition, including the entry of additional competitors and increased success by existing competitors, changes in general economic conditions, increases in operating costs, including costs of supplies, personnel, marketing and promotions, reduced margins caused by competitive pressures and other economic and non-economic factors. These conditions may have a materially adverse effect upon us or may force us to reduce or curtail operations. In addition, we could require additional funds to sustain and expand our sales and marketing activities, particularly if a well-financed competitor emerges. We can give no assurance that financing will be available in amounts or on terms acceptable to us, if at all. Our inability to obtain sufficient funds from our operations or external sources could require us to curtail or cease operations.

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

In 2003, Next Day Gourmet initially contracted with our subsidiary, Food Innovations, to handle the distribution of over 3,000 perishable and specialty food products to customers of USF. Effective January 1, 2018, we executed a contract amendment between Food Innovations, Inc., our wholly-owned subsidiary, and U.S. Foods which provides for no limit on automatic annual renewals thereafter if no party gives the other 30 days' notice of its intent not to renew. Our sales through USF's sales force generated gross revenues for us of $29,854,522 in the year ended December 31, 2017, and $25,434,695 in the year ended December 31, 2016. Those amounts contributed 72% of our total sales in each of those periods. Our sales efforts are for the most part substantially dependent upon the efforts of the USF sales force. Although we have generated revenues from additional customers other than USF, if our relationship with USF were to be materially changed and we are unable to generate substantial new sales to offset such loss, we may be forced to cease or curtail our operations.

A Variety of Factors, Including Seasonality and the Economic Environment, May Cause Our Quarterly Operating Results to Fluctuate, Leading to Volatility in Our Stock Price.

Our quarterly results have fluctuated in the past and may fluctuate in the future, depending upon a variety of factors, including changes in economic conditions, shifts in the timing of holiday selling seasons, including Valentine's Day, Easter, Halloween, Thanksgiving and Christmas.

The Recent Acquisition of Substantially All of the Assets of iGourmet LLC Could Create Additional Risks to Our Business.

On January 24, 2018, our subsidiary Innovative Gourmet acquired substantially all of the assets of iGourmet, LLC. This business is very seasonal in nature, which generates certain operational considerations and could exacerbate the seasonality of our business. In addition, while our subsidiary acquired only certain discrete liabilities of iGourmet LLC, creditors of iGourmet may seek to impose liability on us or our subsidiaries , the payment of which, if required,

could impair our cash flow and even if there may be no actual liability or responsibility to pay such claims, our challenge to such claims could involve significant legal fees and be a distraction to our management. The business model of the assets acquired from iGourmet LLC differ from our current businesses and operations, and therefore the success of its operations and its business model may create unforeseen complications requiring the use of our limited resources to resolve.

Computer System Disruption and Cyber Security Attacks or a Data Breach Could Damage Our Relationships With Our Customers, Harm Our Reputation, Expose Us To Litigation And Adversely Affect Our Business.

Our systems are subject to damage or interruption from computer viruses, malicious attacks and other security breaches. The possibility of a cyberattack on any one or all of these systems is a serious threat.

As part of our business model, we collect, retain, and transmit confidential information over public networks. In addition to our own databases, we use third party service providers to store, process and transmit this information on our behalf. Although we contractually require these service providers to implement and use reasonable security measures, we cannot control third parties and cannot guarantee that a security breach will not occur in the future either at their location or within their systems. We have confidential security measures in place to protect both our physical facilities and digital systems from attacks. Despite these efforts, we may be vulnerable to targeted or random security breaches, acts of vandalism, computer viruses, misplaced or lost data, programming and/or human errors, or other similar events.

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Given the growing nature of our e-commerce presence and digital strategy, it is imperative that we and our partners maintain uninterrupted operation of our: (i) computer hardware, (ii) software systems, (iii) customer marketing databases, and (iv) ability to email our current and potential customers.

If our systems are damaged or fail to function properly or reliably, we may incur substantial repair or replacement costs, experience data loss or theft and impediments to our ability to conduct our operations. Any material disruptions in our e-commerce presence or information technology systems could have a material adverse effect on our business, financial condition and results of operations.

A Failure to Establish and Maintain Strategic Online and Social Media Relationships that Generate a Significant Amount of Traffic Could Limit the Growth of the Assets Acquired from iGourmet LLC.

We rely on third party websites, search engines and affiliates with which we have strategic relationships for traffic. If these third-parties do not attract a significant number of visitors, we may not receive a significant number of online customers from these relationships and our revenues from these relationships may decrease or remain flat. There continues to be strong competition to establish or maintain relationships with leading Internet companies, and we may not successfully enter into additional relationships, or renew existing ones beyond their current terms. We may also be required to pay significant fees to maintain and expand existing relationships. Our online revenues may suffer if we do not enter into new relationships or maintain existing relationships or if these relationships do not result in traffic sufficient to justify their costs.

If a Significant Number of Customers are not Satisfied with their Purchase, We will be Required to Incur Substantial Costs to Issue Refunds, Credits or Replacement Products.

If customers are not satisfied with the products they receive, we may either replace the product for the customer or issue the customer a refund or credit. Ours net income would decrease if a significant number of customers request replacement products, refunds or credits and we are unable to pass such costs onto the supplier.

If We Fail to Continuously Improve Our Website, it May Not Attract or Retain Customers.

If potential or existing customers do not find our websites including www.igourmet.com , a convenient place to shop, we may not attract or retain customers and our sales may suffer. To encourage the use of our website, we must continuously improve its accessibility, mobile capabilities, content and ease of use. In addition, customer traffic and our business would be adversely affected if competitors' websites are perceived as easier to use or better able to satisfy customer needs.

Our Marketing Efforts to Help Grow Our Business May Not be Effective.

Maintaining and promoting awareness of our websites, including www.igourmet.com is important to our ability to attract and retain visitors. Generating a meaningful return on our investments in marketing initiatives may be difficult. The marketing efforts we implement may not succeed for a variety of reasons, including our inability to execute and implement our plans. External factors beyond our control may also impact the success of our marketing initiatives. Search engines frequently change the algorithms that determine the ranking and display of results of a user's search and may make other changes to the way results are displayed, which can negatively affect the placement of links to our websites and, therefore, reduce the number of visits to our websites.

The growing use of online ad-blocking software, including on mobile devices, may also impact the success of our marketing efforts because we may reach a smaller audience and fail to bring more visitors to our website. In addition, ongoing privacy regulatory changes may impact the scope and effectiveness of marketing and advertising services generally, including those used related to our websites. We also seek to obtain website visitors through email. If we

are unable to successfully deliver emails to potential customers or customers do not open our emails, whether by choice or because those emails are marked as low priority or spam, or for other reasons, our business could be adversely affected. Social networking websites, such as Facebook and others are another source of visits to our websites. As ecommerce and social networking evolve, we must continue to evolve our marketing tactics accordingly and, if we are unable to do so, our business could be adversely affected.

If We Do Not Accurately Predict Customer Demand for Our Products, We May Lose Customers or Experience Increased Costs.

As we expand the volume of products offered to our customers, we may be required or may elect for business purposes, to increase inventory levels and the number of products maintained in our warehouses. If we overestimate customer demand for our products, excess inventory and outdated merchandise could accumulate, tying up working capital and potentially resulting in reduced warehouse capacity and inventory losses due to damage, theft and obsolescence. If we underestimate customer demand, it may disappoint customers who may turn to our competitors.

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The Laws with Respect to Taxes Have Changed and May Change Again Which Could Impact Our Operating Results.

The U.S. Congress has enacted legislation that significantly reforms the Internal Revenue Code of 1986, as amended. The new legislation, among other things, includes changes to U.S. federal tax rates, imposes significant additional limitations on the deductibility of interest and net operating losses, and allows for the expensing of certain capital expenditures. Our net deferred tax assets and liabilities will be revalued at the newly enacted U.S. corporate rate, and the impact will be recognized in our tax expense in the year of enactment. We are currently in the process of analyzing the effects this new legislation may have on us and at this time the ultimate outcome of the new legislation on our business and financial condition is uncertain. It is possible that the application of these new rules may have a material and adverse impact on our operating results, cash flows and financial condition. In addition, any other changes to applicable tax laws, whether on a federal or state level, could also decrease our ability to compete with traditional retailers, and otherwise harm our business.

If We Fail to Attract and Retain Key Personnel, Our Business and Operating Results May be Harmed.

Our future success depends to a significant degree on the skills, experience and efforts of key personnel in our senior management, whose vision for our company, knowledge of our business and expertise would be difficult to replace. If any one of our key employees leaves, is unable to work, or fails to perform and we are unable to find a qualified replacement, we may be unable to execute our business strategy.

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

Our strategy for growth is focused on continued enhancements and expansion to our existing business model, offering a broader range of services and products, 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, if any. In addition, we can give no assurance that our current systems, procedures or controls will be adequate to support any expansion of our operations. Our failure to manage our growth effectively could have a material adverse effect on our business, financial condition and results of operations.

The Specialty Food and 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.

The specialty food and foodservice businesses are highly competitive. We compete against other providers of quality foods, some of which sell their services globally, and some of these providers have considerably greater resources than we have. These competitors may have greater marketing and sales capacity, established distribution networks, significant goodwill and global name recognition. Our e-commerce and product catalog websites and paper catalogs compete with other e-commerce websites and other catalogs, and other specialty foodservice providers that market lines of products similar to ours. We compete with national, regional and local businesses utilizing a similar strategy, as well as traditional specialty food and foodservice distributors. The substantial sales growth in the direct-to-customer industry within the last decade has encouraged the entry of many new competitors, new business models, and an increase in competition from established companies. Furthermore, it may become necessary for us to reduce our prices in response to competition. This could negatively impact our ability to be profitable.

We Rely Upon Outside Vendors and Shippers for Our Specialty Food Products and Interruption in the Supply of Our Products or their Failure to Adhere to Our Quality Standards May Negatively Impact Our Revenues.

Shortages in supplies of the food products we sell may impair our ability to provide our services. Our vendors are independent and we cannot guarantee their future ability to source the products that we sell. Many of our products are wild-caught, and we cannot guarantee their availability in the future. Unforeseen strikes and labor disputes as well as adverse weather conditions may result in our inability to deliver our products in a timely manner. Also, if our suppliers fail to supply quality product in a timely and effective manner it could lead to an increase in recalls and customer litigation against us which could harm our brands' images and negatively affect our business and operating results. The success of our business depends, in part, on our ability to timely and effectively deliver merchandise (e.g. fresh products) to our customers. We cannot control all of the various factors that might affect our fulfillment rates in direct-to-customer sales. We are heavily dependent upon one national carrier for the delivery of our fresh products to our customers. Accordingly, we are subject to risks, including labor disputes, union organizing activity, inclement weather, technology breakdowns, natural disasters, the closure of their offices or a reduction in operational hours due to an economic slowdown, possible acts of terrorism associated with their ability to provide delivery services to meet our shipping needs, disruptions or increased fuel costs, and costs associated with any regulations to address climate change. Since our customers rely on us to deliver their orders daily or within 24-72 hours, delivery delays could significantly harm our business.

