

INNOVATIVE FOOD HOLDINGS INC
Form 10-K
March 29, 2018

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

FORM 10-K

Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2017

OR

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

COMMISSION FILE NUMBER: 0-9376

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

FLORIDA 20-116776
(State or Other Jurisdiction of Incorporation or Organization) (I.R.S. Employer Identification No.)

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

(239) 596-0204
(Registrant's telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:

COMMON STOCK, \$0.0001 PAR VALUE PER SHARE

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if smaller reporting company)	Smaller reporting company
		Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of the voting and non-voting stock held by non-affiliates was approximately \$18,981,094 as of June 30, 2017, based upon a closing price of \$0.61 per share for the registrant's common stock on such date.

On March 16, 2018, a total of 33,689,407 shares of our common stock were outstanding.

INNOVATIVE FOOD HOLDINGS, INC.

INDEX TO ANNUAL REPORT ON FORM 10-K

	PAGE
PART I	
Item 1. <u>Business</u>	4
Item 1A. <u>Risk Factors</u>	8
Item 1B. <u>Unresolved Staff Comments</u>	N/A
Item 2. <u>Properties</u>	15
Item 3. <u>Legal Proceedings</u>	15
Item 4. <u>Mine Safety Disclosures</u>	15
PART II	
Item 5. <u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	16
Item 6. <u>Selected Financial Data</u>	19
Item 7. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	20
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	N/A
Item 8. <u>Financial Statements</u>	27
Item 9. <u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	57
Item 9A. <u>Controls and Procedures</u>	57
Item 9B. <u>Other Information</u>	58
PART III	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	59
Item 11. <u>Executive Compensation</u>	61
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	66
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	66
Item 14. <u>Principal Accountant Fees and Services</u>	68
PART IV	
Item 15. <u>Exhibits</u>	69
<u>Signatures</u>	72

Index

FORWARD LOOKING INFORMATION
MAY PROVE INACCURATE

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

Index

PART I

ITEM 1. Business

Our History

We (or the “Company”) were initially formed in June 1979 as Alpha Solarco Inc., a Colorado corporation. From June 1979 through February 2003, we were either inactive or involved in discontinued business ventures. We changed our name to Fiber Application Systems Technology, Ltd in February 2003. In January 2004, we changed our state of incorporation by merging into Innovative Food Holdings, Inc. (IVFH), a Florida corporation formed for that purpose. As a result of the merger, we changed our name to that of Innovative Food Holdings, Inc. In January 2004, we also acquired Food Innovations, Inc. (“FII” or “Food Innovations”), a Florida corporation, for 500,000 shares of our common stock.

On May 18, 2012, the Company executed a Stock Purchase Agreement to acquire all of the issued and outstanding shares of Artisan Specialty Foods, Inc., an Illinois corporation (“Artisan”), from its owner, Mr. David Vohaska. The purchase price was \$1.2 million, with up to another \$300,000 (with a fair value of \$131,000) payable in the event certain financial milestones are met over the next one or two years. Those milestones have been met.

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

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

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

Index

Our Operations

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

Artisan is a supplier of over 1,500 unique specialty foodservice products to over 500 customers such as chefs, restaurants, etc. in the Greater Chicago area and also serves as a national fulfillment center for the Company’s other subsidiaries. Haley is a dedicated foodservice consulting and advisory firm that works closely with companies to access private label and manufacturers’ private label food service opportunities with the intent of helping them launch and commercialize new products in the broadline foodservice industry and get products distributed via national broadline food distributors. OFB and Oasis function as outsourced national sales and brand management teams for emerging organic and specialty food CPG companies of a variety of sizes and business stages, and provides emerging and unique CPG specialty food brands with distribution and shelf placement access in all of the major metro markets in the food retail industry.

