

INNOVATIVE FOOD HOLDINGS INC  
Form 10-Q  
May 15, 2009

---

---

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

FORM 10-Q

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

For the quarterly period ended March 31, 2009

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

Commission File Number: 0-9376

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

Florida  
(State of or Other Jurisdiction of  
Incorporation or Organization)

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

3845 Beck Blvd., Suite 805  
Naples, Florida 34114  
(Address of Principal Executive Offices)

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

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

YES  NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES  NO

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

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

YES  NO

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

(Check One):

Large Accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

(Do not check if a smaller reporting company)

State the number of shares outstanding of each of the issuer's classes of Common equity, as of the latest practicable date: 178,577,038 Common Shares outstanding at May 13, 2009.

---

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC.  
INDEX TO FORM 10-Q

	Page
P A R T FINANCIAL INFORMATION	
I.	
Item 1. <u>Consolidated Financial Statements (unaudited)</u>	3
<u>Consolidated Balance Sheets</u>	3
<u>Consolidated Statements of Operations</u>	4
<u>Consolidated Statements of Cash Flows</u>	5
<u>Notes to the Consolidated Financial Statements</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations (including cautionary statement)</u>	34
I t e m <u>Controls and Procedures</u>	41
4T.	
P A R T OTHER INFORMATION	
II.	
Item 1. <u>Legal Proceedings</u>	42
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	42
Item 3. <u>Defaults Upon Senior Securities</u>	42
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	42
Item 5. <u>Other Information</u>	42
Item 6. <u>Exhibits</u>	42
<u>Signatures</u>	43

---

Table of Contents

Innovative Food Holdings, Inc. and Subsidiaries  
Consolidated Balance Sheets

	March 31, 2009 (UNAUDITED)	December 31, 2008 (AUDITED)
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 117,625	\$ 160,545
Accounts receivable, net	233,868	239,566
Loan receivable, current portion net	73,500	60,000
Rent deposit	4,500	9,000
<b>Total current assets</b>	<b>429,493</b>	<b>469,111</b>
Loan receivable, net	79,500	93,000
Property and equipment, net	50,610	52,620
	<b>\$ 559,603</b>	<b>\$ 614,731</b>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIENCY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 721,803	\$ 832,613
Accrued liabilities- related parties	134,085	126,671
Accrued interest, net of discount	505,462	437,269
Accrued interest - related parties	149,311	173,471
Notes payable, current portion, net of discount	938,495	938,364
Notes payable - related parties, current portion, net of discount	279,244	261,002
Warrant liability	677,876	1,388,287
Option liability	87,267	174,692
Conversion option liability	1,141,244	1,150,000
Penalty for late registration of shares	-	551,400
<b>Total current liabilities</b>	<b>4,634,787</b>	<b>6,033,769</b>
Note payable	12,088	10,723
	<b>4,646,875</b>	<b>6,044,492</b>
<b>Stockholders' deficiency</b>		
Common stock, \$0.0001 par value; 500,000,000 shares authorized; 188,577,038 and 183,577,038 shares issued, and 178,577,038 and 173,577,038 shares outstanding at March 31, 2009 and December 31, 2008, respectively	18,858	18,358
Additional paid-in capital	2,045,981	1,985,335
Accumulated deficit	(6,152,111)	(7,433,454)
<b>Total stockholders' deficiency</b>	<b>(4,087,272)</b>	<b>(5,429,761)</b>

\$ 559,603 \$ 614,731

See notes to consolidated financial statements.

3

---

Table of Contents

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

	Three Months Ended March 31,	
	2009	2008 (Restated)
Revenue	\$ 1,600,675	\$ 1,603,378
Cost of goods sold	1,187,694	1,286,893
Gross margin	412,981	316,485
Selling, general and administrative expenses	386,561	336,470
Operating income (loss)	26,420	(19,985)
Other (income) expense:		
Interest expense, net	111,169	85,371
(Gain) loss on extinguishment of debt	(222,656)	168,620
Loss on revaluation of penalty shares	-	330,840
(Gain) loss from change in fair value of warrant liability	(710,411)	600,712
Fair value of options issued	-	39,344
(Gain) loss from change in fair value of option liability	(87,425)	35,026
(Gain) loss from change in fair value of conversion option liability	(345,600)	669,741
	(1,254,923)	1,929,654
Income before tax expense	1,281,343	(1,949,639)
Income tax expense	-	-
Net income (loss)	\$ 1,281,343	\$ (1,949,639)
Net income (loss) per share - basic	\$ 0.007	\$ (0.011)
Net income (loss) per share diluted	\$ 0.002	\$ (0.011)
Weighted average shares outstanding - basic	183,577,038	181,787,638
Weighted average shares outstanding - diluted	670,267,558	181,787,638

See notes to consolidated financial statements.

Table of Contents

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

	Three Months Ended March 31,	
	2009	2008 (Restated)
Cash flows from operating activities:		
Net income (loss)	\$ 1,281,343	\$ (1,949,639)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	9,550	10,016
(Gain) loss on extinguishment of debt	(222,656)	168,620
Issuance of shares common stock to a consultant	10,000	-
Fair value of warrants and options issued in excess of discount on notes	-	39,344
Amortization of discount on notes payable	15,632	15,197
Amortization of discount on accrued interest	44,608	30,990
Change in fair value of warrant liability	(710,411)	600,709
Change in fair value of option liability	(87,425)	35,026
Change in fair value of conversion option liability	(345,600)	669,741
Revaluation of penalty for late registration of shares	-	330,836
Changes in operating assets and liabilities:		
Accounts receivable	5,698	79,748
Prepaid expenses and other current assets	4,500	-
Accounts payable and accrued expenses-related party	34,400	20,692
Accounts payable and accrued expenses	(73,726)	(94,677)
Net cash used in operating activities	(34,087)	(43,397)
Cash flows from investing activities:		
Acquisition of property and equipment	(7,540)	-
Net cash used in investing activities	(7,540)	-
Cash flows from financing activities:		
Principal payments on debt	(1,293)	(1,673)
Net cash used in financing activities	(1,293)	(1,673)
Decrease in cash and cash equivalents	(42,920)	(45,070)
Cash and cash equivalents at beginning of year	160,545	74,610
Cash and cash equivalents at end of year	\$ 117,625	\$ 29,540
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		

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

Interest	\$	358	\$	557
Income Taxes	\$	-	\$	-

See notes to consolidated financial statements.

5

---



Table of Contents

INNOVATIVE FOOD HOLDINGS, INC  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
March 31, 2009  
(Unaudited)

1. BASIS OF PRESENTATION AND NATURE OF BUSINESS OPERATIONS

Basis of Presentation

The accompanying unaudited consolidated financial statements of Innovative Food Holdings, Inc., and its wholly owned subsidiaries, Food Innovations, Inc. (“FII”), Food New Media Group, Inc. (“FNM”) and 4 The Gourmet, Inc (“Gourmet”) (collectively, the “Company, or “IVFH”), have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. FNM is currently inactive. They do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for a complete financial statement presentation. U.S. accounting principles also contemplate continuation of the Company as a going concern.

Acquisition and Corporate Restructure

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

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

2. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Business Activity

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

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
March 31, 2009  
(Unaudited)

Interim Financial Information

The accompanying unaudited interim consolidated financial statements have been prepared by the Company, in accordance with generally accepted accounting principles pursuant to Regulation S-X of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in audited consolidated financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. Accordingly, these interim financial statements should be read in conjunction with the Company's financial statements and related notes as contained in Form 10-K for the year ended December 31, 2008. In the opinion of management, the interim consolidated financial statements reflect all adjustments, including normal recurring adjustments, necessary for fair presentation of the interim periods presented. The results of the operations for the three months ended March 31, 2009 are not necessarily indicative of the results of operations to be expected for the full year.

Use of Estimates

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

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned operating subsidiary, Food Innovations, Inc. and its other wholly-owned subsidiaries Food New Media Group, Inc. and 4 The Gourmet, Inc. All material intercompany transactions have been eliminated upon consolidation of these entities.

Revenue Recognition

The Company recognizes revenue upon product shipment. We ship all our products either overnight shipping terms or three day shipping terms to the customer and the customer takes title to product and assumes risk and ownership of the product when it is shipped. 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 Staff Accounting Bulletin ("SAB") No. 104, "Revenue Recognition," which superseded SAB No. 101, "Revenue Recognition in Financial Statements." SAB No. 104 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred; (3) the selling price is fixed and determinable; and (4) 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. SAB No. 104 incorporates Emerging Issues Task Force ("EITF") No. 00-21, "Multiple-Deliverable Revenue Arrangements." EITF No. 00-21 addresses accounting for arrangements that may involve the delivery or performance of multiple products, services and/or rights to use assets. The effect of implementing EITF No. 00-21 on the Company's consolidated financial position and results of operations was not significant.

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
March 31, 2009  
(Unaudited)

This issue addresses determination of whether an arrangement involving more than one deliverable contains more than one unit of accounting and how the arrangement consideration should be measured and allocated to the separate units of accounting. EITF No. 00-21 became effective for revenue arrangements entered into in periods beginning after June 15, 2003. For revenue arrangements occurring on or after August 1, 2003, the Company revised its revenue recognition policy to comply with the provisions of EITF No. 00-21 and EITF 99-19.

Cost of goods sold

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

Selling, general, and administrative expenses

We have included in selling, general, and administrative expenses all other costs which support the Company's operations but which are not includable as a cost of sales. These include primarily payroll, facility costs such as rent and utilities, selling expenses such as commissions and advertising, and other administrative costs including professional fees. 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 \$3,071 and \$15,877 at March 31, 2009 and December 31, 2008, 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
Office Furniture and Fixtures	5 years

Inventories

The Company does not currently maintain any amount of inventory.

8

---

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
March 31, 2009  
(Unaudited)

Income Taxes

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

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

Fair Value of Financial Instruments

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

Long-Lived Assets

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

As of March 31, 2009, the Company's management believes there is no impairment of its long-lived assets. There can be no assurance, however, that market conditions will not change which could result in impairment of long-lived assets in the future.

Comprehensive Income

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



Table of Contents

INNOVATIVE FOOD HOLDINGS, INC  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
March 31, 2009  
(Unaudited)

## Basic and Diluted Income (Loss) Per Share

In accordance with SFAS No. 128, "Earnings Per Share," the basic loss per common share is computed by dividing net income available to common stockholders less preferred dividends by the weighted average number of common shares outstanding. Diluted loss per common share is computed similarly to basic loss per common share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were not anti-dilutive, and the numerator is changed to reflect any changes to net loss that would have occurred had the dilutive shares been issued.

Diluted earnings per shares was computed as follows for the three months ended March 31, 2009:

	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic earnings per share	\$ 1,281,343	183,577,038	\$ 0.007
Effect of Dilutive Securities:			
Conversion of notes and interest to common stock:			
Additional shares reserved interest for conversion			
Decrease in interest expense due to conversion	110,811	483,690,520	
Remove gain on revaluation of conversion option liability	(345,600)		
Shares accrued, not yet issued	-	3,000,000	
Diluted earnings per share	\$ 1,046,554	670,267,558	\$ 0.002

Diluted loss per share was not calculated for the three months ended March 31, 2008 as the effect would have been anti-dilutive.