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In Order to be Successful, We Must be able to Enhance Our Existing Products and Develop and Introduce New Products and Services to Respond to Changing Market Demand.

The markets in which we operate are characterized by frequently changing customer demand and the introduction of new "flavors of the month" as certain foods become more and less popular. Changes in customer preferences and buying trends may also affect our products differently. We must be able to stay current with preferences and trends in specialty food and address the customer tastes for each of our target customer demographics. We must also be able to identify and adjust products to cater to customer demands and dietary needs. For example, a change in customer preferences for gluten free items may not correlate to a similar change in buying trends for other specialty food. In order to be successful, we must be able to enhance our existing products and develop and introduce new products and services to respond to changing market demand for new tastes. The development and enhancement of services and products entails significant risks, including:

o the inability to effectively adapt new food types to our business;

o the failure to conform our services and products to evolving industry standards;

o the inability to develop, introduce and market enhancements to our existing services and products or new services and products on a timely basis; and

o the non-acceptance by the market of such new service and products.

If we misjudge either the market for our products or our customers' purchasing habits, our sales may decline significantly which would negatively impact our business and operating results.

Any Acquisitions We Make or Have Made Could Result in Difficulties in Successfully Managing Our Business and Consequently Harm Our Financial Condition.

We seek to expand by acquiring complementary businesses or assets in our current or ancillary markets. We cannot accurately predict the timing, size and success of our acquisition efforts and the associated capital commitments that might be required. We expect to face competition for acquisition candidates, which may limit the number of acquisition opportunities available to us and may lead to higher acquisition prices. There can be no assurance that we will be able to identify, acquire or profitably manage additional businesses or successfully integrate acquired businesses, if any, without substantial costs, delays or other operational or financial difficulties. In addition, acquisitions involve a number of other risks, including:

· failure of the acquired businesses or assets acquired to achieve expected results;
· diversion of management's attention and resources to acquisitions;
· failure to retain key customers or personnel of the acquired businesses or assets;
· disappointing quality or functionality of acquired equipment and people: and
· risks associated with unanticipated events, liabilities or contingencies.

Client dissatisfaction or performance problems at a single acquired business could negatively affect our reputation. The inability to acquire businesses on reasonable terms or successfully integrate and manage acquired companies, or the occurrence of performance problems at acquired companies, both prior and after acquisition, could result, or has resulted, in dilution, potential violations of bank covenants, unfavorable accounting treatment or one-time charges, and difficulties in successfully managing our business, requiring to expend additional effort and

expense in obtaining waivers, settling matters and otherwise addressing any such issues.

Our Future Results Depend on Continued Evolution of the Internet and its Use by Consumers and Businesses for Buying Our Products.

Our future results can depend on the use of the Internet for information, publication, distribution and commerce. Our growth may also be dependent on increasing availability to business consumers of broadband Internet access which will allow such persons to access higher-capacity content through the Internet. Our business could suffer if Internet usage and broadband availability does not continue to grow and evolve. In addition, the concept of ordering food, including ingredients is a relatively new concept and represents a change from the way it had been previously done.

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If We are Unable to Effectively Manage Our IT Dependent Business Our Reputation and Operating Results May be Harmed.

The success of our business depends, in part, on third parties and factors over which we have limited control. We are also vulnerable to certain additional risks and uncertainties associated with our e-commerce and product catalog websites, our internal IT systems and IT integration with our partners, including: changes in required technology interfaces; system issues and limitations, website downtime and other technical failures; internet connectivity issues; costs and technical issues as we upgrade our website software; computer viruses; changes in applicable federal and state regulations; security breaches; and consumer privacy concerns. In addition, we must keep up to date with competitive technology trends, including the use of new or improved technology, creative user interfaces and other e-commerce marketing tools such as paid search and mobile applications, among others, which may increase our costs and which may not succeed in increasing sales or attracting customers. Our failure to successfully respond to these risks and uncertainties might adversely affect our sales, as well as damage our reputation and brands.

We May be Exposed to Risks and Costs Associated with Credit Card Fraud and Identity Theft that could Cause Us to Incur Unexpected Expenses and Loss of Revenue.

A portion of our customer orders are placed through our e-commerce websites and a significant portion of our orders are submitted via networked applications. In addition, a significant portion of sales made through our retail channel require the collection of certain customer data, such as credit card information. In order for our sales channels to function and develop successfully, we and other parties involved in processing customer transactions must be able to transmit confidential information, including credit card information, securely over public networks. Third parties may have the technology or knowledge to breach the security of customer transaction data. Although we take the security of our systems and the privacy of our customers’ confidential information seriously, we cannot guarantee that our security measures will effectively prevent others from obtaining unauthorized access to our information and our customers’ information. Any person who circumvents our security measures could destroy or steal valuable information or disrupt our operations. Any security breach could cause consumers to lose confidence in the security of our websites and choose not to purchase from us. Any security breach could also expose us to risks of data loss, litigation and liability and could seriously disrupt our operations and harm our reputation, any of which could harm our business.

In addition, states and the federal government are increasingly enacting laws and regulations to protect consumers against identity theft. Compliance with these laws will likely increase the costs of doing business and, if we fail to implement appropriate safeguards or to detect and provide prompt notice of unauthorized access as required by some of these new laws, we could be subject to potential claims for damages and other remedies, which could harm our business.

Earthquakes, Inclement Weather or Other Events Out of Our Control May Damage or Limit Production from Our Facilities and Our Ability to Timely Deliver Products Thereby Adversely Affecting Our Results of Operations.

We have significant operations in Florida, Illinois, and in other areas where weather or other events such as an earthquake, tsunami, hurricane, flood, fire, or other natural or manmade events, could disrupt our operations and impair production or distribution of our products, damage inventory, interrupt critical functions, or otherwise affect our business negatively, adversely affecting our results of operations.

Declines in General Economic Conditions and the Resulting Impact on Consumer Confidence and Consumer Spending Could Adversely Impact Our Results of Operations.

Our financial performance is subject to declines in general economic conditions and the impact of such economic conditions on levels of consumer confidence and consumer spending. Consumer confidence and consumer spending may deteriorate significantly, and could remain depressed for an extended period of time. Consumer purchases of discretionary items, including specifically our merchandise, generally decline during periods when disposable income is limited, unemployment rates increase, consumer perceptions of personal well-being and security declines or there is economic uncertainty. An uncertain economic environment, could adversely impact our business and operating results.

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

Changes in government regulation and supervision or proposed Department of Agriculture or other regulatory agency reforms or rule changes 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. New legislation or regulation, or the application of existing laws and regulations to the areas related to our business could add additional costs and risks to doing business. In addition, we are subject to regulations applicable to businesses generally and laws and regulations directly applicable to communications over the Internet and access to e-commerce. In addition, it is possible that a number of laws and regulations may be adopted with respect to the Internet and other areas of our business , covering issues such as user privacy, pricing, content, copyrights, distribution, antitrust, taxation and characteristics and quality of products and services.

Because we do Not Intend to Pay Any Cash Dividends on Our Shares of Common Stock, Our Stockholders Will Not be Able to Receive a Return on Their Shares Unless They Sell Them.

We intend to retain any future earnings to finance the development and expansion of our business. We do not anticipate paying any cash dividends on our common stock in the foreseeable future. Unless we pay dividends, our stockholders will not be able to receive a return on their shares unless they sell them at a price higher than that which they initially paid for such shares.

We may be Subject to Legal Proceedings that Could be Time Consuming, Result in Costly Litigation, Require Significant Amounts of Management Time and Result in the Diversion of Significant Operational Resources.

We are involved in lawsuits, claims and proceedings incident to the ordinary course of our business. Litigation is inherently unpredictable. Any claims against us, whether meritorious or not, could be time consuming, result in costly arbitration or litigation, require significant amounts of management time and result in the diversion of significant operational resources. Even if we believe that we have meritorious defenses against these actions, and we resolve to vigorously defend against them, the cost of defending against all these types of claims against us or the ultimate resolution of such claims, whether by settlement or adverse court decision, may harm our business and operating results and may be in excess of any amounts previously reserved for legal expenses. In addition, the increasingly regulated business environment and the nature of our products may result in a greater number of enforcement actions and private litigation. This could subject us to increased exposure to stockholder lawsuits. Also, we (and our affiliates) may be subject to attempts to bring legal claims by creditors and other third parties related to the liabilities or potential liabilities, of our former subsidiary, FD or of iGourmet LLC, or of the liabilities related to any company whose assets we acquired or do business with.

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We are a Smaller Reporting Company, and We Cannot be Certain if the Reduced Reporting Requirements Applicable to Smaller Reporting Companies Will Make our Common Stock Less Attractive to Investors.

We are a smaller reporting company, as defined in the Securities Act of 1933. For as long as we continue to be a smaller reporting company, we may take advantage of exemptions from various reporting requirements that are applicable to other public companies that are not smaller reporting companies, including not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002, reduced disclosure obligations regarding historical financial statements, executive compensation in our periodic reports, registration statements, and proxy statements and exemptions from the requirements of holding nonbinding advisory votes on executive compensation and stockholder approval of any golden parachute payments not previously approved. We cannot predict if investors will find our common stock less attractive because we may rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile.

We will remain a smaller reporting company until the beginning of a year in which we had a public float of $75 million held by non-affiliates as of the last business day of the second quarter of the prior year.

We Do Not Have Three Independent Directors On Our Compensation or Audit Committee, so Shareholders Will Have to Rely on Only Two Independent Directors to Perform These Functions.

We do not have three independent directors. Accordingly, our audit and compensation committees are comprised of only two independent directors. Until we have sufficient independent directors to fully staff the Committees, there may be less oversight of management decisions and activities and we will be unable to uplist to the New York Stock Exchange or NASDAQ.

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 or with an exercise price, for warrants or options or conversion price for convertible notes, of less than $5.00 per share, subject to certain exceptions. For any transaction involving a penny stock, unless exempt, the rules require:

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

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

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

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.

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ITEM 2. Properties

On March 8, 2013, we purchased a building and property located at 28411 Race Track Road, Bonita Springs, Florida 34135. The property consists of approximately 1.1 acres of land and close to 10,000 square feet of combined office and warehouse space. The purchase price of the property was $770,000 and was financed in part by a five year mortgage in the amount of $546,000. In March 2018, the remaining balance under this mortgage was extended to February 28, 2023. The company relocated all of its Florida-based office and warehouse facilities into the newly acquired building in Bonita Springs, Florida on July 15, 2013.

On May 14, 2015, we purchased a building and property located at 2528 S. 27th Avenue, Broadview, Illinois 60155. The property consists of approximately 1.33 acres of land and approximately 28,711 square feet of combined office and warehouse space. The purchase price of $914,350 was initially financed primarily by a draw-down of $900,000 on the Company's credit facility with Fifth Third Bank. On May 29, 2015, a permanent financing facility was provided by Fifth Third Bank in the form of a loan in the amount of $980,000. $900,000 of this amount was used to pay the balance of the credit facility; the additional $80,000 was used for refrigeration and other improvements at the property. The interest on the loan is at the LIBOR rate plus 3.0%. The building is used for office and warehouse space for the Company's Artisan subsidiary.