Our Products

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

Some of the items we sell include:

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

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

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

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

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

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

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

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

5

Index

Customer Service and Logistics

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

Flavor profile and eating qualities

Recipe and usage ideas

Origin, seasonality, and availability

Cross utilization ideas and complementary uses of products

Our logistics team manages the shipping and delivery process of every package to ensure timely delivery of products to our customers. The logistics manager receives shipping information on all products ordered, and packages are monitored from origin to delivery. In the event that delivery service is interrupted, our logistics department begins the process of expediting the package to its destination or potentially reshipping the package with a goal of 100% customer satisfaction for our customers. Our logistics manager works directly with our suppliers on an ongoing basis, to ensure that the appropriate packaging and shipping specifications are in place at all times.

Relationship with U.S. Foods

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

Growth Strategy

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

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

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

Index

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

Competition

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

Insurance

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

Government Regulation

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

Employees

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

Transactions with Major Customers

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

How to Contact Us

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

Index

ITEM 1A. Risk Factors

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

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

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

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

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

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

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

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

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

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

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

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

Index

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Index

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

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

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

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

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

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

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

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

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

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

10

Index

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

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

- o the inability to effectively adapt new food types to our business;
- o the failure to conform our services and products to evolving industry standards;
- o the inability to develop, introduce and market enhancements to our existing services and products or new services and products on a timely basis; and
- o the non-acceptance by the market of such new service and products.

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

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

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

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

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

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

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

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

11

Index

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

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

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

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

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

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

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

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

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

Index

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

Changes in government regulation and supervision or proposed Department of Agriculture or other regulatory agency reforms or rule changes could impair our sources of revenue and limit our ability to expand our business. In the event any future laws or regulations are enacted which apply to us, we may have to expend funds and/or alter our operations to insure compliance. New legislation or regulation, or the application of existing laws and regulations to the areas related to our business could add additional costs and risks to doing business. In addition, we are subject to regulations applicable to businesses generally and laws and regulations directly applicable to communications over the Internet and access to e-commerce. In addition, it is possible that a number of laws and regulations may be adopted with respect to the Internet and other areas of our business, covering issues such as user privacy, pricing, content, copyrights, distribution, antitrust, taxation and characteristics and quality of products and services.

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

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

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

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

Index

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Index

ITEM 2. Properties

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

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

ITEM 3. Legal Proceedings

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

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

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

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

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

ITEM 4. Mine Safety Disclosure

Not Applicable.

15

Index

PART II

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

Market Information

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

Fiscal Year Ending December 31, 2017	HIGH	LOW
First Quarter	\$0.65	\$0.45
Second Quarter	0.71	0.56
Third Quarter	0.92	0.59
Fourth Quarter	1.34	0.90
Fiscal Year Ending December 31, 2016	HIGH	LOW
First Quarter	\$0.65	\$0.40
Second Quarter	0.56	0.38
Third Quarter	0.52	0.39
Fourth Quarter	0.54	0.40

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

Security Holders

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

Dividends

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

Recent Sales and Other Issuances of Our Equity Securities

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

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

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

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

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

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

Index

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

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

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

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

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

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

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

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

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

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

The Company retired to treasury 642,688 shares of common stock pursuant to an agreement signed to acquire those shares. The Company also retired to treasury an aggregate of 37,000 shares of common stock purchased on the open market for cash of \$18,592.

The Company acquired 639,383 shares of common stock for cash of \$235,000 and returned these shares to treasury. The Company also acquired an additional 438,379 shares of common stock for \$252,068 of which \$50,000 was paid and \$202,068 was paid on October 2, 2017, and returned these shares to treasury.

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

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

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

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

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

The Company issued 200,000 shares of common stock pursuant to the terms of a structured equity agreement related to the Oasis acquisition. See note 2.

17

The Company is also committed to issue a total of 115,941 shares pursuant to the cashless conversion of an aggregate of 500,000 options. The date for payment of the exercise price of these options was extended to April 26, 2018. The shares, which the Company intends to issue in April 2018, represent a net amount after aggregate cash payments of \$167,000, which was a portion of the difference between the exercise price of the options and the market price of the stock on the date of purchase, and taxes.