## Anti-dilutive shares at March 31, 2009:

The following warrants were not included in fully-diluted earnings per share because the exercise prices of the warrants were greater than the average market price of the Company's common stock: 179,700,000 shares at an exercise price of \$0.005 per share; 18,500,000 shares at an exercise price of \$0.011 per share; 1,000,000 shares at an exercise price of \$0.012 per share; and 74,000,000 shares at an exercise price of \$0.0115 per share.

The following options were not included in fully-diluted earnings per share because the exercise prices of the options were greater than the average market price of the Company's common stock: 15,000,000 shares at \$0.005 per share; 20,000,000 shares at \$0.007 per share; and 500,000 shares at \$0.50 per share.

## Anti-dilutive shares at March 31, 2008:

The following warrants were not included in fully-diluted earnings per share because the exercise prices of the warrants were greater than the average market price of the Company's common stock: 139,700,000 shares at an



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

exercise price of \$0.005 per share; 18,500,000 shares at an exercise price of \$0.011 per share; and 74,000,000 shares at an exercise price of \$0.0115 per share.

The following options were not included in fully-diluted earnings per share because the exercise prices of the options were greater than the average market price of the Company's common stock: 15,000,000 shares at \$0.005 per share; 20,000,000 shares at \$0.007 per share; and 500,000 shares at \$0.50 per share.

## Table of Contents

### Liquidity

As reflected in the accompanying consolidated financial statements, the Company had net income (loss) of \$1,281,343 and (\$1,949,639) for the three months ended March 31, 2009 and 2008, respectively. This variance was principally due to changes in fair values of warrant, conversion option and registration penalty liabilities rather than differences in actual operating results. The Company has an accumulated deficit of \$6,152,111 at March 31, 2009. In addition, the Company's current liabilities exceeded its current assets by \$4,205,294 as of March 31, 2009. Consequently, its operations are subject to all risks inherent in the establishment of a new business enterprise.

Historically, we have funded our operations from cash generated by operations and from the issuance of both debt and equity securities. The Company's cash on hand may be insufficient to fund its planned operating needs. Management is continuing to pursue new debt and/or equity financing and is continually evaluating the Company's cash and capital needs.

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

By adjusting its operations and development to the level of available resources, management believes it has sufficient capital resources to meet projected cash flow through the next twelve months. The Company also intends to increase market share and cash flow from operations by focusing its sales activities on specific market segments. However, if thereafter, the Company is not successful in generating sufficient liquidity from operations or in raising sufficient capital resources, on terms it finds acceptable, this could have a material adverse effect on our business, results of operations, liquidity and financial condition. Currently, we do not have any material long-term obligations other than those described in Note 7 to the financial statements included in this report, nor have we identified any long-term obligations that we contemplate incurring in the near future. As we seek to increase our sales of perishables, as well as identify new and other consumer oriented products and services, we may use existing cash reserves, long-term financing, or other means to finance such diversification.

The independent auditors report on our December 31, 2008 financial statements state that our recurring losses raise substantial doubts about our ability as a going concern.

### 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 in investments with credit quality institutions. At times, such investments may be in excess of applicable government mandated insurance limit. At March 31, 2009 and 2008, trade receivables from the Company's largest customer amounted to 94.5 % and 78.0% respectively, of total trade receivables.

### Reclassification

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

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
March 31, 2009  
(Unaudited)

## Stock-Based Compensation

The Company accounts for stock-based compensation under the provisions of SFAS 123R, Share-Based Payment (“SFAS 123R”). This statement requires the Company to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost is recognized over the period in which the employee is required to provide service in exchange for the award, which is usually the vesting period.

In August 2005, the Company’s commitments to issue shares of common stock first exceeded its common stock authorized. At this time, the Company began to value its stock options via the liability method of accounting. Pursuant to guidance in SFAS 123(R), the cost of these options are valued via the Black-Scholes valuation method when issued, and re-valued at each reporting period. The gain or loss from this revaluation is charged to compensation expense during the period. Options expense and gain or loss on revaluation during the three months ended March 31, 2009 and 2008 are summarized in the table below:

	Three Months ended March 31,	
	2009	2008
Option expense	\$ -	\$ 39,344
(Gain) loss on revaluation of options	\$ (87,425)	\$ 35,026

A summary of option activity as of December 31, 2008, and changes during the period ended March 31, 2009 are presented below:

	Number of Shares	Weighted Average Exercise Price
Options outstanding at December 31, 2008	35,500,000	\$ 0.013
Granted	-	-
Exercised	-	-
Cancelled/Expired	-	-
Options outstanding at March 31, 2009	35,500,000	\$ 0.013
Exercisable	35,400,000	\$ 0.012
Not exercisable	100,000	\$ 0.500

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
March 31, 2009  
(Unaudited)

Aggregate intrinsic value of options outstanding and options exercisable at March 31, 2009, was \$0. Aggregate intrinsic value represents the difference between the company's closing stock price on the last trading day of the fiscal period, which was \$0.003 at March 31, 2009, and the exercise price multiplied by the number of options outstanding. As of March 31, 2009 total unrecognized stock-based compensation expense related to non-vested stock options was \$0. The total fair value of options vested was \$0 for the three month periods ended March 31, 2009 and 2008.

Significant Recent Accounting Pronouncements

On April 9, 2009, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position ("FSP") No. FAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments." This staff position amends FASB Statement ("SFAS") No. 107, "Disclosures about Fair Value of Financial Instruments," to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This FSP also amends Accounting Principles Board Opinion No. 28, "Interim Financial Reporting," to require those disclosures in summarized financial information at interim reporting periods. This FSP will be effective for interim reporting periods ending after June 15, 2009. In periods after initial adoption, this FSP requires comparative disclosures only for periods ending after initial adoption. As this FSP provides for additional disclosure requirements only, the Company does not expect the adoption of this FSP to have an impact on the Company's results of operations, financial position or cash flows.

On April 9, 2009, the FASB issued FSP No. 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly" ("FSP FAS 157-4"), which amends SFAS No. 157, "Fair Value Measurements", to provide additional guidance on fair value measurements in inactive markets when the volume and level of activity for the asset and liability have significantly decreased. This FSP also includes guidance on identifying circumstances that indicate a transaction is not orderly. FSP FAS 157-4 will be effective for interim reporting periods ending after June 15, 2009. The Company does not expect the adoption of this FSP to have an impact on the Company's results of operations, financial position or cash flows.

On April 9, 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments," which amends impairment guidance for certain debt securities and will require an entity to assess whether it (a) has the intent to sell the debt security or (b) more likely than not will be required to sell the debt security before its anticipated recovery. If either of these conditions is met, the entity must recognize an other-than-temporary impairment. If an entity is able to meet the criteria to assert that it will not have to sell the security before recovery, impairment charges related to credit losses would be recognized in earnings, while impairment charges related to non-credit losses (for example, liquidity risk) would be reflected in other comprehensive income. This FSP will be effective for interim reporting periods ending after June 15, 2009. The Company does not expect the adoption of this FSP to have an impact on the Company's results of operations, financial position or cash flows.

On April 1, 2009, the FASB issued FSP No. FAS 141(R)-1, "Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arises from Contingencies" ("FSP FAS 141(R)-1"), to amend and clarify the initial recognition and measurement, subsequent measurement and accounting, and related disclosures arising from contingencies in a business combination under SFAS 141(R), "Business Combinations." Under FSP FAS 141(R)-1,

assets acquired and liabilities assumed in a business combination that arise from contingencies should be recognized at fair value on the acquisition date if fair value can be determined during the measurement period. If fair value can not be determined, companies should account for the acquired contingencies using existing guidance. FSP FAS 141(R)-1 is effective for the Company for business combinations finalized after January 1, 2009.

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
March 31, 2009  
(Unaudited)

## 3. ACCOUNTS RECEIVABLE

At March 31, 2009 and December 31, 2008, accounts receivable consists of:

	March 31, 2009	December 31, 2008
Accounts receivable from customers	\$ 236,939	\$ 255,443
Allowance for doubtful accounts	(3,071)	(15,877)
Accounts receivable, net	\$ 233,868	\$ 239,566

## 4. LOAN RECEIVABLE

The loan receivable consists of a loan to Pasta Italiana, Inc. ("Pasta") in the net carrying amount of \$153,000 at March 31, 2009 and December 31, 2008. This note bears interest at the rate of 15% per annum, payable in shares of Pasta stock. The loan was renegotiated during the twelve months ended December 31, 2008, and resulted in the Company recognizing an impairment to the loan in the amount of \$142,124, which was charged to operations during the year ended December 31, 2008. This impairment was based upon the renegotiated principal and interest amount due the Company. At March 31, 2009, \$73,500 of the amount due is classified as a current asset, and \$79,500 is classified as a long term asset. At December 31, 2008, \$60,000 was classified as a current asset, and \$93,000 is classified as a long-term asset. At May 13, 2009, Pasta is in default of the terms of the settlement agreement.

## 5. PROPERTY AND EQUIPMENT

A summary of property and equipment at March 31, 2009 and December 31, 2008, is as follows:

	March 31, 2009	December 31, 2008
Computer equipment	\$ 301,812	\$ 292,608
Furniture and fixtures	65,650	67,298
	367,462	359,906
Less accumulated depreciation and amortization	316,852	307,286
Total	\$ 50,610	\$ 52,620

Depreciation and amortization expense amounted to \$9,550 and \$10,016, respectively, for the three months ended March 31, 2009 and 2008.

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
March 31, 2009  
(Unaudited)

## 6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at March 31, 2009 and 2008 are as follows:

	March 31, 2009	December 31, 2008
Trade payables	\$ 715,182	\$ 824,172
Accrued payroll and commissions	6,621	8,441
	\$ 721,803	\$ 832,613

At March 31, 2009 and December 31, 2008, accrued liabilities to related parties in the amount of \$134,085 and \$126,671, respectively, consisted of accrued payroll and payroll related benefits.

## 7. ACCRUED INTEREST

Accrued interest on the Company's convertible notes payable is convertible at the option of the note holders into the Company's common stock at prices ranging from of \$0.005 to \$0.010 per share. Beneficial conversion features are embedded in the convertible accrued interest. The Company is amortizing these beneficial conversion features over the lives of the related notes payable. Certain of these notes payable have exceeded their stated terms, and are still outstanding; in those instances, the Company charges the value of these beneficial conversion features to operations immediately, at the time the interest is accrued.

During the three months ended March 31, 2009 and 2008, the amounts of \$51,146, and \$33,364, respectively, were credited to additional paid-in capital as a discount on convertible interest. The aggregate amount of discounts on convertible interest charged to operations during the three months ended March 31, 2009 and 2008 was \$44,608 and \$30,990, respectively.

At March 31, 2009 and December 31, 2008, the Company has the following accrued interest on its balance sheet:

	Gross	Discount	Net
March 31, 2009:			
Non-related parties	\$ 515,744	\$ (10,282)	\$ 505,462
Related parties	149,311	-	149,311
Total	\$ 665,055	\$ (10,282)	\$ 654,773
December 31, 2008:			
Non-related parties	\$ 441,013	\$ (3,744)	\$ 437,269
Related parties	173,471	-	173,471
Total	\$ 614,484	\$ (3,744)	\$ 610,740

Certain of the accrued interest is convertible in to shares of the Company's common stock at prices ranging from \$0.005 to \$0.010 per share. At March 31, 2009, convertible accrued interest was \$637,072 which was convertible into 124,645,120 shares of common stock; at December 31, 2008, convertible accrued interest was \$587,981 which was

convertible into 114,043,320 shares of common stock.