ITEM 3. Legal Proceedings

From time to time, the Company has become and may become involved in certain lawsuits and legal proceedings which arise in the ordinary course of business, or as result of current or previous investments, or current or previous subsidiaries, or current or previous employees, or current or previous directors, or as a result of acquisitions and dispositions or other corporate activities. The Company intends to vigorously defend its positions. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our financial position or our business and the outcome of these matters cannot be ultimately predicted.

PNC Bank, National Association v. The Fresh Diet, Inc. f/k/a YS Catering, LLP f/k/a YS Catering, Inc., et al. / Scher Zalman Duchman and Deborah L. Duchman v. Innovative Food Holdings, Inc., et al., Case No. 17-cv-21027-KMM, United States District Court, Southern District of Florida

On July 7, 2017, Scher Zalman Duchman and Deborah L. Duchman (collectively, "Duchmans") filed an amended complaint in the United States District Court for the Southern District of Florida seeking approximately $1 million in damages against Innovative Food Holdings, Inc., FD Acquisition Corp., and Sam Klepfish, IVFH's CEO. The Duchmans, amongst other things, allege that defendants owed a fiduciary duty to the Duchmans to minimize the Duchmans' own personal guarantees and personal obligations related to loans and other obligations incurred by a former subsidiary of the Company and that the Defendants did not fulfill that alleged fiduciary obligation. By Order dated March 22, 2018, the following causes of action were dismissed without prejudice: Count I, Breach of Fiduciary Duty; Count III, Unjust Enrichment; Count IV, Unjust Enrichment; and Count IX, Fraud in the Inducement. The Court further ordered Count XI, Punitive Damages, stricken from the Complaint and that all claims against Third Party Defendant FD Acquisition Corp. dismissed with prejudice. Discovery is ongoing, and IVFH will soon be filing a motion for summary judgment. The parties have scheduled required mediation. The court has provided a scheduled trial date. IVFH believes that this lawsuit is without merit and is an attempt by the Duchmans to drag IVFH into the Duchmans' personal financial matters which are unrelated to IVFH. While IVFH intends to vigorously defend against this lawsuit, the outcome of this lawsuit cannot ultimately be predicted.

YS Catering Holdings, Inc., et al. vs. Attollo Partners LLC, Rajesh Rawal, Vojkan Dimitijevic, Asif Syed, Roy Heggland and Innovative Food Holdings, Inc., Case No. 2017-007504-CA-01, Eleventh Judicial Circuit in and for Miami-Dade County, Florida

On March 26, 2018, YS Catering Holdings, Inc., et al., filed suit against Innovative Food Holdings, Inc. YS alleges claims against IVFH that are almost identical to ones pending in the PNC Bank vs. Fresh Diet, et al. federal court litigation (Case No. 17-cv-21027-KMM) in what we believe is an improper attempt at forum shopping. In addition, YS seeks injunctive relief with respect to the removal of certain trading restrictions and other restrictions on its restricted shares. IVFH intends to move to stay the case pending the outcome of the almost identical PNC federal court litigation involving YS’s principal Zalmi Duchman. Discovery in the case is ongoing. While IVFH intends to vigorously defend against this lawsuit, the outcome of this lawsuit cannot ultimately be predicted.

ITEM 4. Mine Safety Disclosure

Not Applicable.

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PART II

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

Market Information

Prices for our common stock are quoted on the OTCQB. Since March 2004, our common stock has traded under the symbol "IVFH". Prior thereto, our common stock traded under the symbol "FBSN". 33,689,407 shares of our common stock were outstanding as of March 16, 2018. The following table sets forth the high and low closing sales prices of our common stock as reported in the OTCQB for each full quarterly period within the two most recent fiscal years.

Fiscal Year Ending December 31, 2017	HIGH	LOW
First Quarter	$0.65	$0.45
Second Quarter	0.71	0.56
Third Quarter	0.92	0.59
Fourth Quarter	1.34	0.90

Fiscal Year Ending December 31, 2016	HIGH	LOW
First Quarter	$0.65	$0.40
Second Quarter	0.56	0.38
Third Quarter	0.52	0.39
Fourth Quarter	0.54	0.40

The quotations listed above reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions. On March 27, 2018, the closing price of our common stock as reported by the OTC Market was $1.06.

Security Holders

On March 3, 2018, there were approximately 91 record holders of our common stock. In addition, we believe there are at least several hundred additional beneficial owners of our common stock whose shares are held in "street name."

Dividends

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

Recent Sales and Other Issuances of Our Equity Securities

During the twelve months ended December 31, 2017, the Company had the following transactions:

The Company issued 499,421 shares of common stock for cash of $196,741 pursuant to the exercise of warrants.

The Company charged the amount of $240,208 to additional paid-in capital representing the vesting of restricted stock awards issued to officers.

The Company issued 658,600 shares of common stock to its Chief Executive Officer for conversion of a note payable in the amount of $164,650.

The Company issued 4,626,427 shares of common stock for the conversion of notes payable and accrued interest in the aggregate amount of $1,155,807.

The Company issued a net amount of 2,410,392 shares of common stock (net of 623,813 shares held back by the Company to pay certain taxes owed related to the issuance) to employees, officers, and directors in satisfaction of the following obligations: vested RSUs representing 2,533,246 shares of common stock, and bonus shares and shares previously accrued representing 500,959 shares of common stock. The Company charged the amount of $33,453 to additional paid-in capital representing the value of these shares that had not been previously charged to operations.

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The Company issued 70,000 shares of common stock with a fair value of $33,600 to an employee as a bonus.

The Company purchased options to purchase a total of 367,500 shares of common stock from two executive officers, and employee, and a board member for an aggregate $34,925 in cash, which was the difference between the exercise price of the options and the market price of the stock on the date of purchase. The Company charged the amount of $34,925 to additional paid-in capital.

The Company purchased options to purchase a total of 100,000 shares of common stock for $33,000 in cash, which was the difference between the exercise price of the options and the market price of the stock on the date of purchase. The Company charged the amount of $33,000 to additional paid-in capital.

The Company acquired options to purchase 100,000 shares of the Company's common stock from its Chief Executive Officer for $24,000 cash, which was the difference between the exercise price of the options and the market price of the stock on the date of purchase.

The Company acquired options to purchase 100,000 shares of the Company's common stock from its President for $24,000 cash, which was the difference between the exercise price of the options and the market price of the stock on the date of purchase.

The Company acquired options to purchase 200,000 shares of the Company's common stock from two of its directors (100,000 from each director) for $48,000 ($24,000 to each director), which was the difference between the exercise price of the options and the market price of the stock on the date of purchase.

The Company issued 200,000 shares of common stock for cash of $70,000 pursuant to the exercise of stock options.

The Company acquired 37,000 shares of common stock on the open market for cash of $$18,592 and retired these shares to treasury.

The Company issued 224,638 shares of common stock for subscriptions receivable in the amount of $128,022 in connection with the exercise of warrants.

The Company issued 250,000 shares of common stock in exchange for the cashless conversion of warrants. The aggregate par value of $25 was charged to additional paid-in capital on the Company's balance sheet at December 31, 2017.

The Company retired to treasury 642,688 shares of common stock pursuant to an agreement signed to acquire those shares. The Company also retired to treasury an aggregate of 37,000 shares of common stock purchased on the open market for cash of $18,592.
The Company acquired 639,383 shares of common stock for cash of $235,000 and returned these shares to treasury. The Company also acquired an additional 438,379 shares of common stock for $252,068 of which $50,000 was paid and $202,068 was paid on October 2, 2017, and returned these shares to treasury.

The Company issued a total of 1,070,000 shares of common stock to officers and directors pursuant to the vesting of restricted stock awards: 400,000 shares to its Chief Executive Officer; 400,000 shares to its President; and 90,000 shares to each of three directors.

The Company issued 693,860 shares of common stock to an investor for the cashless conversion of warrants. The aggregate par value of $69 was charged to additional paid-in capital on the Company's balance sheet at December 31, 2017.

The Company issued a net amount of 943,860 shares of common stock upon the cashless conversion of warrants. The aggregate par value of $94 was charged to additional paid-in capital on the Company's balance sheet at December 31, 2017.

The Company issued 100,000 shares of common stock for cash of $35,000 pursuant to the exercise of stock options.

The Company issued 200,000 shares of common stock for cash of $70,000 pursuant to the exercise of stock options.

The Company issued 200,000 shares of common stock pursuant to the terms of a structured equity agreement related to the Oasis acquisition. See note 2.
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The Company is also committed to issue a total of 115,941 shares pursuant to the cashless conversion of an aggregate of 500,000 options. The date for payment of the exercise price of these options was extended to April 26, 2018. The shares, which the Company intends to issue in April 2018, represent a net amount after aggregate cash payments of $167,000, which was a portion of the difference between the exercise price of the options and the market price of the stock on the date of purchase, and taxes.

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 for the payment of any commissions or fees; (2) the issuances to investors were to "accredited investors"; (3) the issuances upon conversion of notes were for notes held at least 12 months and did not involve the payment of any other consideration; and (4) all issuances to affiliates and to non-affiliates holding the securities for less than six months carried restrictive legends.

Dilutive Securities

December 31, 2017

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

Exercise Price	Number of Options	Weighted Average Remaining Contractual Life (years)
$ 0.57	25,000	0.02
$ 1.04	200,000	2.83
$ 1.31	200,000	0.50
$ 1.38	100,000	1.92
$ 1.42	100,000	0.47
$ 1.43	50,000	1.00
$ 1.46	100,000	0.50
$ 1.60	310,000	0.01
$ 1.70	75,000	0.28
$ 1.90	175,000	1.48
$ 2.00	50,000	0.28
$ 2.40	20,000	0.41
$ 2.50	37,500	0.28
$ 3.40	30,000	0.41
$ 3.50	37,500	0.28
	1,510,000	0.89

December 31, 2016

At December 31, 2016, the Company had outstanding convertible notes payable in the aggregate principal amount of $647,565 with accrued interest of $626,873 convertible at the rate of $0.25 per share into an aggregate 5,097,752 shares of common stock. These notes were issued mainly as part of a debt financing into the Company in 2004 and have certain restrictions on repayment. The Company also has a note payable to a related party in the amount of $164,650 convertible at the rate of $0.25 per share into an aggregate of 658,600 shares of common stock.

Also at December 31, 2016, the Company had outstanding warrants for holders to purchase the following additional shares: The following warrants were issued in connection to a 2004 equity investment into the Company: 2,294,493 shares exercisable at a price of $0.575 per share; 448,011 shares exercisable at a price of $0.55 per share; and 94,783 shares exercisable at a price of $0.25 per share. In addition the Company has 700,000 warrants outstanding exercisable at a price of $0.01 per share. These warrants were originally issued in connection with the issuance of a loan connected to the Artisan Specialty Foods acquisition. 800,000 of the original warrants were cancelled upon the early payment of the loan in 2012, leaving the current 700,000 connected to the Artisan loan previously outstanding.