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

Dilutive Securities

December 31, 2017

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

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

December 31, 2016

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

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

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

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

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

Securities Authorized for Issuance Under Equity Compensation Plans

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

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

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

ITEM 6. Selected Financial Data

Not Applicable.

19

Index

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

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

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

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

Our ability to implement our business plan,

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

Our dependence on one major customer,

Our ability to employ and retain qualified management and employees,

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

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

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

The degree and nature of our competition,

The lack of diversification of our business plan,

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

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

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

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

Index

Critical Accounting Policy and Estimates

Use of Estimates in the Preparation of Financial Statements

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

(a) Warrants:

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

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

(b) Embedded conversion features of notes payable:

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

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

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

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

Index

(c) Stock options:

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

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

Doubtful Accounts Receivable

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

Fair Value of Financial Instruments

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

Income Taxes

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

Index

Background

We were initially formed in June 1979 as Alpha Solarco Inc., a Colorado corporation. From June 1979 through February 2003, we were either inactive or involved in discontinued business ventures. We changed our name to Fiber Application Systems Technology, Ltd in February 2003. In January 2004, we changed our state of incorporation by merging into Innovative Food Holdings, Inc. (IVFH), a Florida corporation formed for that purpose. As a result of the merger, we changed our name to that of Innovative Food Holdings, Inc. In January 2004, we also acquired Food Innovations, Inc. (“FII” or “Food Innovations”), a Delaware corporation, for 500,000 shares of our common stock.

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

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

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

Transactions With a Major Customer

Transactions with a major customer and related economic dependence information is set forth (1) following our discussion of Liquidity and Capital Resources, (2) under the heading Major Customer in Note 16 to the Consolidated

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

23

Index

RESULTS OF OPERATIONS

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

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

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

Revenue

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

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

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

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

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

Cost of goods sold

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

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

Selling, general, and administrative expenses

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

24

IndexInterest expense, net

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

Net income from continuing operations

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

Liquidity and Capital Resources at December 31, 2017

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

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

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

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

25

Index

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

If the Company's cash flow from operations is insufficient to fully implement its business plan, the Company may require additional financing in order to execute its operating plan. The Company cannot predict whether this additional financing will be in the form of equity or debt, or be in another form. The Company may not be able to obtain the necessary additional capital on a timely basis, on acceptable terms, or at all.

In any of these events, the Company may be unable to implement its current plans for expansion, repay its debt obligations as they become due or respond to competitive pressures, any of which circumstances would have a material adverse effect on its business, prospects, financial condition and results of operations.

2018 Plans

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

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

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

Off-Balance Sheet Arrangements

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

Inflation

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

Transactions with Major Customers

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

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

Index

ITEM 8. Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Innovative Food Holdings, Inc., and subsidiaries (the “Company”) as of December 31, 2017 and 2016, the related consolidated statements of operations, stockholders’ equity, and cash flows for the years then ended, and the related notes (collectively referred to as the “financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

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

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

/s/ Liggett & Webb, P.A.

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

New York, NY
March 29, 2018

IndexInnovative Food Holdings, Inc.
Consolidated Balance Sheets

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

IndexInnovative Food Holdings, Inc.
Consolidated Statements of Operations

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

See notes to consolidated financial statements.

29

IndexInnovative Food Holdings, Inc.
Consolidated Statements of Cash Flows

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

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

Increase in cash and cash equivalents	1,369,382	1,626,764
Cash and cash equivalents at beginning of year	3,764,053	2,137,289
Cash and cash equivalents at end of year	\$5,133,435	\$3,764,053
Cash and cash equivalents at end of year - discontinued operations	\$-	\$-

Supplemental disclosure of cash flow information:

Cash paid during the period for:

Interest	\$74,341	\$96,318
----------	----------	----------

Taxes	\$-	\$-
-------	-----	-----

Non-cash investing and financing activities:

Common stock issued for conversion of note payable by related party	\$164,650	\$-
---	-----------	-----

Issuance of 200,000 shares of common stock pursuant to structured equity instrument	\$200,000	\$-
---	-----------	-----

See notes to consolidated financial statements.