15

---



Table of Contents

INNOVATIVE FOOD HOLDINGS, INC  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
March 31, 2009  
(Unaudited)

## 8. NOTES PAYABLE AND NOTES PAYABLE TO RELATED PARTIES

	March 31, 2009	December 31, 2008
<p>Convertible note payable in the original amount of \$350,000 to Alpha Capital Aktiengesellschaft (“Alpha Capital”), dated February 25, 2005. This note consists of \$100,000 outstanding under a previous note payable which was cancelled on February 25, 2005, and \$250,000 of new borrowings. We did not meet certain of our obligations under the loan documents relating to this issuance. These lapses include not reserving the requisite number of treasury shares, selling subsequent securities without offering a right of first refusal, not complying with reporting obligations, not having our common shares quoted on the OTC:BB and not timely registering certain securities. This note entered technical default status on May 16, 2005. The note originally carried interest at the rate of 8% per annum, and was due in full on February 24, 2007. Upon default, the note’s interest rate increased to 15% per annum, and the note became immediately due. The note is convertible into common stock of the Company at a conversion price of \$0.005 per share. A beneficial conversion feature in the amount of \$250,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2005. Accrued interest is convertible into common stock of the Company at a conversion price of \$0.005 per share. Interest in the amount of \$12,760 and \$12,902 was accrued on this note during the three months ended March 31, 2009 and 2008, respectively. During the twelve months ended December 31, 2006 the note holder converted \$5,000 into shares of common stock. During the twelve months ended December 31, 2006 the holder of the note converted \$27,865 of accrued interest into common stock. This note is in default at March 31, 2009 and December 31, 2008.</p>	\$ 345,000	\$ 345,000
<p>Convertible note payable in the original amount of \$100,000 to Joel Gold, a board member and related party, dated October 12, 2004. The note bears interest at the rate of 8% per annum, has no provisions for a default or past due rate and was due in full on October 12, 2006. The note is convertible by the holder into common stock of the Company at a conversion price of \$0.005 per share. A beneficial conversion feature in the amount of \$100,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2004 and 2005. Accrued interest is convertible by the holder into common stock of the Company at maturity of the note at a price of \$0.005 per share. Interest in the amount of \$493 and \$499 was accrued on this note during the three months ended March 31, 2009, and 2008, respectively. During the twelve months ended December 31, 2006, \$75,000 of the principal amount was converted into common stock. This note was in default at March 31, 2009 and December 31, 2008.</p>	25,000	25,000
<p>Convertible note payable in the original amount of \$85,000 to Briquette Investments, Ltd, dated March 11, 2004. The note bears interest at the rate of 8% per annum, has no</p>		38,000

provisions for a default or past due rate and was due in full on March 11, 2006. The note is convertible into common stock of the Company at a conversion of \$0.005 per share. A beneficial conversion feature in the amount of \$85,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2004, 2005, and 2006. Accrued interest is convertible by the holder into common stock of the Company at a price of \$0.005 per share. Interest in the amount of \$749 and \$758 was accrued on this note during the three months ended March 31, 2009 and 2008, respectively. During the twelve months ended December 31, 2005, the note holder converted \$44,000 of the note payable into common stock. During the twelve months ended December 31, 2006, the Company made a \$3,000 cash payment on the principal amount of the note. This note is in default at March 31, 2009 and December 31, 2008.

38,000

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
March 31, 2009  
(Unaudited)

<p>Convertible note payable in the amount of \$80,000 to Brown Door, Inc., dated March 11, 2004. The note bears interest at the rate of 8% per annum, has no provisions for a default or past due rate and was due in full on March 11, 2006. The note is convertible into common stock of the Company at a conversion of \$0.005 per share. A beneficial conversion feature in the amount of \$80,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2004, 2005, and 2006. Accrued interest is convertible by the holder into common stock of the Company at maturity of the note at a price of \$0.005 per share. Interest in the amount of \$1,579 and \$1,596 was accrued on this note during the three months ended March 31, 2009, and 2008, respectively. This note is in default at March 31, 2009 and December 31, 2008.</p>	80,000	80,000
<p>Convertible note payable in the amount of \$50,000 to Whalehaven Capital Fund, Ltd. (“Whalehaven Capital”) dated February 25, 2005. We did not meet certain of our obligations under the loan documents relating to this issuance. These lapses include not reserving the requisites numbers of treasury shares, selling subsequent securities without offering a right of first refusal, not complying with reporting obligations, not having our common shares quoted on the OTC:BB and not timely registering certain securities. This note is in technical default as of May 16, 2005. The note originally carried interest at the rate of 8% per annum, and was due in full on February 24, 2007. Upon default, the note’s interest rate increased to 15% per annum, and the note became due immediately. The note is convertible into common stock of the Company at a conversion of \$0.005 per share. A beneficial conversion feature in the amount of \$50,000 was recorded as a discount to the note, and was amortized to interest expense when the note entered default status in May, 2005. Accrued interest is convertible into common stock of the Company at a price of \$0.005 per share. Interest in the amount of \$1,480 and \$1,497 was accrued on this note during the three months ended March 31, 2009 and 2008, respectively. During the twelve months ended December 31, 2006, \$10,000 of principal and \$589 of accrued interest was converted into common stock. This note is in default at March 31, 2009 and December 31, 2008.</p>	40,000	40,000
<p>Convertible note payable in the amount of \$50,000 to Oppenheimer &amp; Co., / Custodian for Joel Gold IRA, a related party, dated March 14, 2004. The note bears interest at the rate of 8% per annum, has no provisions for a default or past due rate and was due in full on October 12, 2006. The note is convertible into common stock of the Company at a conversion of \$0.005 per share. A beneficial conversion feature in the amount of \$50,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2004, 2005, and 2006. Accrued interest is convertible into common stock of the Company at a price of \$0.005 per share. Interest in the amount of \$987 and \$998 was accrued on this note during the three months ended March 31, 2009, and 2008, respectively. This note is in default at March 31, 2009 and December 31, 2008.</p>	50,000	50,000
	20,000	20,000

Convertible note payable in the original amount of \$30,000 to Huo Hua dated May 9, 2005. The note bears interest at the rate of 8% per annum, has no provisions for a default or past due rate and was due in full on October 12, 2006. The note is convertible into common stock of the Company at a conversion of \$0.005 per share. A beneficial conversion feature in the amount of \$30,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2005 and 2006. Accrued interest is convertible into common stock of the Company at a price of \$0.005 per share. Interest in the amount of \$395 and \$399 was accrued on this note during the three months ended March 31, 2009 and 2008, respectively. During the twelve months ended December 31, 2006, the note holder converted \$10,000 of principal into common stock. This note is in default at March 31, 2009 and December 31, 2008.

Convertible note payable in the amount of \$25,000 to Joel Gold a board member and related party, dated January 25, 2005. The note bears interest at the rate of 8% per annum, has no provisions for a default or past due rate and was due in full on January 25, 2007. The note is convertible into common stock of the Company at a conversion of \$0.025 per share. A beneficial conversion feature in the amount of \$25,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2005, 2006, and 2007. Accrued interest is convertible into common stock of the Company at a price of \$0.025 per share. Interest in the amount of \$493 and \$499 was accrued on this note during the three months ended March 31, 2009 and 2008, respectively. This note is in default at March 31, 2009 and December 31, 2008.

25,000                      25,000

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
March 31, 2009  
(Unaudited)

<p>Convertible note payable in the amount of \$25,000 to The Jay &amp; Kathleen Morren Trust dated January 25, 2005. The note bears interest at the rate of 6% per annum, has no provisions for a default or past due rate and was due in full on January 25, 2007. The note is convertible into common stock of the Company at a conversion of \$0.005 per share. A beneficial conversion feature in the amount of \$25,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2005, 2006, and 2007. Accrued interest is convertible into common stock of the Company at a price of \$0.005 per share. Interest in the amount of \$369 and was \$373 accrued on this note during the three months ended March 31, 2009 and 2008, respectively. This note is in default at March 31, 2009 and December 31, 2008.</p>	25,000	25,000
<p>Convertible note payable in the amount of \$10,000 to Lauren M. Ferrone, a relative of a board member and related party, dated October 12, 2004. The note bears interest at the rate of 8% per annum, has no provisions for a default or past due rate and was originally due in full on October 12, 2005. On February 25, 2005, an amendment to the convertible notes was signed which extended the term, which resulted in a new maturity date of October 12, 2006. The note is convertible into common stock of the Company at a conversion of \$0.01 per share. A beneficial conversion feature in the amount of \$10,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2004, 2005, and 2006. Accrued interest is convertible into common stock of the Company at a price of \$0.01 per share. Interest in the amount of \$197 and \$200 was accrued on this note during the three months ended March 31, 2009, and 2008, respectively. This note is in default at March 31, 2009 and December 31, 2008.</p>	10,000	10,000
<p>Convertible note payable in the amount of \$10,000 to Richard D. Ferrone, a relative of a board member and related party, dated October 12, 2004. The note bears interest at the rate of 8% per annum, has no provisions for a default or past due rate and was originally due in full on October 12, 2005. On February 25, 2005, an amendment to the convertible notes was signed which extended the term, which resulted in a new maturity date of October 12, 2006. The note is convertible into common stock of the Company at a conversion of \$0.01 per share. A beneficial conversion feature in the amount of \$10,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2004, 2005, and 2006. Accrued interest is convertible into common stock of the Company at a price of \$0.01 per share. Interest in the amount of \$197 and \$200 was accrued on this note during the three months ended March 31, 2009, and 2008, respectively. This note is in default at March 31, 2009 and December 31, 2008.</p>	10,000	10,000
<p>Convertible note payable in the amount of \$10,000 to Christian D. Ferrone, a relative of a board member and related party, dated October 12, 2004. The note bears interest at the rate of 8% per annum, has no provisions for a default or past due rate and was originally due in full on October 12, 2005. On February 25, 2005, an amendment to the convertible</p>	10,000	10,000

notes was signed which extended the term, which resulted in a new maturity date of October 12, 2006. The note is convertible into common stock of the Company at a conversion of \$0.01 per share. A beneficial conversion feature in the amount of \$10,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2004, 2005, and 2006. Accrued interest is convertible into common stock of the Company at a price of \$0.01 per share. Interest in the amount of \$197 and \$200 was accrued on this note during the three months ended March 31, 2009, and 2008, respectively. This note is in default and March 31, 2009 and December 31, 2008.

Convertible note payable in the amount of \$10,000 to Andrew I. Ferrone, a relative of a board member and related party, dated October 12, 2004. The note bears interest at the rate of 8% per annum, has no provisions for a default or past due rate and was originally due in full on October 12, 2005. On February 25, 2005, an amendment to the convertible notes was signed which extended the term, which resulted in a new maturity date of October 12, 2006. The note is convertible into common stock of the Company at a conversion of \$0.01 per share. A beneficial conversion feature in the amount of \$10,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2004, 2005, and 2006. Accrued interest is convertible into common stock of the Company at a price of \$0.01 per share. Interest in the amount of \$197 and \$200 was accrued on this note during the three months ended March 31, 2009, and 2008, respectively. This note is in default at March 31, 2009 and December 31, 2008.