The following table summarizes the options outstanding and the related prices for the options to purchase shares of the Company's common stock issued by the Company at December 31, 2016:

Exercise Prices	Number of Options	Weighted Average Remaining Contractual Life (years)
$ 0.350	1,170,000	1.17
$ 0.380	92,500	0.50
$ 0.400	275,000	0.51
$ 0.450	92,500	0.50
$ 0.474	92,500	0.50
$ 0.480	92,500	0.50
$ 0.570	225,000	1.51
$ 1.310	75,000	2.17
$ 1.440	15,000	0.34
$ 1.460	100,000	2.00
$ 1.600	310,000	1.51
$ 1.900	15,000	1.34
$ 2.000	500,000	0.67
$ 2.400	20,000	1.92
$ 3.400	30,000	1.92
	3,105,000	1.07

The holders of the notes and warrants have each contractually agreed not to convert their convertible notes and/or exercise their warrants if such conversion or exercise would cause them to own more than 9.99% of our outstanding common stock, unless amongst other things there was a management change or a change of control or unless 61 days' notice was provided by the noteholders. However, 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. These note and warrant holders have also contractually agreed volume limitations on the sale of our shares.

Securities Authorized for Issuance Under Equity Compensation Plans

As of December 31, 2017, the following shares are issuable pursuant to outstanding stock options, warrants, and rights issued under the 2011 Stock Option Plan:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants, and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))

Equity compensation plans approved by security holders	1,510,000	$ 1.60	95,805,000
Equity compensation plans not approved by shareholders	-	$ N/A	$ N/A

ITEM 6. Selected Financial Data

Not Applicable.
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ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

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

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

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

Our ability to implement our business plan,

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

Our dependence on one major customer,

Our ability to employ and retain qualified management and employees,

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

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

Changes in the demand for our services and different food trends,

The degree and nature of our competition,

The lack of diversification of our business plan,

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

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

We are also subject to other risks detailed from time to time in our other filings with Securities and Exchange Commission and elsewhere in this report. Any one or more of these uncertainties, risks and other influences could materially affect our results of operations and whether forward-looking statements made by us ultimately prove to be

accurate. Our actual results, performance and achievements could differ materially from those expressed or implied in these forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements, whether from new information, future events or otherwise.

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Critical Accounting Policy and Estimates

Use of Estimates in the Preparation of Financial Statements

The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. These estimates include certain assumptions related to doubtful accounts receivable, stock-based services, valuation of financial instruments, and income taxes. On an on-going basis, we evaluate these estimates, including those related to revenue recognition and concentration of credit risk. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Accounts subject to estimate and judgements are accounts receivable reserves, income taxes, intangible assets, contingent liabilities, and equity based instruments. 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.

(a) Warrants:

The following table illustrates certain key information regarding our warrants and warrant valuation assumptions at December 31, 2017 and 2016:

	December 31,	
	2017	2016
Number of warrants outstanding	-	3,537,284
Value at December 31	N/A	N/A
Number of warrants issued during the period	-	-
Value of warrants issued during the year	N/A	N/A
Revaluation (gain) loss during the period	N/A	N/A
Number of warrants exercised during the period	3,537,284	-
Value of warrants exercised during the period	N/A	N/A
Number of warrants cancelled or expired during the period	-	-
Value of warrants cancelled or expired during the period	N/A	N/A
Black-Scholes model variables:		
Volatility	N/A	N/A
Dividends	N/A	N/A
Risk-free interest rates	N/A	N/A
Term (years)	N/A	N/A

(b) Embedded conversion features of notes payable:

The following table illustrates certain key information regarding our Conversion options and conversion option valuation assumptions at December 31, 2017 and 2016:

	December 31,	
	2017	2016
Number of conversion options outstanding	-	5,756,352
Value at December 31	$N/A	$N/A
Number of conversion options issued during the year	-	49,622

Value of conversion options issued during the year	$-	$-
Number of options exercised or underlying notes or accrued interest paid or converted during the year	5,756,352	64,935
Value of options exercised during the year	$N/A	$N/A
Revaluation loss (gain) during the period	N/A	N/A
Black-Scholes model variables:	N/A	N/A
Volatility	N/A	N/A
Dividends	N/A	N/A
Risk-free interest rates	N/A	N/A
Term (years)	N/A	N/A

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(c) Stock options:

The Company accounts for options in accordance with FASB ASC 718-40. Options are valued upon issuance utilizing the Black-Scholes valuation model. Option expense is recognized over the requisite service period of the related option award. The following table illustrates certain key information regarding our options and option assumptions at December 31, 2017 and 2016:

	December 31,			
	2017		2016	
Number of options outstanding	1,510,000		2,445,000	
Value at December 31	N/A		N/A	
Number of options issued during the year	950,000		-	
Value of options issued during the year	$78,483		$N/A	
Number of options recognized during the year	0		0	
Number of options exercised or expired during the year	1,885,000		660,000	
Value of options recognized during the year	$38,847		$19,752	
Revaluation (gain) during the period	$N/A		$N/A	
Black-Scholes model variables:				
Volatility	47.3-56.9	%	N/A	%
Dividends	0		N/A	
Risk-free interest rates	0.87-2.0	%	N/A	%
Term (years)	0.8-2.5		N/A	

Doubtful Accounts Receivable

The Company maintained an allowance in the amount of $63,267 for doubtful accounts receivable at December 31, 2017, and $8,123 at December 31, 2016. The Company has an operational relationship of several years with our major customers, and we believe this experience provides us with a solid foundation from which to estimate our expected losses on accounts receivable. Should our sales mix change or if we develop new lines of business or new customers, these estimates and our estimation process will change accordingly. These estimates have been accurate in the past.

Fair Value of Financial Instruments

The Company measures its financial assets and liabilities in accordance with accounting principles generally accepted in the United States of America. The estimated fair values approximate their carrying value because of the short-term maturity of these instruments or the stated interest rates are indicative of market interest rates. These fair values have historically varied due to the market price of the Company’s stock at the date of valuation. Generally, these liabilities increased as the price of the Company’s stock increased (with resultant gain), and decreased as the Company’s stock decreased (yielding a loss). In December 2012, the Company removed these liabilities from its balance sheet by reclassifying them as equity.

Income Taxes

The Company has a history of losses, and as such has recorded no liability for income taxes. Until such time as the Company begins to provide evidence that a continued profit is a reasonable expectation, management will not determine that there is a basis for accruing an income tax liability. These estimates have been accurate in the past. At December 31, 2017, the Company has a net operating loss carryforward of $3,400,000.

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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. 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. ("FII" or "Food Innovations"), a Delaware corporation, for 500,000 shares of our common stock.

On November 2, 2012, the Company entered into an asset purchase agreement (the "Haley Acquisition") with The Haley Group, LLC whereby we acquired all existing assets of The Haley Group, LLC and its customers. The Haley Acquisition was valued at a total cost of $119,645. On June 30, 2014, pursuant to a purchase agreement, the Company purchased 100% of the membership interest of Organic Food Brokers, LLC, a Colorado limited liability company ("OFB"), for $300,000, 100,000 4 year options at a price of $1.46 per share, and up to an additional $225,000 in earn-outs if certain milestones are met. Pursuant to an Asset Purchase Agreement dated as of January 1, 2017 the Company's wholly-owned subsidiary, Oasis Sales Corp. ("Oasis"), purchased substantially all of the assets of Oasis Sales and Marketing, L.L.C. for $300,000 cash; a $200,000 structured equity instrument which can be paid in cash or shares of the Company stock at the Company's option, anytime under certain conditions, or is automatically payable via the issuance of 200,000 shares if the Company's shares close above $1.00 for ten consecutive days; a $100,000 note; and up to an additional $400,000 in earn-outs over two years if certain milestones are met. The Agreement also contains claw-back provisions if certain revenue conditions are not met.

On August 15, 2014, pursuant to a merger agreement (the "Fresh Diet Merger Agreement"), the Company acquired The Fresh Diet, Inc. ("The Fresh Diet" or "FD") through a reverse triangular merger as the registrant created a subsidiary corporation (FD Acquisition Corp) that merged with and into FD with FD being the surviving corporation and becoming a wholly-owned subsidiary of the Company. The purchase price consisted of 10,000,000 shares of the Company's common stock valued at $14,000,000. The majority of FD's current liabilities consisted of approximately $3.8 million of deferred revenues and approximately $2.1 million in short term commercial loans and there were additional ordinary course of business expenses such as trade payables, payroll and sales taxes which varied from month to month. In addition, it had some long term obligations the bulk of which consisted of interest free loans from FD's former shareholders in the amount of approximately $2.2 million which were not due for three years. Prior to the merger FD had purchased an immaterial amount of product from the Company. FD operated as an independent subsidiary subject to oversight of its board of directors and the Company's President and CEO. Effective February 23, 2016, the Company closed a transaction to sell 90% of our ownership in FD to New Fresh Co., LLC, a Florida limited liability company controlled by the former founder of FD who was appointed Interim CEO of FD on February 9, 2016. The consideration to Innovative Food Holdings consisted primarily of a restructuring of our loans, which includes the ability to convert to additional amounts of FD under certain circumstances. Aside from payments related to previously accrued liabilities there were no cash inflows or outflows from or to the discontinued operations.

Effective January 24, 2018, pursuant to an asset acquisition agreement (the "iGourmet Asset Acquisition Agreement"), our wholly-owned subsidiary, Innovative Gourmet, LLC acquired substantially all of the assets and certain liabilities of iGourmet LLC and iGourmet NY LLC, privately-held New York limited liability companies located in West Pittston, Pennsylvania and engaged in the sale, marketing, and distribution of specialty food and specialty food items through www.igourmet.com, online marketplaces, additional direct-to-consumer platforms, distribution to foodservice, retail stores and other wholesale accounts, pursuant to the terms of an Asset Purchase Agreement.

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 Major Customer in Note 16 to the Consolidated

Financial Statements, and (3) in Business – Relationship with U.S. Foods, and (4) as the second item under Risk Factors.
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RESULTS OF OPERATIONS

Prior year balances have been recast to reflect the sale of 90% of our interest in FD in February 2016. Results of discontinued operations are excluded from the accompanying results of operations for all periods presented, unless otherwise noted. See Note 2 – discontinued operations in the accompanying notes to consolidated financial statements.

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

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

Revenue

Revenue increased by $6,072,329 or approximately 17.3% to $41,244,717 for the year ended December 31, 2017 from $35,172,388 in the prior year.

We continue to assess the potential of new revenue sources from the manufacture and sale of proprietary food products, private label products and additional sales channel opportunities in both the foodservice and consumer space and will implement a strategy which based on our analysis provides the most beneficial opportunity for growth.