30

Index

Innovative Food Holdings, Inc.

Consolidated Statements of Stockholders' Equity

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

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

December 31, 2016

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

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

Net income for the twelve months ended December 31, 2017	-	-	-	-	-	4,529,262	4,529,262
--	---	---	---	---	---	-----------	-----------

Balance at December 31, 2017	36,080,519	\$3,605	\$36,196,682	2,276,704	\$(992,313)	\$(26,653,435)	\$8,554,539
---------------------------------	------------	---------	--------------	-----------	-------------	----------------	-------------

See notes to consolidated financial statements.

31

Index

INNOVATIVE FOOD HOLDINGS, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business Activity

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

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

Discontinued Operations

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

Use of Estimates

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

reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Accounts subject to estimate and judgements are accounts receivable reserves, income taxes, intangible assets, contingent liabilities, and equity based instruments. Actual results may differ from these estimates under different assumptions or conditions. We believe our estimates have not been materially inaccurate in past years, and our assumptions are not likely to change in the foreseeable future.

Principles of Consolidation

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

Index

Revenue Recognition

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

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

Cost of goods sold

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

Selling, general, and administrative expenses

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

Cash and Cash Equivalents

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

Accounts Receivable

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

Property and Equipment

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

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

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

Inventories

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

33

Index

Income Taxes

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

Fair Value of Financial Instruments

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

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

Long-Lived Assets

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

Comprehensive Income

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

Cost Method Investments

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

Basic and Diluted Income Per Share

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

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

Index

Dilutive shares at December 31, 2017:

Convertible notes and interest

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

Warrants

At Dec 31, 2017 there are no warrants outstanding.

Stock Options

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

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

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

RSUs

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

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

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

Restricted Stock Awards

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

Index

Dilutive shares at December 31, 2016:

Convertible notes and interest

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

Warrants

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

Stock options

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

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

RSUs

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

Index

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

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

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

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

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

Concentrations of Credit Risk

Financial instruments and related items, which potentially subject the Company to concentrations of credit risk, consist primarily of cash, cash equivalents and trade receivables. The Company places its cash and temporary cash in investments with credit quality institutions. At December 31, 2017 and 2016, the Company had cash deposits in excess of applicable government mandated insurance limits in the amount of \$3,470,000 and \$2,971,942, respectively. At December 31, 2017 and 2016, trade receivables from the Company's largest customer amounted to 48% and 44%, respectively, of total trade receivables.

Stock-based Compensation

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

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

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

37

Index

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

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

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

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

Reclassifications

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

New Accounting Pronouncements

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

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

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

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

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

38

Index

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

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

2. ACQUISITION

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

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

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

3. DISCONTINUED OPERATIONS

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

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

Index

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

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

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

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

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

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

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

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

40

Index

4. ACCOUNTS RECEIVABLE

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

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

5. INVENTORY

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

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

6. NOTES RECEIVABLE

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

7. PROPERTY AND EQUIPMENT

Acquisition of Building

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

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

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

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

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

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

Index

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

8. INVESTMENTS

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

9. INTANGIBLE ASSETS

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

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

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

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

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

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

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

Haley transactions are being amortized over periods of 60 months.

42

Index

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

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	December 31, 2017	December 31, 2016
Trade payables and accrued expenses	\$1,652,681	\$1,547,603
Accrued costs of discontinued operations	-	1,478,887
Accrued payroll and commissions	183,878	93,043
Total	\$1,836,559	\$3,119,533

At December 31, 2017 and 2016, accrued liabilities to related parties consisted of accrued bonus, payroll, and payroll related benefits of \$0 and \$65,000, respectively.

11. ACCRUED INTEREST

At December 31, 2017, accrued interest on a note outstanding was \$15,860. During the twelve months ended December 31, 2017, the Company paid cash for interest in the aggregate amount of \$74,178.