10,000 10,000

Convertible note payable in the amount of \$8,000 to Adrian Neilan dated March 11, 2004. The note bears interest at the rate of 8% per annum, has no provisions for a default or past due rate and is due in full on October 12, 2006. The note is convertible into common stock of the Company at a conversion of \$0.005 per share. A beneficial conversion feature in the amount of \$8,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2004, 2005, and 2006. Accrued interest is convertible into common stock of the Company at a price of \$0.005 per share. Interest in the amount of \$157 and \$159 was accrued on this note during the three months ended March 31, 2009, and 2008, respectively. This note is in default at March 31, 2009 and December 31, 2008.

8,000 8,000

Convertible note payable in the amount of \$5,000 to Matthias Mueller dated March 11, 2004. The note bears interest at the rate of 8% per annum, has no provisions for a default or past due rate and was due in full on October 12, 2006. The note is convertible into common stock of the Company at a conversion of \$0.005 per share. A beneficial conversion feature in the amount of \$5,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2004, 2005, and 2006. Accrued interest is convertible into common stock of the Company at a price of \$0.005 per share. Interest in the amount of \$99 and \$100 was accrued on this note during the three months ended March 31, 2009, and 2008, respectively. This note is in default at March 31, 2009 and December 31, 2008.

5,000 5,000

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
March 31, 2009  
(Unaudited)

<p>Convertible note payable in the amount of \$120,000 to Alpha Capital dated August 25, 2005. We did not meet certain of our obligations under the loan documents relating to this issuance. These lapses include not reserving the requisite number of treasury shares, selling subsequent securities without offering a right of first refusal, not complying with reporting obligations, not having our common shares quoted on the OTC:BB and not timely registering certain securities. This note is in technical default as of November 13, 2005. The note originally carried interest at the rate of 8% per annum, and was due in full on August 25, 2007. Upon default, the note's interest rate increased to 15% per annum and the note became immediately due. The note is convertible into common stock of the Company at a conversion of \$0.005 per share. A beneficial conversion feature in the amount of \$120,000 was recorded as a discount to the note, and was amortized to interest expense when the note entered default status in November 2005. Accrued interest is convertible into common stock of the Company at a price of \$0.005 per share. Interest in the amount of \$4,439 and \$4,488 was accrued on this note during the three months ended March 31, 2009 and 2008, respectively. This note is in default at March 31, 2009 and December 31, 2008.</p>	120,000	120,000
<p>Convertible note payable in the amount of \$30,000 to Whalehaven Capital dated August 25, 2005. We did not meet certain of our obligations under the loan documents relating to this issuance. These lapses include not reserving the requisite number of treasury shares, selling subsequent securities without offering a right of first refusal, not complying with reporting obligations, not having our common shares quoted on the OTC:BB and not timely registering certain securities. This note was in technical default as of November 13, 2005. The note originally carried interest at the rate of 8% per annum, and was due in full on August 25, 2007. Upon default, the note's interest rate increased to 15% per annum and the note became immediately due. The note is convertible into common stock of the Company at a conversion of \$0.005 per share. A beneficial conversion feature in the amount of \$30,000 was recorded as a discount to the note, and was amortized to interest expense when the note entered default status in November 2005. Accrued interest is convertible into common stock of the Company at a price of \$0.005 per share. Interest in the amount of \$1,109 and \$1,122 was accrued on this note during the three months ended March 31, 2009 and 2008, respectively. This note is in default at March 31, 2009 and December 31, 2008.</p>	30,000	30,000
<p>Convertible note payable in the original amount of \$25,000 to Asher Brand, dated August 25, 2005. We did not meet certain of our obligations under the loan documents relating to this issuance. These lapses include not reserving the requisite number of treasury shares, selling subsequent securities without offering a right of first refusal, not complying with reporting obligations, not having our common shares quoted on the OTC:BB and not timely registering certain securities. This note was in technical default as of November 13, 2005. The note originally carried interest at the rate of 8% per annum, and was due in full on August 25, 2007. Upon default, the note's interest rate increased to 15% per annum and the note became immediately due. The note is convertible into common stock</p>	20,000	20,000

of the Company at a conversion of \$0.005 per share . A beneficial conversion feature in the amount of \$25,000 was recorded as a discount to the note, and was amortized to interest expense when the note entered default status in November, 2005. Accrued interest is convertible into common stock of the Company at a price of \$0.005 per share. Interest in the amount of \$740 and \$860 was accrued on this note during the three months ended March 31, 2009 and 2008, respectively. During the twelve months ended December 31, 2006, the holder of the note converted \$2,000 of principal and \$3,667 of accrued interest into common stock, and during the twelve months ended December 31, 2008, the holder of the note converted an additional \$3,000 of principal into common stock. This note is in default at March 31, 2009 and December 31, 2008.

Convertible note payable in the original amount of \$25,000 to Momona Capital, dated August 25, 2005. We did not meet certain of our obligations under the loan documents relating to this issuance. These lapses include not reserving the requisite number of treasury shares, selling subsequent securities without offering a right of first refusal, not complying with reporting obligations, not having our common shares quoted on the OTC:BB and not timely registering certain securities. This note was in technical default at November 13, 2005. The note originally carried interest at the rate of 8% per annum, and was due in full on August 25, 2007. Upon default, the note's interest rate increased to 15% per annum and the note became immediately due. The note is convertible into common stock of the Company at a conversion of \$0.005 per share . A beneficial conversion feature in the amount of \$25,000 was recorded as a discount to the note, and was amortized to interest expense when the note entered default status in November 2005. Accrued interest is convertible into common stock of the Company at a price of \$0.005 per share. Interest in the amount of \$665 and \$860 was accrued on this note during the three months ended March 31, 2009 and 2008, respectively. During the twelve months ended December 31, 2006, the holder of the note converted \$2,000 of principal and \$3,667 of accrued interest into common stock, and during the twelve months ended December 31, 2008, the holder of the note converted an additional \$5,000 principal into common stock. This note is in default at March 31, 2009 and December 31, 2008.

18,000 18,000



Table of Contents

INNOVATIVE FOOD HOLDINGS, INC  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
March 31, 2009  
(Unaudited)

Convertible note payable in the amount of \$10,000 to Lane Ventures dated August 25, 2005. We did not meet certain of our obligations under the loan documents relating to this issuance. These lapses include not reserving the requisite number of treasury shares, selling subsequent securities without offering a right of first refusal, not complying with reporting obligations, not having our common shares quoted on the OTC:BB and not timely registering certain securities. This note was in technical default at November 13, 2005. The note originally carried interest at the rate of 8% per annum, and was due in full on August 25, 2007. Upon default, the note's interest rate increased to 15% per annum and the note became immediately due. The note is convertible into common stock of the Company at a conversion of \$0.005 per share. A beneficial conversion feature in the amount of \$10,000 was recorded as a discount to the note, and was amortized to interest expense when the note entered default status in November, 2005. Accrued interest is convertible into common stock of the Company at a price of \$0.005 per share. Interest in the amount of \$221 and \$224 was accrued on this note during the three months ended March 31, 2009 and 2008, respectively. During the twelve months ended December 31, 2006, the holder of the note converted \$4,000 of principal and \$1,467 of accrued interest into common stock. This note is in default at March 31, 2009 and December 31, 2008.

6,000            6,000

Note payable in the amount of \$120,000 to Alpha Capital, dated February 7, 2006. The note originally carried interest at the rate of 15% per annum, and was originally due in full on February 7, 2007. The Company was not in compliance with various terms of this note, including making timely payments of interest, and this note was in technical default at May 8, 2006. At this time, the interest rate increased to 20% and the note became immediately due and payable. During the three months ended September 30, 2007, the Company extended the due date of the notes one year, to October 31, 2007; at the same time, the Company added a convertibility feature, allowing the noteholders to convert the notes and accrued interest into common stock of the Company at a rate of \$0.005 per share. This note entered technical default on October 31, 2007. The Company recorded a discount to this note for the fair value of the conversion feature in the amount of \$95,588 and amortized this discount to interest expense when the note entered default status in October 2007. On March 12, 2008, the Company extended this note to March 4, 2009. As consideration for the extension of this notes, the Company issued five-year warrants as follows: warrants to purchase 24,000,000 shares of common stock at \$0.0115 per share; 6,000,000 shares of common stock at \$0.011 per share; and 2,400,000 shares of common stock at \$0.005 per share. These warrants were valued via the Black-Scholes

120,000        120,000

valuation method at an aggregate amount of \$126,465. This transaction was accounted for as an extinguishment of debt, and a loss of \$126,465 was charged to operations during the twelve months ended December 31, 2008. Interest in the amount of \$6,187 and \$5,983 was accrued on this note during the three months ended March 31, 2009 and 2008, respectively.

Note payable in the amount of \$30,000 to Whalehaven Capital dated February 7, 2006. The note originally carried interest at the rate of 15% per annum, and was due in full on February 7, 2007. The Company was not in compliance with various terms of this note, including making timely payments of interest, and this note was in technical default at May 8, 2006. At this time, the interest rate increased to 20% and the note became immediately due and payable. During the three months ended September 30, 2007, the Company extended the due date of the notes one year, to October 31, 2007; at the same time, the Company added a convertibility feature, allowing the noteholders to convert the notes and accrued interest into common stock of the Company at a rate of \$0.005 per share. This note entered technical default on October 31, 2007. The Company recorded a discount to this note for the fair value of the conversion feature in the amount of \$23,897 and amortized this discount to interest expense when the note entered default status in October 2007. On March 12, 2008, the Company extended this note to March 4, 2009. As consideration for the extension of this notes, the Company issued five-year warrants as follows: warrants to purchase 6,000,000 shares of common stock at \$0.0115 per share; 1,500,000 shares of common stock at \$0.011 per share; and 600,000 shares of common stock at \$0.005 per share. These warrants were valued via the Black-Scholes valuation method at an aggregate amount of \$31,616. This transaction was accounted for as an extinguishment of debt, and a loss of \$31,616 was charged to operations during the twelve months ended December 31, 2008. Interest in the amount of \$1,480 and \$1,122 was accrued on this note during the three months ended March 31, 2009 and 2008, respectively.

30,000 30,000

Note payable in the amount of \$75,000 to Michael Ferrone, dated August 2, 2004. The note bears interest at the rate of 8% per annum, and was due in full on February 2, 2005. On September 30, 2008, this note was extended to December 31, 2009 in exchange for adding a convertibility feature to the note. This feature allows for conversion to common stock at a price of \$0.005 per share. The Company valued this beneficial conversion feature at the amount of \$89,945 using the Black-Scholed valuation model. \$75,000 of this amount was charged to discount on the note; \$4,001 of this discount was amortized to interest expense during the year ended December 31, 2008. The balance of the beneficial conversion feature in the amount of \$14,945 was charged to interest expense during the year ended December 31, 2008. Interest in the amount of \$1,480 and \$1,497 was accrued on this note during the three months ended March 31, 2009, and 2008, respectively.