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

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

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

Cost of goods sold

Our cost of goods sold for the twelve months ended December 31, 2017 was $27,619,026, an increase of $3,116,762 or approximately 12.7% compared to cost of goods sold of $24,502,264 for the twelve months ended December 31, 2016. Cost of goods sold is made up of the following expenses for the twelve months ended December 31, 2017: cost of goods of specialty, meat, game, cheese, seafood, poultry and other sales categories in the amount of $19,792,767; and shipping, delivery, handling, and purchase allowance expenses in the amount of $7,826,259. Total gross margin was approximately 33.1% of sales in 2017 compared to approximately 30.3% of sales in 2016. The increase in cost of goods sold is primary attributable to an increase in sales. The increase in gross margins from 2016 are primarily attributable to variation in product and revenue mix across our various selling channels.

In 2017, we continued to price our products in order to gain market share and increase the number of our end users. We were successful in both increasing sales and increasing market share. We currently expect, if market conditions and our product revenue mix remain constant, that our cost of goods sold may increase.

Selling, general, and administrative expenses

Selling, general, and administrative expenses increased by $1,566,375 or approximately 21.3% to $8,936,709 during the twelve months ended December 31, 2017 compared to $7,370,334 for the twelve months ended December 31, 2016. The increase in selling, general, and administrative expenses was primarily due to an increase in payroll and related costs of approximately $539,366 (net of a decrease in non-cash compensation in the amount of $504,873), and an increase in professional and legal costs in the amount of $564,653. The increase in payroll was due primarily to the acquisition of Oasis in January, 2017; the increase in legal and professional fees was due primarily to legal activities including legal and accounting expenses related the acquisition of certain assets of iGourmet LLC, and in addition, to other legal, litigation and accounting related expenses in 2017.
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Interest expense, net

Interest expense, net of interest income, decreased by $323,665 or approximately 67.0% to $159,720 during the twelve months ended December 31, 2017, compared to $483,385 during the twelve months ended December 31, 2016. The decrease was due primarily to a decrease in amortization of the discount on notes payable, which was $185,018 for the twelve months ended December 31, 2017, a decrease of $185,018 compared to $370,036 during the twelve months ended December 31, 2016. In addition, interest accrued or interest paid or accrued on the Company's commercial loans and notes payable decreased by $42,860 to $76,635 during the current period, compared to $119,495 during the prior year, and interest income increased by $9,698 to $15,844 during the current period compared to $6,146 during the prior year. The Company also had a reduction of interest as a result of negotiations with certain noteholders which resulted in a reduction of accrued interest in the amount of $86,089. Without this adjustment, and adding back interest income of $15,844, gross interest expense would have been $261,653 for the period.

Net income from continuing operations

For the reasons above, the Company had net income from continuing operations for the twelve months ended December 31, 2017 of $4,529,262 which is an increase of approximately $1,712,857 or 60.8% compared to a net income of $2,816,405 during the twelve months ended December 31, 2016. The income for the year ended December 31, 2017 includes a total of $1,158,265 in non-cash charges, including amortization of intangible assets in the amount of $370,768, depreciation expense of $162,705, charges for non-cash compensation in the amount of $439,774, and amortization of the discount on notes payable in the amount of $185,018. The income for the year ended December 31, 2016 includes a total of $1,837,094 in non-cash charges, including amortization of intangible assets in the amount of $232,768, depreciation expense of $158,143, charges for non-cash compensation in the amount of $1,076,147, and amortization of the discount on notes payable in the amount of $370,036.

Liquidity and Capital Resources at December 31, 2017

As of December 31, 2017, the Company had current assets of $8,526,132, consisting of cash and cash equivalents of $5,133,435; trade accounts receivable of $2,042,505; inventory of $937,962; notes receivable of $325,500; and other current assets of $86,730. Also at December 31, 2017, the Company had current liabilities of $2,399,274, consisting of trade payables and accrued liabilities of $1,836,559; accrued interest of $15,860; current portion of notes payable and capital leases of $346,855; and current portion of contingent liability of $200,000.

During the year ended December 31, 2017, the Company had cash provided by operating activities of $3,419,402. Cash flow from operations consisted of the Company's consolidated net income of $4,529,262 plus non-cash compensation in the amount of $439,774; non-cash amortization of discount on notes payable of $185,018; and depreciation and amortization of $533,473. The Company's cash position decreased by $2,268,125 as a result of changes in the components of current assets and current liabilities, primarily a reduction in accrued liabilities related to related to discontinued operations in the amount of $1,478,887.

The Company had cash used in investing activities of $675,345 for the year ended December 31, 2017, which consisted of cash paid in the acquisition of Oasis in the amount of $300,000, cash loaned to iGourmet LLC under a note agreement in the amount of $325,500; and cash paid for the acquisition of property and equipment in the amount of $49,845. The Company had cash used in financing activities of $1,374,675 for the year ended December 31, 2017, which consisted of principal payments made on notes payable of $997,544; principal payments on capital leases of $9,287, payments made for the purchase of treasury stock of $505,660; and payments made for the purchase of options from officers, directors, and employees of $163,925. The Company also received cash of $196,741 from the exercise of warrants for common stock, and $105,000 from the exercise of common stock options.

The Company had net working capital of $6,126,858 as of December 31, 2017. The Company had cash provided by operations during the year ended December 31, 2017 in the amount of $3,419,402; this amount is net of certain payments in the amount of $1,478,887 related to discontinued operations which relate mainly to a transaction to purchase the rights to 1,450,000 RSUs and 642,688 shares of the Company's common stock from a former FD employee which resulted in $850,000 in non-recurring cash payments. This compares to cash generated from operating activities of $3,469,096 during the year ended December 31, 2016. Without the cash flow items associated with discontinued operations, operating cash flow would have been $4,898,289 for the year ended December 31, 2017. The Company intends to continue to focus on increasing market share and cash flow from operations by focusing its sales activities on specific market segments and new product lines. Currently, we do not have any material long-term obligations other than those described in Note 13 to the financial statements included in this report. As we seek to increase our sales of new items and enter new markets, acquire new businesses as well as identify new and other consumer and food service oriented products and services, we may use existing cash reserves, long-term financing, or other means to finance such diversification.

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In February 2016, we completed the sale of FD to New Fresh Co., LLC, a Florida limited liability company controlled by the former founder of FD. See Note 3 to the accompanying financial statements.

If the Company's cash flow from operations is insufficient to fully implement its business plan, the Company may require additional financing in order to execute its operating plan. 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.

2018 Plans

During 2018, in addition to our efforts to increase sales in our existing foodservice operations we plan to attempt to expand our business by expanding our focus to additional specialty foods markets in both the consumer and foodservice sector, exploring potential acquisition and partnership opportunities and continuing to extend our focus in the specialty food market through the growth of the Company's existing sales channels and through a variety of additional sales channel relationships which are currently being explored. In addition, we are currently exploring the introduction of a variety of new product categories and new product lines, including private label products and proprietary branded products to leverage our existing foodservice and consumer customer base.

Furthermore, the Company intends to expand its activities in the direct to consumer space and the overall consumer packaged goods (CPG) space through leveraging the assets acquired from iGourmet LLC and through leveraging its overall capabilities in the consumer space.

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

Off-Balance Sheet Arrangements

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

Inflation

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

Transactions with Major Customers

The Company's largest customer, US Foods, Inc. and its affiliates, accounted for approximately 72% of total sales in each of the years ended December 31, 2017 and 2016. A contract between our subsidiary, Food Innovations, and USF entered an optional renewal period in December 2012 but was automatically extended for an additional 12 months in each of January 1, 2013 and 2014. On January 26, 2015 we executed a contract between Food Innovations, Inc., our wholly-owned subsidiary, and U.S. Foods, Inc. The term of the Agreement is from January 1, 2015 through December 31, 2016 and provides for a limited number of automatic annual renewals thereafter if no party gives the other 30 days' notice of its intent not to renew. Based on the terms, the Agreement was extended through 2018. Effective January 1, 2018 the Agreement was further amended to remove the cap on renewals, and provide for an

unlimited number of additional 12-month terms unless either party notifies the other in writing, 30 days prior to the end date, of its intent not to renew.

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ITEM 8. Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Innovative Food Holdings, Inc., and subsidiaries (the "Company") as of December 31, 2017 and 2016, the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, 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.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting in accordance with the standards of the PCAOB. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion in accordance with the standards of the PCAOB.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Liggett & Webb, P.A.

We have served as the Company's auditor since 2012.

New York, NY
March 29, 2018

Explanation of Responses:

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Innovative Food Holdings, Inc.
Consolidated Balance Sheets

	December 31, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	$5,133,435	$3,764,053
Accounts receivable, net	2,042,505	1,538,395
Inventory	937,962	815,033
Notes receivable	325,500	-
Other current assets	86,730	55,393
Total current assets	8,526,132	6,172,874
Property and equipment, net	1,955,250	2,068,110
Investments	201,525	208,983
Intangible assets, net	1,336,916	707,684
Total assets	$12,019,823	$9,157,651
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	$1,836,559	$3,119,533
Accrued liabilities - related parties	-	65,000
Accrued interest	15,860	626,873
Notes payable - related party, current portion	-	164,650
Notes payable - current portion	346,855	1,424,432
Contingent liability - current portion	200,000	-
Total current liabilities	2,399,274	5,400,488
Contingent liability - long-term	200,000	-
Note payable - long term portion, net of discount	866,010	1,137,811
Total liabilities	3,465,284	6,538,299
Stockholders' equity		
Common stock: $0.0001 par value; 500,000,000 shares authorized; 36,080,519 and 25,301,819 shares issued, and 33,589,407 and 24,568,157 shares outstanding at December 31, 2017 and December 31, 2016, respectively	3,605	2,528
Additional paid-in capital	36,196,682	33,974,470
Treasury stock: 2,276,703 and 519,254 shares outstanding at December 31, 2017 and December 31, 2016, respectively	(992,313)	(174,949)
Accumulated deficit	(26,653,435)	(31,182,697)
Total stockholders' equity	8,554,539	2,619,352
Total liabilities and stockholders' equity	$12,019,823	$9,157,651

See notes to consolidated financial statements.