At December 31, 2016, accrued interest was \$626,873, convertible at the option of the note holders into the Company's common stock a price of \$0.25 per share, or a total of 2,507,492 shares. During the twelve months ended December 31, 2016, the Company paid cash for interest in the aggregate amount of \$96,318.

12. REVOLVING CREDIT FACILITIES

	December 31, 2017	December 31, 2016
Line of credit facility with Fifth Third Bank in the original amount of \$1,000,000 with an interest rate of LIBOR plus 3.25%. In August 2015, the amount of the credit facility was increased to \$1,500,000 and the due date was extended to August 1, 2016. In August 2016, this credit facility was extended to August 1, 2017. On August 1, 2017 this credit facility was increased to \$2,000,000 and the due date was extended to August 1, 2018. During the twelve months ended December 31, 2016, the Company made net borrowings in the amount of \$120,000 from this facility, and transferred principal in the amount of \$1,200,000 from this credit facility to a new term loan established with Fifth Third Bank. There was no activity on this credit facility during the twelve months ended December 31, 2017.	\$ -	\$ -
Total	\$ -	\$ -

Index

13. NOTES PAYABLE AND NOTES PAYABLE TO RELATED PARTIES

	December 31, 2017	December 31, 2016
Term loan dated as of August 5, 2016 in the original amount of \$1,200,000 payable to Fifth Third Bank. This loan is secured by the Company's tangible and intangible personal property and bears interest at the rate of LIBOR plus 4.5%. Principal payments in the amount of \$66,667 are due monthly along with accrued interest beginning September 5, 2016. The entire principal balance and all accrued interest is due and was paid on the maturity date of February 5, 2018. See note 20. During the twelve months ended December 31, 2016, the Company transferred principal in the amount of \$1,200,000 from the line of credit facility with Fifth Third Bank into this term loan. During the twelve months ended December 31, 2017, the Company made principal and interest payments on this loan in the amounts of \$800,000 and \$27,764, respectively.	\$ 114,033	\$ 914,033
Secured mortgage note payable for the acquisition of land and building in Bonita Springs, Florida in the amount of \$546,000. Principal payments of \$4,550 and interest at the rate of Libor plus 3% are due monthly. The balance of the principal amount will be due February 28, 2018. In March 2018 and effective February 26, 2018, this note was amended and renewed in the amount of \$273,000, with monthly payments of principal and interest of \$4,550 payable through the maturity date of February 28, 2023. See note 20. On March 23, 2018 and effective February 26, 2018, this note was amended and renewed in the amount of \$273,000, with monthly payments of principal and interest of \$4,550 payable through the maturity date of February 28, 2023. See note 20. During the twelve months ended December 31, 2017, the Company made payments of principal and interest on this note in the amounts of \$54,600 and \$12,805, respectively.	282,100	336,700
Secured mortgage note payable for the acquisition of land and building in Broadview, Illinois in the amount of \$980,000. Payments of \$8,167 including principal and interest at the rate of LIBOR plus 2.75% are due monthly through April 2020, the remaining principal balance in the amount of \$490,000 will be due May 29, 2020. During the twelve months ended December 31, 2017, the Company made payments of principal and interest on this note in the amounts of \$98,000 and \$30,508, respectively.	726,833	824,833
A total of 16 convertible notes payable in the aggregate amount of \$627,565 (the "Convertible Notes Payable"). Certain of the Convertible Notes Payable contain cross default provisions, and are secured by subordinated interest in a majority of the Company's assets. The Convertible Notes Payable bear interest at the rate of 1.9% per annum; principal and accrued interest are convertible into common stock of the Company at a conversion price of \$0.25 per share; however, the interest may be paid in cash by the Company and certain limited amounts of principle may also be prepaid in cash. Effective May 13, 2014, the due date of these notes was extended from May 15, 2014 to December 31, 2015, and a discount to the notes in the aggregate amount of \$712,565 was recorded to recognize the value of the beneficial conversion feature embedded in the extension of the term of the notes. In March 2015 the notes were further extended to January 1, 2016. On September 30, 2015, the notes in the amount of \$627,565 were further extended to July 1, 2017, and a discount in the amount of \$627,565 was recorded to recognize the value of the beneficial conversion featured embedded in the extension of the term of the notes. During the twelve months ended December 31, 2017,	-	627,565

\$0 and \$185,018, respectively, of this discount was charged to operations.