75,000 75,000

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
March 31, 2009  
(Unaudited)

<p>Note payable in the amount of \$10,000 to Alpha Capital, dated May 19, 2006. The originally carried interest at the rate of 15% per annum, and was originally due in full on November 19, 2006. The Company is not in compliance with various terms of this note, including making timely payments of interest, and this note was in technical default at February 20 2006. At this time, the interest rate increased to 20% and the note became immediately due and payable. During the three months ended September 30, 2007, the Company extended the due date of the notes one year, to October 31, 2007; at the same time, the Company added a convertibility feature, allowing the noteholders to convert the notes and accrued interest into common stock of the Company at a rate of \$0.005 per share. This note entered technical default on October 31, 2007. The Company recorded a discount to this note for the fair value of the conversion feature in the amount of \$7,966 and amortized this discount to interest expense when the note entered default status in October 2007. On March 12, 2008, the Company extended this note to March 4, 2009. As consideration for the extension of this notes, the Company issued five-year warrants as follows: warrants to purchase 2,000,000 shares of common stock at \$0.0115 per share; 500,000 shares of common stock at \$0.011 per share; and 200,000 shares of common stock at \$0.005 per share. These warrants were valued via the Black-Scholes valuation method at an aggregate amount of \$10,539. This transaction was accounted for as an extinguishment of debt, and a loss of \$10,539 was charged to operations during the twelve months ended December 31, 2008. Interest in the amount of \$493 and \$499 was accrued on this note during the three months ended March 31, 2009 and 2008, respectively.</p>	10,000	10,000
<p>Twenty-nine convertible notes payable in the amount of \$4,500 each to Sam Klepfish, the Company's CEO and a related party, dated the first of the month beginning on November 1, 2006. Pursuant to the Company's employment agreement with Mr. Klepfish, the amount of \$4,500 in salary is accrued each month to a note payable. These notes bear interest at the rate of 8% per annum and have no due date. These notes and accrued interest are convertible into common stock of the Company at a rate of \$0.005 per share. Beneficial conversion features in the aggregate amount of \$9,000 for the year ended December 31, 2006, \$39,190 for the year ended December 31, 2007, \$58,464 for the year ended December 31, 2008 and \$8,100 for the three months ended March 31, 2009 were calculated using the Black-Scholes valuation model. Since these notes are payable on demand, the value of these discounts were charged immediately to interest expense. Interest in the aggregate amount of \$2,403 and \$1,392 was accrued on these notes during the three months ended March 31, 2009 and 2008, respectively.</p>	130,500	117,000
<p>Twelve one-year notes payable in the amount of \$1,500 each for an aggregate amount of \$18,000 to Mountain Marketing, for services. A note in the amount of \$1,500 is dated as of the last day of each month of the year ended December 31, 2008. These notes are convertible into common stock of the Company at the rate of \$0.005 per share. Discounts in the aggregate amount of \$15,664 were amortized to interest during the year ended December 31, 2008. These notes do not bear interest.</p>	18,000	18,000

Note payable in the original amount of \$25,787 to Microsoft Corporation dated May 3, 2006. The note bears interest at the rate of 9.7% per annum, and is payable in 60 monthly payments of \$557 beginning October 1, 2006. Negative interest in the amount of \$358 and \$557 was capitalized to this note during the three months ended March 31, 2009 and 2008, respectively. Principal and interest in the amounts of \$1,293 and \$1,673 were paid on this note during the three months ended March 31, 2009 and 2008, respectively

	14,794	16,087
--	--------	--------

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
March 31, 2009  
(Unaudited)

<p>Convertible note payable in the amount of \$200,000 to Alpha Capital, dated December 31, 2008. This note bears interest at the rate of 8% per annum, and is due in full on December 31, 2009. Principal and accrued interest is convertible into common stock of the Company at the rate of \$0.005 per share. Also issued with this note are warrants to purchase 40,000,000 shares of the Company's common stock at a price of \$0.005 per share. The Company calculated a discount to the note in the amount of \$200,000, and recorded \$938 amortization for this discount during the three months ended March 31, 2009. Interest in the aggregate amount of \$3,945 and \$0 was accrued on this note during the three months ended March 31, 2009 and 2008, respectively.</p>	200,000	200,000
<p>Convertible note payable for the settlement of the amount owed for the penalty for the late registration of shares in the amount of \$230,000 to Alpha Capital, dated January 1, 2009. This note bears interest at the rate of 8% per annum, and is due in full on July 31, 2011. Principal and accrued interest is convertible into common stock of the Company at the rate of \$0.005 per share. The Company calculated a discount to the note in the amount of \$230,000, and recorded \$1,295 amortization for this discount during the three months ended March 31, 2009. Interest in the aggregate amount of \$4,487 was accrued on this note during the three months ended March 31, 2009.</p>	230,000	-
<p>Convertible note payable for the settlement of the amount owed for the penalty for the late registration of shares in the amount of \$38,000 to Whalehaven Capital, dated January 1, 2009. This note bears interest at the rate of 8% per annum, and is due in full on July 31, 2011. Principal and accrued interest is convertible into common stock of the Company at the rate of \$0.005 per share. The Company calculated a discount to the note in the amount of \$38,000, and recorded \$214 amortization for this discount during the three months ended March 31, 2009. Interest in the aggregate amount of \$1,389 was accrued on this note during the three months ended March 31, 2009.</p>	38,000	-
<p>Convertible note payable for the settlement of the amount owed for the penalty for the late registration of shares in the amount of \$25,310 to Asher Brand, dated January 1, 2009. This note bears interest at the rate of 8% per annum, and is due in full on July 31, 2011. Principal and accrued interest is convertible into common stock of the Company at the rate of \$0.005 per share. The Company calculated a discount to the note in the amount of \$25,310, and recorded \$143 amortization for this discount during the three months ended March 31, 2009. Interest in the aggregate amount of \$493 was accrued on this note during the three months ended March 31, 2009.</p>	25,310	-
<p>Convertible note payable for the settlement of the amount owed for the penalty for the late registration of shares in the amount of \$25,310 to Momona Capital, dated January 1, 2009. This note bears interest at the rate of 8% per annum, and is due in full on July 31, 2011. Principal and accrued interest is convertible into common stock of the Company at the rate of \$0.005 per share. The Company calculated a discount to the note in the amount of \$25,310, and recorded \$143 amortization for this discount during the three months ended March 31, 2009. Interest in the aggregate amount of \$493 was accrued</p>	25,310	-

on this note during the three months ended March 31, 2009.

Convertible note payable for the settlement of the amount owed for the penalty for the late registration of shares in the amount of \$10,124 to Lane Ventures, dated January 1, 2009. This note bears interest at the rate of 8% per annum, and is due in full on July 31, 2011. Principal and accrued interest is convertible into common stock of the Company at the rate of \$0.005 per share. The Company calculated a discount to the note in the amount of \$10,124, and recorded \$57 amortization for this discount during the three months ended March 31, 2009. Interest in the aggregate amount of \$198 was accrued on this note during the three months ended March 31, 2009.

	10,124	-
	\$ 1,822,038	\$ 1,481,087

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
March 31, 2009  
(Unaudited)

	Note Amount	Unamortized Discounts	Net of Discount
March 31, 2009:			
Notes payable - current portion	\$ 938,495	\$ -	\$ 938,495
Notes payable - related parties, current portion	345,500	(66,256)	279,244
Notes payable	538,043	(525,955)	12,088
Total	\$ 1,822,038	\$ (592,211)	\$ 1,229,827

	Note Amount	Unamortized Discounts	Net of Discount
December 31, 2008:			
Notes payable - current portion	\$ 938,364	\$ -	\$ 938,364
Notes payable - related parties, current portion	332,000	(70,998)	261,002
Notes payable	210,723	(200,000)	10,723
Total	\$ 1,481,087	\$ (270,998)	\$ 1,210,089

	Three months ended March 31,	
	2009	2008
Discount on Notes Payable amortized to interest expense:	\$ 15,632	\$ 15,197

#### Conversion Options Embedded in Convertible Notes

The Company accounts for conversion options embedded in convertible notes in accordance with SFAS No. 133 “Accounting for Derivative Instruments and Hedging Activities” (“SFAS 133”) and EITF 00-19 “Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company’s Own Stock” (“EITF 00-19”). SFAS 133 generally requires companies to bifurcate conversion options embedded in convertible notes from their host instruments and to account for them as free standing derivative financial instruments in accordance with EITF 00-19.

At March 31, 2009 and December 31, 2008, the Company had outstanding \$1,811,744 and \$1,465,000 in principal, respectively, of various convertible notes with embedded conversion options accounted for as free standing derivative financial instruments in accordance with SFAS 133 and EITF 00-19. The fair value of these embedded conversion options was \$1,141,244 and \$1,150,000 at March 31, 2009 and December 31, 2008, respectively. The fair value of these embedded conversion options were estimated at March 31, 2009 using the Black-Scholes option pricing model with the following assumptions: risk free interest rate of 0.43%; expected dividend yield of 0%; expected option life of 10; and volatility of 364.61%. The fair value of these embedded conversion options were estimated at December 31, 2008 using the Black-Scholes option pricing model with the following assumptions: risk free interest rate of 0.27%; expected dividend yield of 0%; expected option life of 10; and volatility of 332.67%. The expected term of 10 years was used for all notes in both periods because several of the notes are currently or have been in default, and accordingly the term of the note is deemed not relevant as a variable for the Black-Scholes calculation. The Company revalues the conversion options at each reporting period, and charges any change in value to operations. During the three months ended March 31, 2009 and 2008, the Company recorded a gain of \$345,600 and a loss of \$669,741, respectively, due to the change in value of the conversion option liability.

When convertible notes payable are satisfied by payment or by conversion to equity, the Company revalues the related conversion option liability at the time of the payment or conversion. The conversion option liability is then relieved by this amount, which is charged to additional paid-in capital. During the three months ended March 31, 2009 and 2008, no conversion option was transferred from liability to equity due to the conversion or payment of the related convertible notes payable.

#### Discounts on notes payable

The Company calculates the fair value of any beneficial conversion features embedded in its convertible notes via the Black-Scholes valuation method. The Company also calculates the fair value of any detachable warrants offered with its convertible notes via the Black-Scholes valuation method. The instruments are considered discounts to the notes, to the extent the aggregate value of the warrants and conversion features do not exceed the face value of the notes. These discounts are amortized to interest expense via the effective interest method over the term of the notes. The fair value of these instruments is expensed as original issue discount to the extent that the value of these instruments exceeds the face value of the notes.



Table of Contents

INNOVATIVE FOOD HOLDINGS, INC  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
March 31, 2009  
(Unaudited)

## Extension of notes payable

The Company accounts for modifications of its notes payable according to the guidance in EITF 96-19, “Debtor’s Accounting for a Modification or Exchange of Debt Instruments” (“EITF 96-19”) and EITF 06-6, “Debtor’s Accounting for a Modification (or Exchange) of Convertible Debt Instruments” (“EITF 06-6”). Pursuant to EITF 96-19, changes to an existing note should be accounted for as an extinguishment of the note with resultant gain or loss if the present value of the cash flows from the new note vary by more than 10% from the present value of the cash flows from the original note. EITF 06-6 provides an exception to this rule for the addition of conversion options accounted for as a derivative liability.