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Innovative Food Holdings, Inc.
Consolidated Statements of Operations

	For the Twelve Months Ended December 31, 2017	For the Twelve Months Ended December 31, 2016
Revenue	$41,244,717	$35,172,388
Cost of goods sold	27,619,026	24,502,264
Gross margin	13,625,691	10,670,124
Selling, general and administrative expenses	8,936,709	7,370,334
Total operating expenses	8,936,709	7,370,334
Operating income	4,688,982	3,299,790
Other expense:		
Interest expense, net	159,720	483,385
Total other expense	159,720	483,385
Net income before taxes	4,529,262	2,816,405
Income tax expense	-	-
Net income from continuing operations	$4,529,262	$2,816,405
Net income from discontinued operations	-	3,571,300
Consolidated net income	$4,529,262	$6,387,705
Net income per share from continuing operations - basic	$0.152	$0.112
Net income per share from discontinued operations - basic	$-	$0.142
Net income per share from continuing operations - diluted	$0.151	$0.100
Net income per share from discontinued operations - diluted	$-	$0.112
Weighted average shares outstanding - basic	29,846,136	25,071,025
Weighted average shares outstanding - diluted	29,969,699	31,984,945

See notes to consolidated financial statements.
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Innovative Food Holdings, Inc.
Consolidated Statements of Cash Flows

	For the Twelve Months Ended December 31, 2017	For the Twelve Months Ended December 31, 2016
Cash flows from operating activities:		
Net income	$4,529,262	$6,387,705
Gain on sale of discontinued operations	-	(7,201,196)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	533,473	497,920
Stock based compensation	439,774	1,076,147
Stock based compensation for TFD employees	-	1,028,908
Amortization of discount on notes payable	185,018	370,036
Allowance for doubtful accounts	-	(10,350)
Changes in assets and liabilities:		
Accounts receivable, net	(504,110)	81,877
Deferred revenue	-	289,254
Inventory and other current assets, net	(154,266)	193,659
Accounts payable and accrued expenses - related party	-	(81,018)
Accounts payable and accrued liabilities	(1,544,749)	927,044
Accrued liabilities - related party	(65,000)	-
Due from related party	-	110
Contingent liability	-	(91,000)
Net cash provided by operating activities	3,419,402	3,469,096
Cash flows from investing activities:		
Cash decrease due to sale of discontinued operations	-	(470,482)
Acquisition of property and equipment	(49,845)	(10,512)
Cash paid in the acquisition of Oasis	(300,000)	-
Investments in food related companies	(325,500)	(7,458)
Net cash used in investing activities	(675,345)	(488,452)
Cash flows from financing activities:		
Purchase of stock options from officers, directors, and employees	(163,925)	-
Cash received from exercise of stock options	105,000	-
Cash received from exercise of warrants	196,741	-
Purchase of treasury stock	(505,660)	(14,850)
Payments made on revolving credit facilities	-	(941,831)
Borrowings on revolving credit facilities	-	805,959
Principal payments on debt	(997,544)	(1,191,627)
Principal payments capital leases	(9,287)	(11,531)
Net cash used in financing activities	(1,374,675)	(1,353,880)

Increase in cash and cash equivalents	1,369,382	1,626,764
Cash and cash equivalents at beginning of year	3,764,053	2,137,289
Cash and cash equivalents at end of year	$5,133,435	$3,764,053
Cash and cash equivalents at end of year - discontinued operations	$-	$-
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$74,341	$96,318
Taxes	$-	$-
Non-cash investing and financing activities:		
Common stock issued for conversion of note payable by related party	$164,650	$-
Issuance of 200,000 shares of common stock pursuant to structured equity instrument	$200,000	$-

See notes to consolidated financial statements.

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Innovative Food Holdings, Inc.
Consolidated Statements of Stockholders' Equity

	Common Stock Amount	Common Stock Value	APIC	Treasury stock Amount	Treasury stock Value	Accumulated Deficit	Total
Balance at December 31, 2015	24,248,486	$2,423	$32,344,584	486,254	$(160,099)	$(37,570,402)	$(5,383,494)
Shares issued to Haley - previously accrued	25,000	3	33,997	-	-	-	34,000
Shares issued to employee under severance agreement	300,000	30	146,970	-	-	-	147,000
Shares issued to employee under employment agreement	133,333	13	67,987	-	-	-	68,000
Value of RSU's recognized during the period	-	-	849,401	-	-	-	849,401
Fair value of RSUs charged to discontinued operations	-	-	813,908	-	-	-	813,908
Fair value of vested stock options issued to management and board	-	-	19,752	-	-	-	19,752
Conversion of RSUs to common stock under separation agreements	595,000	59	(59)	-	-	-	-
RSUs issued for previously accrued officer and director compensation	-	-	317,930	-	-	-	317,930
Purchase RSUs and common stock pursuant to severance agreement	-	-	(620,000)	-	-	-	(620,000)
Common stock repurchased	-	-	-	33,000	(14,850)	-	(14,850)
Net income for the twelve months ended	-	-	-	-	-	6,387,705	6,387,705

December 31, 2016

Balance at December 31, 2016	25,301,819	2,528	33,974,470	519,254	(174,949)	(31,182,697)	2,619,352
Issuance of common stock for exercise of warrants	499,421	49	196,692	-	-	-	196,741
Purchase of stock options from employees, officers, and directors	-	-	(163,925)	-	-	-	(163,925)
Issuance of common stock to employees	2,480,392	248	(25,991)	-	-	-	(25,743)
Issuance of shares for conversion of notes payable and accrued interest	5,285,027	529	1,319,928	-	-	-	1,320,457
Vesting of restricted stock units issued to employees, officers, and directors	-	-	240,208	-	-	-	240,208
Acquisition of treasury shares	-	-	311,704	1,757,450	(817,364)	-	(505,660)
Fair value of vested stock options issued to employees	-	-	38,847	-	-	-	38,847
Common stock issued for the exercise of options	300,000	30	104,970	-	-	-	105,000
Common stock issued for cashless exercise of warrants	943,860	94	(94)	-	-	-	-
Issuance of restricted stock awards to employees, officers, and directors	1,070,000	107	(107)	-	-	-	-
Issuance of common stock pursuant to structure equity agreement	200,000	20	199,980	-	-	-	200,000

Net income for the twelve months ended December 31, 2017	-	-	-	-	-	4,529,262	4,529,262
Balance at December 31, 2017	36,080,519	$3,605	$36,196,682	2,276,704	$(992,313)	$(26,653,435)	$8,554,539

See notes to consolidated financial statements.
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INNOVATIVE FOOD HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business Activity

Our business is currently conducted by our wholly-owned subsidiaries, Artisan (“Artisan”), Food Innovations (“FII”), Food New Media Group, Inc. (“FNM”), Organic Food Brokers (“OFB”), Gourmet Food Service Group, Inc. (“GFG”), Gourmet Foodservice Warehouse, Inc. (“GFW”), Gourmeting, Inc. (“Gourmeting”), The Haley Group, Inc. (“Haley”), Oasis (“Oasis”), 4 The Gourmet, Inc. (d/b/a For The Gourmet, Inc.), (“Gourmet”); Innovative Gourmet, LLC (“Innovative Gourmet”); and Food Funding, LLC (“Food Funding” and collectively with IVFH and its other subsidiaries, the “Company” or “IVFH”). Overall, our focus is on distribution or the enabling of distribution of specialty food products ranging from specialty foodservice products to Consumer Packaged Goods (“CPG”) products Since its incorporation, the Company primarily through FII’s relationship with the producers, growers, and makers of thousands of unique specialty foodservice products and through its relationship with US Foods, Inc. (“U.S. Foods” or “USF”), has been in the business of providing premium restaurants, within 24 – 72 hours, with the freshest origin-specific perishable, and healthcare products shipped directly from our network of vendors and from our warehouses. Our customers include restaurants, hotels, country clubs, national chain accounts, casinos, hospitals and catering houses. Gourmet has been in the business of providing specialty food e-commerce consumers, through its own website at www.forthegourmet.com and though www.amazon.com, with unique specialty gourmet food products shipped directly from our network of vendors and from our warehouses within 24 – 72 hours. GFG is focused on expanding the Company’s program offerings to additional customers. In our business model, we receive orders from our customers and then work closely with our suppliers and our warehouse facilities to have the orders fulfilled. In order to maintain freshness and quality, we carefully select our suppliers based upon, among other factors, their quality, uniqueness, reliability and access to overnight courier services.

Artisan is a supplier of over 1,500 unique specialty foodservice products to over 500 customers in the Greater Chicago area. Haley provides consulting services and other solutions to its clients in the food industry. Haley is a dedicated foodservice consulting and advisory firm that works closely with companies to access private label and manufacturers’ private label food service opportunities with the intent of helping them launch and commercialize new products in the broadline foodservice industry and get products distributed via national broadline food distributors. OFB and Oasis function as outsourced national sales and brand management teams for emerging organic and specialty food Consumer Packaged Goods (“CPG”) companies and provides emerging CPG specialty food brands with distribution and shelf placement access in all of the major metro markets in the food retail industry.

Discontinued Operations

On February 23, 2016, the Company consummated the sale of 90% of our ownership in FD. As a result of the sale, the results of operations for all periods have been included in “Net income from discontinued operations” in our consolidated statements of operations. See Note 3 - Discontinued Operations for additional information.

Use of Estimates

The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate these estimates, including those related to revenue recognition and concentration of credit risk. We base our estimates on historical experience and on various other assumptions that are believed to be

reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Accounts subject to estimate and judgements are accounts receivable reserves, income taxes, intangible assets, contingent liabilities, and equity based instruments. 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.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Innovative Food Holdings, Inc., and its wholly owned operating subsidiaries, Artisan, Food Innovations, FNM, OFB, GFG, Gourmet Foodservice Warehouse, Inc., Gourmeting, Inc., Haley, Innovative Gourmet, Food Funding, and Gourmet. All accounts of FD have been included under discontinued operations. All material intercompany transactions have been eliminated upon consolidation of these entities.

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Revenue Recognition

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

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

Cost of goods sold

We have included in cost of goods sold all costs which are directly related to the generation of revenue. These costs include primarily the cost of food and raw materials, packing and handling, shipping, and delivery costs.

Selling, general, and administrative expenses

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

Cash and Cash Equivalents

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

Accounts Receivable

The Company provides an allowance for doubtful accounts equal to the estimated uncollectible amounts. The Company's estimate is based on historical collection experience and a review of the current status of trade accounts receivable. It is reasonably possible that the Company's estimate of the allowance for doubtful accounts will change. Accounts receivable are presented net of an allowance for doubtful accounts of $63,267 and $8,123 at December 31, 2017, and 2016, respectively.

Property and Equipment

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

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

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

Inventories

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

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Income Taxes

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

Fair Value of Financial Instruments

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

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

Long-Lived Assets

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

Comprehensive Income

ASC 220-10-15 "Reporting Comprehensive Income," establishes standards for reporting and displaying of comprehensive income, its components and accumulated balances. Comprehensive income is defined to include all changes in equity except those resulting from investments by owners and distributions to owners. Among other disclosures, ASC 220-10-15 requires that all items that are required to be recognized under current accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. The Company does not have any items of comprehensive income in any of the periods presented.

Cost Method Investments

The Company has made several investments in early stage private food related companies and are accounting for these investments under the cost method.

Basic and Diluted Income Per Share

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

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

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Dilutive shares at December 31, 2017:

Convertible notes and interest

At Dec 31, 2017 the Company there are no convertible notes outstanding.

Warrants

At Dec 31, 2017 there are no warrants outstanding.