During the year ended December 31, 2007, the Company negotiated the extension of three of its notes payable in the aggregate amount of \$160,000. As consideration for the extension, the Company agreed to add a convertibility feature to the notes. Because this note falls under the exception in EITF 06-6 regarding the addition of conversion options accounted for as a derivative liability, the Company accounted for this transaction as a modification of the existing note. The conversion option liability was valued at the amount of \$127,450 at the date of the issuance of the extension via the Black-Scholes method. This amount was debited to discount on notes payable, and is being amortized via the effective interest method over the extended term of the related notes.

During the year ended December 31, 2008, the Company negotiated the further extension of these three notes payable in the aggregate amount of \$160,000. As consideration for the extension, the Company provided warrants to purchase an aggregate 43,200,000 shares of common stock. The Company valued these warrants at the date of issuance via the Black-Scholes valuation method at \$168,620. The value of these warrants are considered a component of the 10% present value calculation under EITF 96-19. The Company accounted for this transaction as an extinguishment of debt, and recorded a loss on extinguishment in the amount of \$168,620. This amount was charged to operations during the year ended December 31, 2008.

## Embedded conversion features of notes payable:

The Company accounts for conversion options embedded in convertible notes in accordance with SFAS No. 133 and EITF 00-19. SFAS 133 generally requires companies to bifurcate conversion options embedded in convertible notes and preferred shares from their host instruments and to account for them as free standing derivative financial instruments in accordance with EITF 00-19.

The Company values embedded conversion features utilizing the Black-Scholes valuation model. Conversion options are valued upon issuance, and re-valued at each financial statement reporting date. Any change in value is charged to income or expense during the period. The following table illustrates certain key information regarding our conversion option valuation assumptions at March 31, 2009 and 2008:

	March 31,	
	2009	2008
Number of options outstanding	350,748,800	220,800,000
Value at March 31	\$ 1,141,244	\$ 1,297,072
Number of options issued during the period	69,348,800	3,600,000
Value of options issued during the period	\$ 338,576	\$ 15,196
Number of options exercised or underlying		

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

notes paid during the period	-	-
Value of options exercised or underlying		
notes paid during the period	\$ -	\$ -
Revaluation gain (loss) during the period	\$ (345,600)	\$ 669,741
Black-Scholes model variables:		
Volatility	364.6%	213.7%
Dividends	-	-
Risk-free interest rates	0.43%	1.51%
Term (years)	10.00	10.00

24

---

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
March 31, 2009  
(Unaudited)

9. RELATED PARTY TRANSACTIONS

The Company engaged in the following transactions with related parties:

Three months ended March 31, 2009:

The Company issued three convertible notes payable in the amount of \$4,500 each (a total of \$130,500) for additional salary due to the Company's Chief Executive Officer.

10. PENALTY FOR LATE REGISTRATION OF SHARES

During the twelve months ended December 31, 2008 and 2007, the Company accrued liabilities for the issuance of 0 and 22,760,000, respectively (the "Penalty Shares"), of the Company's stock pursuant to a penalty calculation with regard to the late registration of shares underlying convertible notes payable. At December 31, 2008 and 2007, there were a total of 110,280,000 Penalty Shares issuable. The Company charged to operations \$0 and \$64,984 during the twelve months ended December 31, 2008 and 2007, respectively, representing the fair values of the Penalty Shares accrued. During the twelve months ended December 31, 2008 and 2007, the Company revalued these 110,280,000 Penalty Shares. This resulted in losses of \$ 220,564 and \$3,296, respectively. The liability carried on the Company's balance sheets at December 31, 2008 and 2007 representing the value of the Penalty Shares is \$551,400 and \$330,840, respectively.

On January 1, 2009, the Company reached a settlement agreement (the "Registration Penalty Settlement" ) with the parties to whom the penalty for the late registration is owed. The agreement was a cancellation of the liability for the registration of shares in exchange for convertible notes in the amount of \$328,744. At January 1, 2009, the Company valued the conversion option liability based upon the closing price of the Company's common stock. This value was the same as the December 31, 2008 value of \$551,400. During the three months ended March 31, 2009, the Company recognized a gain on settlement of the conversion option liability in the amount of \$222,656, representing the difference between the value of the conversion option of \$551,400 and the notes payable issued pursuant to the Registration Penalty Settlement of \$328,744.

The registration rights which triggered the accrual of the penalty shares expired on November 27, 2008. At December 31, 2008, the Company had accrued the maximum number of shares issuable under the registration rights agreement.

Except for the penalties disclosed above for not registering the shares of common stock underlying certain convertible notes, there are no circumstances that would require the Company to transfer any consideration to the note holders.

11. INCOME TAXES

Deferred income taxes result from the temporary differences arising from the use of accelerated depreciation methods for income tax purposes and the straight-line method for financial statement purposes, and an accumulation of Net Operating Loss carryforwards for income tax purposes with a valuation allowance against the carryforwards for book purposes.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. Included in deferred tax assets are Federal and State net operating loss carryforwards of approximately \$3,690,000, which will expire beginning in 2028. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon our cumulative losses through March 31, 2009, we have provided a valuation allowance reducing the net realizable benefits of these deductible differences to \$0 at March 31, 2009. The amount of the deferred tax asset considered realizable could change in the near term if projected future taxable income is realized. In the event of significant changes in the Company's ownership, the Company's future use of its existing net operating losses may be limited.

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
March 31, 2009  
(Unaudited)

The income tax provision (benefit) for the three months ended March 31, 2009 and 2008 consists of the following:

	March 31, 2009	March 31, 2008
Current		
Federal	\$ --	\$ --
State	--	--
	--	--
Deferred		
Federal	--	--
State	--	--
	--	--
	\$ --	\$ --

A reconciliation between the actual income tax expense and income taxes computed by applying the statutory Federal and state income tax rates to income from continuing operations before income taxes is as follows:

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Computed "expected" income tax expense at approximately 34%	\$ 437,000	\$ (661,000)
Increase (decrease) in NOL carryforwards	(437,000)	661,000

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
March 31, 2009  
(Unaudited)

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of our deferred tax assets and liabilities as of March 31, 2009 and 2008 are as follows:

	March 31, 2009	March 31, 2008
Deferred tax assets:		
Net operating loss	\$ 1,477,000	\$ 2,100,000
Allowance and accruals not recognized for income tax purposes	-	-
Total gross deferred tax assets	1,477,000	2,100,000
Less : Valuation allowance	(1,477,000)	(2,100,000)
Net deferred tax assets	\$ 0	\$ 0
Deferred tax liabilities:		
Total gross deferred tax liabilities:		
Depreciation and amortization, net	(5,000)	(14,000)
Deferred state tax liability	-	-
Total net deferred tax liabilities	\$ (5,000)	\$ (14,000)

These amounts have been presented in the consolidated balance sheets as follows:

	March 31, 2009	March 31, 2008
Current deferred tax asset	\$ -	\$ -
Non current deferred tax asset	-	-
Non current deferred tax liability	-	-
Total net deferred tax asset	\$ -	\$ -

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
March 31, 2009  
(Unaudited)

## 12. EQUITY

## Common Stock

During the three months ended March 31, 2009, the Company issued 5,000,000 shares of common stock to a consultant for services previously provided. The fair value of these shares of \$10,000 was charged to operations during the year ended December 31, 2008.

## Warrants

The following table summarizes the significant terms of warrants outstanding at March 31, 2009. These warrants may be settled in cash or via cashless conversion into shares of the Company's common stock at the request of the warrant holder. These warrants were granted as part of a financing agreement:

Range of exercise prices	Number of warrants outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price of outstanding warrants	Number of warrants exercisable	Weighted average exercise price of exercisable warrants
\$ 0.0050	179,700,000	1.82	\$ 0.0050	179,700,000	\$ 0.0050
\$ 0.0110	18,500,000	2.49	\$ 0.0110	18,500,000	\$ 0.0110
\$ 0.0120	1,000,000	4.46	\$ 0.0120	-	\$ -
\$ 0.0115	74,000,000	2.49	\$ 0.0115	74,000,000	\$ 0.0115
	273,200,000	2.06	\$ 0.072	272,200,000	\$ 0.071

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
March 31, 2009  
(Unaudited)

Transaction involving warrants are summarized as follows:

	Number of warrants	\$	Weighted Average Exercise Price
Warrants exercisable at December 31, 2008	273,200,000	\$	0.008
Granted	-		-
Exercised	-		-
Cancelled / Expired	-		-
Warrants outstanding at March 31, 2009	273,200,000	\$	0.007
Exercisable	272,200,000	\$	0.007
Not exercisable	1,000,000	\$	0.012

## Options

In December 2006, the Company agreed to issue 5,000,000 options with five year terms to purchase additional shares of common stock to each of the Company's three directors, pursuant to a board resolution for services performed in 2006 (a total of 15,000,000 options). These options have no alternative settlement provisions. The options were issued in April 2007. Compensation cost was recognized via the straight-line attribution method.

In January 2008, the Company agreed to issue 5,000,000 options with five year terms to purchase additional shares of common stock to each of the Company's three directors and the Company's President pursuant to a board resolution for services performed (a total of 20,000,000 options). The options were issued in January 2008. Compensation cost was recognized via the straight-line attribution method as expensed to operations during the year ended December 31, 2008.



Table of Contents

INNOVATIVE FOOD HOLDINGS, INC  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
March 31, 2009  
(Unaudited)

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

Range of exercise prices	Number of options outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price of outstanding options	Number of options exercisable	Weighted average exercise price of exercisable options
\$ 0.005	15,000,000	2.64	\$ 0.005	15,000,000	\$ 0.005
\$ 0.007	20,000,000	4.00	\$ 0.007	20,000,000	\$ 0.007
\$ 0.500	500,000	0.13	\$ 0.500	400,000	\$ 0.500
	35,500,000	3.37	\$ 0.009	35,400,000	\$ 0.008

Options not vested are not exercisable.

Transactions involving stock options are summarized as follows:

	Number of Shares	Weighted Average Exercise Price
Options outstanding at December 31, 2008	35,500,000	\$ 0.013
Granted	-	-
Exercised	-	-
Cancelled / Expired	-	-
Options outstanding at March 31, 2009	35,500,000	\$ 0.013
Non-vested at March 31, 2009	100,000	\$ 0.500
Vested at March 31, 2009	35,400,000	\$ 0.012

#### Accounting for warrants and stock options

The Company accounts for the issuance of common stock purchase warrants, stock options, and other freestanding derivative financial instruments in accordance with the provisions of EITF 00-19. Based on the provisions of EITF 00-19, the Company classifies, as equity, any contracts that (i) require physical settlement or net-share settlement or (ii) gives the Company a choice of net-cash settlement or settlement in its own shares (physical settlement or net-share settlement). The Company classifies as assets or liabilities any contract that (i) require net-cash or (ii) give the counterparty a choice of net-cash settlement in shares (physical or net-share settlement). At March 31, 2009 and 2008, the Company had no freestanding derivative financial instruments that require net cash settlement or give the

counterparty a choice of net cash settlement or settlement in shares.