Stock Options

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

Exercise Price	Number of Options	Weighted Average Remaining Contractual Life (years)
$ 0.57	25,000	0.02
$ 1.04	200,000	2.83
$ 1.31	200,000	0.50
$ 1.38	100,000	1.92
$ 1.42	100,000	0.47
$ 1.43	50,000	1.00
$ 1.46	100,000	0.50
$ 1.60	310,000	0.01
$ 1.70	75,000	0.28
$ 1.90	175,000	1.48
$ 2.00	50,000	0.28
$ 2.40	20,000	0.41
$ 2.50	37,500	0.28
$ 3.40	30,000	0.41
$ 3.50	37,500	0.28
	1,510,000	0.89

The Company is also committed to issue a total of 115,941 shares pursuant to the cashless conversion of an aggregate 500,000 options consisting of 300,000 options at a price of $0.35 per share, and 200,000 options at a price of $0.57 per share, The shares, which the Company intends to issue in April 2018, represent a net amount after aggregate cash payments of $167,000, which was a portion of the difference between the exercise price of the options and the market price of the stock on the date of purchase, and taxes.

RSUs

During the twelve months ended December 31, 2017, the Company cancelled all outstanding restricted stock units ("RSUs") and replaced them with common stock or restricted stock awards; see note 16.

At December 31, 2017, there are no RSUs outstanding.

We recognized stock-based compensation expense for RSUs in a straight-line manner over the vesting period of the grant. This resulted in stock-based compensation expense of $0 and $658,709 related to recognition of RSUs during the years ended December 31, 2017 and 2016, respectively.

Restricted Stock Awards

During the year ended December 31, 2017, the Company cancelled unvested RSUs representing 1,370,000 shares of common stock and replaced them with restricted stock awards also representing 1,370,000 shares of common stock. The restricted stock awards vested over the same vesting period and under the same terms as the RSUs they replaced. Restricted stock awards representing 1,070,000 shares were vested at December 31, 2017; there are a total of 300,000 unvested restricted stock awards remaining. Those 300,000 restricted stock awards will vest as follows: 125,000 restricted stock awards will vest contingent upon the attainment of a stock price of $2.00 per share for 20 straight trading days, and an additional 175,000 restricted stock awards will vest contingent upon the attainment of a stock price of $3.00 per share for 20 straight trading days. During the year ended December 31, 2017, the Company recognized expense of $240,208 for the vesting of restricted stock awards, the same amount of expense that would have been recognized had the RSUs not been replaced by the restricted stock awards. As the restricted stock awards were not in place during the year ended December 31, 2016, there was no such cost during that period.

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Dilutive shares at December 31, 2016:

Convertible notes and interest

At December 31, 2016, the Company had outstanding convertible notes payable in the aggregate principal amount of $647,565 with accrued interest of $626,873 convertible at the rate of $0.25 per share into an aggregate 5,097,752 shares of common stock. These notes were issued mainly as part of a debt financing into the Company in 2004 and have certain restrictions on repayment. The Company also has a note payable to a related party in the amount of $164,650 convertible at the rate of $0.25 per share into an aggregate of 658,600 shares of common stock.

Warrants

Also at December 31, 2016, the Company had outstanding warrants for holders to purchase the following additional shares: The following warrants were issued in connection to a 2004 equity investment into the Company: 2,294,493 shares exercisable at a price of $0.575 per share; 448,010 shares exercisable at a price of $0.55 per share; and 94,783 shares exercisable at a price of $0.25 per share. In addition the Company has 700,000 warrants outstanding exercisable at a price of $0.01 per share. These warrants were originally issued in connection with the issuance of a loan connected to the Artisan Specialty Foods acquisition. 800,000 of the original warrants were cancelled upon the early payment of the loan in 2012, leaving the current 700,000 connected to the Artisan loan previously outstanding.

Stock options

The following table summarizes the options outstanding and the related prices for the options to purchase shares of the Company's common stock issued by the Company at December 31, 2016:

Exercise Prices	Number of Options	Weighted Average Remaining Contractual Life (years)
$ 0.350	1,170,000	1.17
$ 0.380	92,500	0.50
$ 0.400	275,000	0.51
$ 0.450	92,500	0.50
$ 0.474	92,500	0.50
$ 0.480	92,500	0.50
$ 0.570	225,000	1.51
$ 1.310	75,000	2.17
$ 1.440	15,000	0.34
$ 1.460	100,000	2.00
$ 1.600	310,000	1.51
$ 1.900	15,000	1.34
$ 2.000	500,000	0.67
$ 2.400	20,000	1.92
$ 3.400	30,000	1.92
	3,105,000	1.07

RSUs

At December 31, 2016, the Company has issued restricted stock units ("RSUs") for the potential issuance of shares of the Company's common stock for the purpose of aligning executives and employees of the Company and for the purpose of compensation for serving as members of the Board of Directors of the Company and for the purposes of retaining qualified personnel at compensation levels that otherwise would not be available should the company have been required to pay certain salaries in cash only. Certain RSUs were issued to the executive officers of the Company ("Executive RSUs"); certain RSUs were issued to the employees of the Company ("Employee RSUs"); certain RSUs were issued to members of the board of directors of the Company ("Board RSUs"); and certain of the RSUs were issued to employees of FD ("FD RSUs").

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At December 31, 2016, the following Executive RSUs were outstanding: A total of 1,737,072 RSUs were vested, and 800,000 will vest on July 1, 2017. An additional 125,000 RSUs will vest contingent upon the attainment of a stock price of $2.00 per share for 20 straight trading days, and an additional 175,000 RSUs will vest contingent upon the attainment of a stock price of $3.00 per share for 20 straight trading days. The Company estimated that the stock-price goals of the Company's stock price closing above $2.00 per share for 20 straight days have a 90% likelihood of achievement, and these RSUs were valued at 90% of their face value; the Company also estimated that the likelihood of the Company's stock closing above $3.00 per share for 20 straight days is 70%, and these RSUs were valued at 70% of their face value. We recognized stock-based compensation expense of in a straight-line manner over the vesting period of the RSUs.

On March 31, 2016, 10,000 Board RSUs were issued. On August 3, 2016, 95,000 Board RSUs were exercised by a former Board member. At December 31, 2016, the following Board RSUs were outstanding: a total of 545,000 RSUs were vested, and 270,000 vest on July 1, 2017.

The Employee RSUs were issued to certain nonexecutive employees of the Company either partially in lieu of salary, future bonuses or a combination of both bonus and salary. On March 31, 2016, 180,534 Employee RSUs were issued. At December 31, 2016, 180,534 Employee RSUs were outstanding, all of which were vested.

On January 26, 2016, 300,000 FD RSUs were exercised, and 800,000 FD RSUs were forfeited. On April 25, 2016, an additional 1,000,000 FD RSUs were forfeited. On June 29, 2016, 200,000 FD RSUs were exercised, and an additional 900,000 FD RSUs were forfeited. At December 31, 2016, 1,000,000 FD RSUs were outstanding; 600,000 were vested, and 400,000 were scheduled to vest on July 1, 2017.

We recognized stock-based compensation expense for RSUs in a straight-line manner over the vesting period of the grant. This resulted in stock-based compensation expense of $1,663,309 (including $813,908 charged to discontinued operations) and $4,206,282 (including $2,258,216 charged to discontinued operations) related to recognition of RSUs during the year ended December 31, 2016 and 2015, respectively.

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 December 31, 2017 and 2016, the Company had cash deposits in excess of applicable government mandated insurance limits in the amount of $3,470,000 and $2,971,942, respectively. At December 31, 2017 and 2016, trade receivables from the Company's largest customer amounted to 48% and 44%, respectively, of total trade receivables.

Stock-based Compensation

We use the Black-Scholes-Merton option pricing model to estimate the fair value of options granted. The Black-Scholes option valuation model requires the use of assumptions, including the expected term of the award and the expected stock price volatility. We used the Company's historical volatility to estimate expected stock price volatility. The risk-free rate assumption was based on United States Treasury instruments whose terms were consistent with the expected term of the stock option. The expected dividend assumption was based on the Company's history and expectation of dividend payouts.

Restricted Stock Units (RSUs) were measured based on the fair market values of the underlying stock on the dates of grant. RSUs awarded may be conditional upon the attainment of one or more performance objectives over a specified period. At the end of the performance period, if the goals are attained, the awards are granted. Stock-based

compensation expense was calculated based on awards ultimately expected to vest and was reduced for estimated forfeitures at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differed from those estimates. The estimated annual forfeiture rates for stock options and RSUs are based on the Company's historical forfeiture experience. The estimated fair value of stock options and RSUs is expensed on a straight-line basis over the vesting term of the grant. Compensation expense is recorded over the requisite service period based on management's best estimate as to whether it is probable that the shares awarded are expected to vest. Management assesses the probability of the performance milestones being met on a continuous basis.

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Options expense during the twelve months ended December 31, 2017 and 2016 are summarized in the table below:

	December 31, 2017	December 31, 2016
Option expense	$38,847	$19,752

RSUs expense during the twelve months ended December 31, 2017 and 2016 are summarized in the table below:

	December 31, 2017	December 31, 2016
RSUs expense – Continuing operations	$-	$849,401
RSUs expense – Discontinued operations	-	813,908
Total	$-	$1,663,309

Reclassifications

Certain reclassifications have been made to conform prior period data to the current presentation.

New Accounting Pronouncements

In May 2017, the FASB issued ASU No. 2017-09, Stock Compensation - Scope of Modification Accounting, which provides guidance on which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. The ASU requires that an entity should account for the effects of a modification unless the fair value (or calculated value or intrinsic value, if used), vesting conditions and classification (as equity or liability) of the modified award are all the same as for the original award immediately before the modification. The ASU becomes effective for the Company on January 1, 2018, and should be applied prospectively to an award modified on or after the adoption date. Early adoption is permitted, including adoption in any interim period. The Company will apply this standard for any awards that are modified after January 1, 2018. We are evaluating what impact, if any, the adoption of this guidance will have on our financial condition, results of operations, cash flows or financial disclosures.

In January 2017, the FASB issued ASU No. 2017-04, Simplifying the Test for Goodwill Impairment, which simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. In computing the implied fair value of goodwill under Step 2, current U.S. GAAP requires the performance of procedures to determine the fair value at the impairment testing date of assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Instead, the amendments under this ASU require the goodwill impairment test to be performed by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The ASU becomes effective for the Company on January 1, 2020. The amendments in this ASU should be applied on a prospective basis. Early adoption is permitted for interim or annual goodwill impairment tests performed. We are evaluating what impact, if any, the adoption of this guidance will have on our financial condition, results of operations, cash flows or financial disclosures.

In August 2016, the FASB issued ASU No. 2016-15 which amends ASC Topic 230, “Classification of Certain Cash Receipts and Cash Payments.” The amendments in this update address eight specific cash flow issues with the objective of reducing the existing diversity in practice. The update outlines the classification of specific transactions as

either cash inflows or outflows from financing activities, operating activities, investing activities or non-cash activities. This guidance is effective for interim and annual reporting periods beginning after December 15, 2017. We are evaluating what impact, if any, the adoption of this guidance will have on our financial condition, results of operations, cash flows or financial disclosures.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), to increase transparency and comparability among organizations by recognizing a right-of-use asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either operating or financing, with such classification affecting the pattern of expense recognition in the income statement. ASU 2016-02 is effective for fiscal years and interim periods within those years beginning after December 15, 2018, and early adoption is permitted. We are currently evaluating the impact ASU 2016-02 will have on our consolidated financial statements and associated disclosures.