30

---

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
March 31, 2009  
(Unaudited)

The fair value of these warrants and stock options is determined utilizing the Black-Scholes valuation model. Through August 2005, these warrants were accounted for by the equity method, whereby the fair value of the warrants was charged to additional paid-in capital. During September, 2005, the number of shares of the Company's common stock issued and issuable exceeded the number of shares of common stock the Company had authorized. As the Company no longer had sufficient shares authorized to settle all of our outstanding contracts, this triggered a change in the manner in which the Company accounts for the warrants and stock options. The Company began to account for these warrants and stock options utilizing the liability method. Pursuant to EITF 00-19, "If a contract is reclassified from permanent or temporary equity to an asset or a liability, the change in fair value of the contract during the period the contract was classified as equity should be accounted for as an adjustment to stockholders' equity." Accordingly, during the year ended December 31, 2005, the Company charged the amount of \$10,374,536 to stockholders' equity. At the same time, the Company changed the way in which it accounts for the beneficial conversion feature of convertible notes payable (see note 8).

The accounting guidance states that the warrants and stock options which are a derivative liability should be revalued each reporting period. The recorded value of such warrants and stock options can fluctuate significantly based on fluctuations in the market value of the underlying securities of the issuer of the warrants and stock options, as well as in the volatility of the stock price during the term used for observation and the term remaining for warrants. During the three months ended March 31, 2009 and 2008, the Company recognized a gain of \$710,411 and a loss of \$600,712, respectively, for the change in the fair value of the warrant liability and recorded the gains and losses in operations during the three months ended March 31, 2009 and 2008. During the three months ended March 31, 2009 and 2008, the Company recognized a gain of \$87,425 and a loss of \$35,026, respectively, for the change in the fair value of the stock option liability and recorded these amounts in operations during the three months ended March 31, 2009 and 2008.

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

	March 31, 2009	December 31, 2008
Volatility	356.55%	203.6% - 332.7%
Dividends	\$ -	\$ -
Risk-free interest rates	0.43%	0.27% - 2.41%
Term (years)	0.90-4.46	1.15 - 5.00

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

	March 31, 2009	December 31, 2008
<b>Black-Scholes model variables:</b>		
Volatility	356.55%	%

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

			203.6% to 332.7
Dividends	\$	-	\$ -
Risk-free interest rates		0.43%	0.27% - 2.41%
Term (years)		0.13-3.81	0.37 - 5.00

31

---

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
March 31, 2009  
(Unaudited)

Insufficient Authorized but Unissued Shares of Common Stock

The Company has a potential obligation to issue 789,693,920 and 686,055,000 shares of common stock upon the conversion of convertible notes and accrued interest, warrants and penalty shares issuable at March 31, 2009, and 2008, respectively. The Company had 188,577,038 and 181,787,638 shares of common stock outstanding at March 31, 2009, and 2008, respectively, and 500,000,000 shares of common stock authorized at March 31, 2009 and 2008. The Company has exceeded its shares authorized by 478,270,958 and 367,842,638 shares at March 31, 2009 and 2008, respectively.

13. GOING CONCERN

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Company as a going concern. The Company has reported income of \$1,281,343 for the three months ended March 31, 2009, and had an accumulated deficit of \$6,152,111 as of March 31, 2009. The Company's net income of \$1,281,343 was generated primarily by non-cash transactions, including non-cash (gains) losses of (\$710,411) on the revaluation of the warrant liability, (\$87,425) on the revaluation of the option liability, (\$345,600) for the revaluation of the conversion option liability, (\$222,656) on the extinguishment of debt, \$15,632 for the amortization of the discount on notes payable, and \$44,608 for the amortization of the discount on accrued interest. The Company cannot be certain that anticipated revenues from operations will be sufficient to satisfy its ongoing capital requirements. Management believes the Company will generate sufficient capital from operations and from debt and equity financing in order to satisfy current liabilities in the succeeding twelve months. Management's belief is based on the Company's operating plan, which in turn is based on assumptions that may prove to be incorrect. If the Company's financial resources are insufficient the Company may require additional financing in order to execute its operating plan and continue as a going concern. The Company cannot predict whether this additional financing will be in the form of equity or debt, or be in another form. The Company may not be able to obtain the necessary additional capital on a timely basis, on acceptable terms, or at all. In any of these events, the Company may be unable to implement its current plans for expansion, repay its debt obligations as they become due or respond to competitive pressures, any of which circumstances would have a material adverse effect on its business, prospects, financial condition and results of operations. The Company has not made any adjustments to the financial statements which would be necessary should the Company not be able to continue as a going concern.

14. AMENDMENTS TO FINANCIAL STATEMENTS

By letters dated November 7, 2008 and March 6, 2009, the Company received comments from the SEC to its Annual Report on Form 10-KSB for the fiscal year ended December 31, 2007. As such, the Company has amended its financial statements for the three months ended March 31, 2008.

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
March 31, 2009  
(Unaudited)

In the table below, in tabular format, are the areas of major changes for the three months ended March 31, 2008:

	Previously Reported	Adjustment	Restated Amount
Current liabilities	\$ 5,298,917	\$ 327,522	\$ 5,626,439
Total liabilities	\$ 5,313,208	\$ 327,522	\$ 5,640,730
Additional paid-in capital	\$ 794,089	\$ 1,071,682	\$ 1,865,771
Accumulated deficit	\$ (5,562,767)	\$ (1,399,204)	\$ (6,961,971)
Total stockholders' deficiency	\$ (4,750,499)	\$ (327,522)	\$ (5,078,021)
Total liabilities and (deficiency in) stockholders' equity	\$ 562,709	\$ -	\$ 562,709
Selling, general and administrative expenses	\$ 331,077	\$ 5,393	\$ 336,470
Total operating expenses	\$ (14,592)	\$ (5,393)	\$ (19,985)
Total other expense	\$ 1,523,129	\$ 406,525	\$ 1,929,654
Net loss	\$ (1,537,721)	\$ (411,918)	\$ (1,949,639)

The following changes were made to the footnote disclosure of our financial statements:

Beneficial conversion features of notes payable:

We have added to the disclosures regarding the settlement agreement on our note receivable from Pasta Italiana, and recalculated the impairment recorded on the note;

We have recalculated the beneficial conversion features of notes payable, and amortized the discount on notes payable via the effective interest method over the term of the related notes;

We have revised our accounting for stock options issued, and included the revaluation of the fair value of stock options as compensation expense;

We have revised our accounting for the extension of one of our notes payable to reflect an extinguishment loss;

We have revised our notes payable footnotes to reflect changes to discounts, amortization of discounts, and losses on the renegotiation of notes;

We have revised our accounting and related disclosure regarding the liability for the conversion feature of notes payable for notes that are paid or converted, so that these liabilities are revalued at the time of conversion, and credited to additional paid-in capital.

Table of Contents

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

FORWARD LOOKING STATEMENTS

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

Certain information contained in this discussion and elsewhere in this report may include "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, and is subject to the safe harbor created by that act. The safe harbor created by the Securities Litigation Reform Act will not apply to certain "forward looking statements" because we issued "penny stock" (as defined in Section 3(a)(51) of the Securities Exchange Act of 1934 and Rule 3a51-1 under the Exchange Act) during the three year period preceding the date(s) on which those forward looking statements were first made, except to the extent otherwise specifically provided by rule, regulation or order of the Securities and Exchange Commission. We caution readers that certain important factors may affect our actual results and could cause such results to differ materially from any forward-looking statements which may be deemed to have been made in this Report or which are otherwise made by or on behalf of us For this purpose, any statements contained in this report that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the generality of the foregoing, words such as "may", "will", "expect", "believe", "explore", "consider", "anticipate", "intend", "could", "estimate", "plan", "propose" or "continue" or the negative variations of those words or comparable terminology are intended to identify forward-looking statements. Factors that may affect our results include, but are not limited to, the risks and uncertainties associated with:

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

Our ability to implement our business plan,

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

The fact that over 90% of our revenues come from one customer,

Our ability to employ and retain qualified management and employees,

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

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

Changes in the demand for our services,

The degree and nature of our competition,

The lack of diversification of our business plan,

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



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

Table of Contents

We are also subject to other risks detailed from time to time in our other Securities and Exchange Commission filings and elsewhere in this report. Any one or more of these uncertainties, risks and other influences could materially affect our results of operations and whether forward-looking statements made by us ultimately prove to be accurate. Our actual results, performance and achievements could differ materially from those expressed or implied in these forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements, whether from new information, future events or otherwise.

## Critical Accounting Policy and Estimates

## Use of Estimates in the Preparation of Financial Statements

The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. These estimates include certain assumptions related to doubtful accounts receivable, stock-based services, valuation of financial instruments, and income taxes. On an on-going basis, we evaluate these estimates, including those related to revenue recognition and concentration of credit risk. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We believe our estimates have not been materially inaccurate in past years, and our assumptions are not likely to change in the foreseeable future.

On August 25, 2005, the Company entered into contracts which obligated the company under certain circumstances to issue shares of common stock in excess of the number of shares of common stock authorized. Under accounting guidance provided by EITF 00-19, effective August 25, 2005, the Company began to account for all derivative financial instruments, including warrants, conversion features embedded in notes payable, and stock options, via the liability method of accounting. Accordingly, all these instruments are valued at issuance utilizing the Black-Scholes valuation method, and are re-valued at each period ending date, also using the Black-Scholes valuation method. Any gain or loss from revaluation is charged to operations during the period.

## (a) Warrants:

The Company values warrants using the Black-Scholes valuation model. Warrants are valued upon issuance, and re-valued at each financial statement reporting date. Any change in value is charged to income or expense during the period. The following table illustrates certain key information regarding our warrants and warrant valuation assumptions at March 31, 2009 and 2008:

	March 31,	
	2009	2008
Number of warrants outstanding	273,200,000	232,200,000
Value at March 31	\$ 677,876	\$ 1,200,517
Number of warrants issued during the period	-	43,200,000
Value of warrants issued during the period	\$ -	\$ 168,620
Revaluation (gain) loss during the period	\$ (710,411)	\$ 600,712
Black-Scholes model variables:		
Volatility	356.55%	213.70%
Dividends	\$ -	\$ -
Risk-free interest rates	0.43%	1.51 %

Term (years)	0.90 – 4.75	1.90 -04.93
--------------	-------------	-------------

b.) Embedded conversion features of notes payable:

The Company accounts for conversion options embedded in convertible notes in accordance with SFAS No. 133 and EITF 00-19. SFAS 133 generally requires companies to bifurcate conversion options embedded in convertible notes and preferred shares from their host instruments and to account for them as free standing derivative financial instruments in accordance with EITF 00-19.