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In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), to clarify the principles of recognizing revenue and create common revenue recognition guidance between U.S. GAAP and International Financial Reporting Standards. Under ASU 2014-09, revenue is recognized when a customer obtains control of promised goods or services and is recognized at an amount that reflects the consideration expected to be received in exchange for such goods or services. In addition, ASU 2014-09 requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The ASU is effective for fiscal years beginning after December 15, 2017. The new revenue standard is principle based and interpretation of those principles may vary from company to company based on their unique circumstances. It is possible that interpretation, industry practice, and guidance may evolve as companies and the accounting profession work to implement this new standard. The Company is still in the process of evaluating the effect of the new standard on the Company's historical financial statements and disclosures. While the Company has not completed its evaluation, the Company currently believes that the impact to revenue and expense recognized will not be material to any of the years presented.

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

2. ACQUISITION

Pursuant to the Oasis Asset Purchase Agreement, effective January 1, 2017, the Company, through its wholly-owned subsidiary, Oasis Sales Corp., purchased certain assets of Oasis Sales and Marketing, L.L.C., a California limited liability company. The purchase price consisted of $300,000 cash; a two-year promissory note in the amount of $100,000, and a structured equity instrument (the "SEI") in the amount of $200,000. In addition, the Company is contingently liable for certain performance-based payments over the twenty-four months following the acquisition date up to a maximum of $400,000 ("Earnout Payments"). Of this amount, $200,000 was carried as a current liability, and $200,000 was carried as a long-term liability on the Company's balance sheet at December 31, 2017.

The SEI was payable in cash or shares of the Company's stock at the Company's option, at any time, or is automatically payable via the issuance of 200,000 shares of the Company's stock if the Company's shares close above $1.00 for ten consecutive days. This requirement was met on November 28, 2017, and on that date the $200,000 SEI liability was converted to 200,000 shares of common stock.

The Company believes it is likely that the Earnout Payments will be made, and accordingly has recorded the entire amount of $400,000 as a contingent liability on its balance sheet as of the acquisition date. The amount of $800,000 was allocated to customer lists, an intangible asset with a useful life of 60 months; and the amount of $200,000 was allocated to a non-compete agreement, an intangible asset with a useful life of 48 months. A total of $210,000 was amortized to operations during the year ended December 31, 2017.

3. DISCONTINUED OPERATIONS

Effective February 23, 2016, the Company closed a transaction to sell 90% of our ownership in The Fresh Diet, Inc. ("FD") to New Fresh Co., LLC, a Florida limited liability company controlled by the former founder of FD who was appointed Interim CEO of FD on February 9 , 2016 . The consideration to Innovative Food Holdings consisted primarily of a restructuring of our loans, which includes the ability to convert to additional amounts of FD under certain circumstances. There is no continuing cash inflows or outflows from or to the discontinued operations. During the twelve months ended December 31, 2016, the Company accrued the amount of $850,000 representing the amount due based on an agreement signed in 2017. The agreement involved the purchase of rights to 1,450,000 RSUs and the purchase of 642,688 shares of the Company's common stock (see note 16).

ASC 360-10-45-9 requires that a long-lived asset (disposal group) to be sold shall be classified as held for sale in the period in which a set of criteria have been met, including criteria that the sale of the asset (disposal group) is probable and actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. This criteria was achieved on February 9, 2016. Additionally, the discontinued operations are comprised of the entirety of FD, excluding corporate services expenses. Lastly, for comparability purposes certain prior period line items relating to the assets held for sale have been reclassified and presented as discontinued operations for all periods presented in the accompanying condensed consolidated statement of operations for the twelve months ended December 31, 2016.

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The following information presents the major classes of line items constituting the after-tax loss from discontinued operations in the consolidated statements of operations:

	December 31, 2016
Revenue	$2,389,950
Cost of goods sold	1,764,834
Gross margin	625,116
Impairment of goodwill	-
Selling, general and administrative expenses	4,244,192
Total operating expenses	4,244,192
Operating loss	(3,619,076)
Other (income) expense:	
Gain on sale of discontinued operations	(7,201,196)
Interest expense, net	10,820
Other (income)	-
Total other (income) expense	(7,190,376)
Income from discontinued operations, net of tax	$3,571,300

The following information presents the major classes of line items constituting significant operating and investing cash flow activities in the consolidated statements of cash flows relating to discontinued operations:

	December 31, 2016
Cash Flow: Major line items	
Depreciation and Amortization	107,009
Impairment of goodwill	-
Non-cash compensation	1,028,908
Purchase of equipment	(6,296)
Cash from revolving credit facilities	685,959
Payments made on revolving credit facilities	(641,831)
Principal payments made on notes payable	(7,074)
Principal payments made on capital leases	(8,094)

The components of the gain on sale and income from discontinued operations are as follows:

	February 22, 2016
Receivable due from buyer, net of reserve of $8,700,000	$-
Net proceeds from sale of assets and liabilities	-

Assets sold	(6,225,073)
Liabilities sold	13,426,269
Net liabilities sold	7,201,196
Gain on sale	7,201,196
Loss from discontinued operations before income tax	(3,629,896)
Income tax expense	-
Income from discontinued operations	$3,571,300

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4. ACCOUNTS RECEIVABLE

At December 31, 2017 and 2016, accounts receivable consists of:

	2017	2016
Accounts receivable from customers	$2,105,772	$1,546,518
Allowance for doubtful accounts	(63,267)	(8,123)
Accounts receivable, net	$2,042,505	$1,538,395

5. INVENTORY

Inventory consists of specialty food products. At December 31, 2017 and 2016, inventory consisted of the following:

	2017	2016
Finished Goods Inventory	$937,962	$815,033

6. NOTES RECEIVABLE

During the year ended December 31, 2017, the Company's wholly-owned subsidiary Food Funding, LLC loaned the amount of $325,500 to iGourmet, LLC pursuant to a note agreement (the "iGourmet Note Receivable"). The iGourmet LLC Note Receivable bears interest at the rate of 9% per annum, and is due April 1, 2018. During the year ended December 31, 2017, the Company recorded interest income in the amount of $5,238 in the iGourmet Note Receivable. Subsequent to December 31, 2017, the Company acquired substantially all of the assets and certain liabilities of iGourmet LLC; see Note 20.

7. PROPERTY AND EQUIPMENT

Acquisition of Building

The Company owns a building and property located at 28411 Race Track Road, Bonita Springs, Florida 34135. The property consists of approximately 1.1 acres of land and approximately 10,000 square feet of combined office and warehouse space, and was purchased as part of a bank short sale. The Company moved its operations to these premises on July 15, 2013. The purchase price of the property was $792,758.

On May 14, 2015, the Company purchased a building and property located at 2528 S. 27th Avenue, Broadview, Illinois 60155. The property consists of approximately 1.33 acres of land and approximately 28,711 square feet of combined office and warehouse space. The purchase price of $914,350 was initially financed primarily by a draw-down of $900,000 on the Company's credit facility with Fifth Third Bank. On May 29, 2015, a permanent financing facility was provided by Fifth Third Bank in the form of a loan in the amount of $980,000. $900,000 of this amount was used to pay the balance of the credit facility; the additional $80,000 was used for refrigeration and other improvements at the property. The interest on the loan is at the LIBOR rate plus 3.0%. The building is used for office and warehouse space for the Company's Artisan subsidiary. Depreciation on the building and the related improvements, furniture, fixtures, and equipment began when the Company occupied the facility in October, 2015.

A summary of property and equipment at December 31, 2017 and 2016 is as follows:

	December 31, 2017	December 31, 2016
Land	$385,523	$385,523

Building	1,326,165	1,326,165
Computer and Office Equipment	497,189	466,177
Warehouse Equipment	226,953	226,953
Furniture and Fixtures	473,572	454,743
Vehicles	40,064	40,064
Total before accumulated depreciation	2,949,466	2,899,625
Less: accumulated depreciation	(994,216)	(831,515)
Total	$1,955,250	$2,068,110

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Depreciation and amortization expense for property and equipment amounted to $162,705 and $158,143 for the years ended December 31, 2017 and 2016, respectively.

8. INVESTMENTS

The Company has made investments in certain early stage food related companies which it expects can benefit from synergies with the Company's various operating businesses. During the twelve months ended December 31, 2016, the Company acquired a 5.81% equity interest in a food related company for the amount of $51,525, consisting of the conversion to equity of a loan receivable from the investee in the amount $10,863 and the conversion of trade receivable from the investee in the amount of $40,662. At December 31, 2017, the Company has investments in three food related companies in the aggregate amount of $201,525. The Company does not have significant influence over the operations of these three companies.

9. INTANGIBLE ASSETS

The Company acquired certain intangible assets pursuant to the acquisition of Artisan, OFB, Oasis, and the acquisition of certain assets of Haley. The following is the net book value of these assets:

	December 31, 2017		
	Gross	Accumulated Amortization	Net
Trade Name	$217,000	$-	$217,000
Non-Compete Agreement	444,000	(294,000)	150,000
Customer Relationships	1,930,994	(1,112,078)	818,916
Goodwill	151,000	-	151,000
Total	$2,742,994	$(1,406,078)	$1,336,916

	December 31, 2016		
	Gross	Accumulated Amortization	Net
Trade Name	$217,000	$-	$217,000
Non-Compete Agreement	244,000	(244,000)	-
Customer Relationships	1,130,994	(791,310)	339,684
Goodwill	151,000	-	151,000
Total	$1,742,994	$(1,035,310)	$707,684

Total amortization expense charged to operations for the year ended December 31, 2017 and 2016 was $370,770 and $232,768, respectively.

Amortization of finite life intangible assets as of December 31, 2017 is as follows:

2018	$202,270
2019	137,408
2020	-
2021	-
2022 and thereafter	-
Total	$339,678

The trade names are not considered finite-lived assets, and are not being amortized. The non-compete agreement is being amortized over a period of 48 months. The customer relationships acquired in the Artisan and

Haley transactions are being amortized over periods of 60 months.

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As detailed in ASC 350, the Company tests for goodwill impairment in the fourth quarter of each year and whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its fair value and may not be recoverable. As detailed in ASC 350-20-35-3A, in performing its testing for goodwill impairment, management has completed a qualitative analysis to determine whether it was more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. To complete this review, management followed the steps in ASC 350-20-35-3C to evaluate the fair value of goodwill and considered all known events and circumstances that might trigger an impairment of goodwill. The analysis completed in 2017 and 2016 determined that there was no impairment to goodwill assets related to the Artisan and Haley transactions.

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at December 31, 2017 and December 31, 2016 are as follows:

	December 31, 2017	December 31, 2016
Trade payables and accrued expenses	$1,652,681	$1,547,603