Table of Contents

The Company values embedded conversion features utilizing the Black-Scholes valuation model. Conversion options are valued upon issuance, and re-valued at each financial statement reporting date. Any change in value is charged to income or expense during the period. The following table illustrates certain key information regarding our conversion option valuation assumptions at March 31, 2009 and 2008:

	March 31,	
	2009	2008
Number of options outstanding	350,748,800	220,800,000
Value at March 31	\$ 1,141,244	\$ 1,297,072
Number of options issued during the period	69,348,800	3,600,000
Value of options issued during the period	\$ 338,576	\$ 15,196
Number of options exercised or underlying notes paid during the period	-	-
Value of options exercised or underlying notes paid during the period	\$ -	\$ -
Revaluation (gain) loss during the period	\$ (345,600)	\$ 669,741
Black-Scholes model variables:		
Volatility	336.9% to 364.6%	193.7% to 216.31%
Dividends	-	-
Risk-free interest rates	0.43%	1.51 – 2.15%
Term (years)	1.00 - 10.00	1.00 - 10.00

Table of Contents

## c.) Stock options

The Company accounts for options in accordance SFAS 123(R). Options are valued upon issuance, and re-valued at each financial statement reporting date, utilizing the Black-Scholes valuation model. Option expense is recognized over the requisite service period of the related option award. Any change in value is charged to income or expense during the period. The following table illustrates certain key information regarding our options and option assumptions at March 31, 2009 and 2008:

	March 31,	
	2009	2008
Number of options outstanding	35,500,000	35,500,000
Value at March 31	\$ 87,267	\$ 116,467
Number of options issued during the period	-	20,000,000
Value of options issued during the period	\$ -	138,262
Number of options recognized during the period pursuant to SFAS 123(R)	-	-
Value of options recognized during the period pursuant to SFAS 123(R)	\$ -	\$ -
Revaluation (gain) loss during the period	\$ (87,425)	\$ 35,026

## Black-Scholes model variables:

Volatility	356.55%	203.7% - 213.7 %
Dividends	-	-
Risk-free interest rates	0.43%	1.50 - 2.41%
Term (years)	0.13-3.81	1.13 – 5.00

## Doubtful Accounts Receivable

The Company maintained an allowance in the amount of \$3,071 for doubtful accounts receivable at March 31, 2009, and \$15,877 at December 31, 2008. Actual losses on accounts receivable were \$0 for 2008, 2007 and 2006. 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 also vary due to the market price of the Company's stock at the date of valuation. Generally, these liabilities will increase as the price of the Company's stock increases (with resultant gain), and decrease as the Company's stock decreases (yielding a loss). These fluctuations are likely to continue as long as the Company has large financial instrument liabilities on its balance sheet. Should the Company succeed in removing these liabilities from its balance sheet, either by satisfying them or by reclassifying them as equity, the amount of gains and losses recognized will be reduced.

## Table of Contents

### 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 generate a profit and provides 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 as the Company has not yet generated a profit

### Background

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

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

### Transactions With a Major Customer

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

### Background

The following discussion should be read in conjunction with the financial statements of the company and related notes included elsewhere in this Report and in the Company’s Annual Report on Form 10-K for the year ended December 31, 2008.

## RESULTS OF OPERATIONS

The following is a discussion of our financial condition and results of operations for the three months ended March 31, 2009 and 2008.

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

### Three Months Ended March 31, 2009 Compared to Three Months Ended March 31, 2008

#### Revenue

Revenue decreased by \$2,703, or approximately 1%, to \$1,600,675 for the three months ended March 31, 2009 from \$1,603,378 during the prior year. Sales decreases in Seafoods, Meat and Game, and Cheese were offset by sales increases in Poultry, Produce, and Specialty lines. We continue to assess the potential of new revenue sources from the manufacture and sale of proprietary food products and additional sales channel opportunities and will implement that strategy if, based on our analysis, we deem it beneficial to us.

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

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

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

Table of Contents

Cost of goods sold

Our cost of goods sold for the three months ended March 31, 2009 was \$1,187,694, a decrease of \$99,199 or approximately 8% compared to cost of goods sold of \$1,286,893 for the three months ended March 31, 2008. Cost of goods sold is primarily made up of the following expenses for the three months ended March 31, 2009: shipping expenses in the amount of \$288,110; and cost of good of specialty, meat, game, cheese poultry and other sales categories in the amount of \$890,953. \$63,961 of the decrease is due to lower shipping costs for 2009 versus 2008.

Selling, general and administrative expenses

Selling, general and administrative expenses were \$386,561 for the three months ended March 31, 2009, an increase of \$50,091, or approximately 15%, compared to \$336,470 for the three months ended March 31, 2008. The primary components of selling, general, and administrative expenses for the three months ended March 31, 2009 were payroll and related costs of \$228,138; consulting and professional fees of \$83,237; insurance costs of \$20,571; facilities costs of \$17,906; amortization and depreciation of \$9,550; software expense of \$9,493; and bank fees of \$1,939. We expect our legal fees to decrease in 2009 due to (i) an expected reduction in costs related to the Pasta litigation (ii) our continued negotiation of flat billing fees rates with several of our professional service providers including for much of our legal fees going forward. We also expect to incur reduced accounting fees in 2009 as we have primarily addressed the SEC's comments to our previous filings. We do however expect to increase our spending on advertising and marketing fees in 2009.

Interest (income) expense, net

Interest (income) expense, net of interest income, increased by \$25,798, or approximately 30%, from \$85,371 during the three months ended March 31, 2008 to \$111,169 for the three months ended March 31, 2009. This increase was attributable primarily to the new issuances of convertible notes payable for services performed and the settlement of the penalty for late registration of shares, and to the amortization of the discount associated with the beneficial conversion features of these notes.

Gain and loss on extinguishment of debt

During the three months ended March 31, 2008, the Company extended certain of its notes payable, and as consideration for these extensions the Company provided the lenders with warrants to purchase an aggregate 43,200,000 shares of the Company's common stock. This resulted in a loss on extinguishment of debt in the amount of \$168,620.

Loss from revaluation of penalty shares

During the three months ended March 31, 2008, the Company revalued the 110,280,000 Penalty Shares using the Black-Scholes valuation model, and at December 31, 2008 recorded liabilities in the amount of \$551,400. These revaluations resulted in recording losses in the amount of \$330,840 during the three months ended March 31, 2008. During the three months ended March 31, 2009, the Company negotiated a settlement of the liability for penalty shares, and there was no gain or loss on revaluation of the liability for penalty shares during this period.

Gain and loss from change in fair value of warrant liability

At March 31, 2009, the Company has outstanding warrants to purchase an aggregate 273,200,000 shares of the Company's common stock. The Company valued this warrant liability at March 31, 2009 at \$677,876. This revaluation resulted in a gain of \$710,411 which the Company charged to operations during the three months ended



March 31, 2009. This is a decrease of \$1,311,123 or approximately 218% compared to a loss of \$600,712 from the revaluation of the warrant liability which the Company recorded during the three months ended March 31, 2008.

## Table of Contents

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

At March 31, 2009, the Company had outstanding a liability to issue an aggregate of 35,500,000 shares of the Company's common stock pursuant to the exercise of stock options. The Company revalued this liability at March 31, 2009 at \$87,267. This revaluation resulted in a gain of \$87,425 which the Company included in operations for the three months ended March 31, 2009. This is a decrease of \$122,451 or approximately 350% compared to a loss of \$35,026 from the revaluation of the conversion option liability which the Company recorded during the three months ended March 31, 2008.

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

At March 31, 2009, the Company had outstanding a liability to issue an aggregate of 350,748,800 shares of the Company's common stock pursuant to convertible notes payable. The Company revalued this liability at March 31, 2009 at \$1,141,244. This revaluation resulted in a gain of \$345,600 which the Company included in operations for the three months ended March 31, 2009. This is a decrease of \$1,015,341 or approximately 152% compared to a loss of \$669,741 from the revaluation of the conversion option liability which the Company recorded during the three months ended March 31, 2008.

### Net income (loss)

For the reasons stated above, net income for the three months ended March 31, 2009 was \$1,281,343, an increase of \$3,230,982 or approximately 166% compared to a net loss of \$1,949,639, during the three months ended March 31, 2008. It is important to note that a substantial portion of these gains and losses are the result of non-cash items, such as the revaluation of warrant liability, option liability, and conversion option liability, as well as the gain and loss on the extinguishment of debt. These non-cash items of income and expense had no direct impact on our cash flows during the periods ended March 31, 2009 or 2008.

### Liquidity and Capital Resources

As of March 31, 2009, the Company had current assets of \$429,493, consisting of cash of \$117,625, loans receivable of \$73,500, other current assets of \$4,500, and trade accounts receivable of \$233,868. Also, at March 31, 2009, the Company had current liabilities of \$4,634,787, consisting of accounts payable and accrued liabilities of \$855,888 (of which \$134,085 is payable to a related party); accrued interest of \$505,462; accrued interest – related parties of \$134,085; current portion of notes payable, net of discounts of \$938,495; current portion of notes payable – related parties, net of discounts of \$279,244; warrant liability of \$677,876; option liability of \$87,267; and conversion option liability of \$1,141,244. This resulted in a working capital deficit of \$4,205,294.

During the three months ended March 31, 2009, the Company had cash used by operating activities of \$34,087. The Company charged to operations \$9,550 for depreciation and amortization, \$44,608 for the amortization of the discount on accrued interest, \$15,632 for the amortization of the discount on notes payable, and credited operations (\$222,656) for the loss on extinguishment of debt, (\$710,411) for the revaluation of the warrant liability, (\$345,600) for the revaluation of the conversion option liability, and (\$87,425) for the revaluation of the option liability. The Company's results also reflect a decreased working capital deficiency of \$26,128.

The Company had cash used by investing activities of \$7,540, which consisted of payments made for the acquisitions of property and equipment.

The Company had cash used by financing activities of \$1,293, which consisted of principal payments on debt.

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

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

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

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

The independent auditors report on our December 31, 2008 financial statements state that our recurring losses raise substantial doubts about our ability as a going concern.

## Table of Contents

### Off-Balance Sheet Arrangements

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

### Inflation

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

### RISK FACTORS

The Company's business and success is subject to numerous risk factors as detailed in its Annual Report on Form 10-K for the year ended December 31, 2008 which is available at no cost at [www.sec.gov](http://www.sec.gov).

### ITEM 4T - CONTROLS AND PROCEDURES

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

#### (a) Evaluation of disclosure controls and procedures

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

#### (b) Changes in internal control over financial reporting

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

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



Table of Contents

PART II. - OTHER INFORMATION

Item 1. Legal Proceedings

None.

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

The Company committed to issue 5,000,000 shares of common stock to a consultant for services. During the year ended December 31, 2008, the Company charged to operations the fair value of these shares in the amount of \$10,000. As of December 31, 2008, these shares had not been issued and are shown on the balance sheet in accrued liabilities. During the three months ended March 31, 2009, the 5,000,000 shares of common stock were issued to the consultant.

Item 3. Defaults Upon Senior Securities

We are in default of \$895,000 of our outstanding notes payable. We did not meet certain of our obligations under the loan documents relating to this issuance. These lapses include not reserving the requisite number of treasury shares, selling subsequent securities without offering a right of first refusal, not complying with reporting obligations, not having our common shares quoted on the OTC:BB and not timely registering certain securities.

Item 4. Submission of Matters to a Vote of Securities Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits

31.1 Section 302 Certification

31.2 Section 302 Certification

32.1 Section 906 Certification

32.2 Section 906 Certification

Table of Contents

SIGNATURES

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

SIGNATURE	TITLE	DATE
/ s / S a m Klepfish Sam Klepfish	Chief Executive Officer	May 15, 2009
/ s / J o h n McDonald John McDonald	Principal Financial Officer	May 15, 2009

Table of Contents