During the twelve months ended December 31, 2017, holders of the Convertible Notes Payable converted principal in the amount of \$627,565 and accrued interest in the amount of \$528,242 into an aggregate of 1,155,807 shares of common stock, and accrued interest in the amount of \$86,089 was forgiven. The amount of \$86,809 is recorded as a decrease in interest expense during the twelve months ended December 31, 2017.

A note payable in the amount of \$20,000. The Note was due in January 2006 and the Company is currently accruing interest on this note at 1.9%. During the twelve months ended December 31, 2017, the Company accrued interest in the amount of \$372 and \$380, respectively, on this note.

20,000 20,000

Index

	December 31, 2017	December 31, 2016
Unsecured note to Sam Klepfish for \$164,650 which may not be prepaid without Mr. Klepfish's consent, originally carrying an interest rate of 8% per annum and no due date. As of July 1, 2014, the interest rate was reduced to 1.9% and as of November 17, 2014 the interest rate was further reduced to 0%. During the three months ended December 31, 2015, interest in the amount of \$54,150 was capitalized, and the aggregate principal amount of \$164,650 was extended to July 1, 2017. This note and accrued interest are convertible into common stock of the Company at a conversion price of \$0.25 per share. During the twelve months ended December 31, 2017, the entire principal balance of this note in the amount of \$164,650 was converted into 658,600 shares of the Company's common stock.	-	164,650
Unsecured promissory note in the amount of \$100,000 dated January 1, 2017 bearing interest at the rate of 2.91% per annum issued in connection with the Oasis acquisition. Payments in the amount of \$4,297 consisting of principal and interest are to be made monthly beginning February 15, 2017 for twenty-four months until paid in full. During the twelve months ended December 31, 2017, the Company made principal and interest payments on this note in the amount of \$44,946 and \$2,318, respectively.	55,054	-
Capital lease obligations under a lease agreement for a forklift payable in thirty-six monthly installments of \$274 including interest at the rate of 4.46%. During the twelve months ended December 31, 2017, the Company made principal and interest payments on this lease obligation in the amounts of \$3,093 and \$195, respectively.	2,685	5,778
Capital lease obligations under a lease agreement for a forklift payable in thirty-six monthly installments of \$579 including interest at the rate of 4.83%. During the twelve months end December 31, 2017, the Company made principal and interest payments on this lease obligation in the amounts of \$6,194 and \$751, respectively.	12,160	18,354
Total	\$ 1,212,865	\$ 2,911,913
Less: Discount	-	(185,020)
Net	\$ 1,212,865	\$ 2,726,893
Current maturities, net of discount	\$ 346,855	\$ 1,589,082
Long-term portion, net of discount	866,010	1,137,811
Total	\$ 1,212,865	\$ 2,726,893

For the Year Ended
December 31,
2017 2016

Discount on Notes Payable amortized to interest expense: \$ 185,018 \$ 370,036

At December 31, 2017 and 2016, the Company had unamortized discounts to notes payable in the aggregate amount of \$0 and \$185,020, respectively.

Index

Aggregate maturities of long-term notes payable as of December 31, 2017 are as follows:

For the twelve months ended December 31,

2018	\$346,855
2019	162,277
2020	585,433
2021	54,600
2022	54,600
Thereafter	9,100
Total	\$1,212,865

Beneficial Conversion Features

The Company calculates the fair value of any beneficial conversion features embedded in its convertible notes via the Black-Scholes valuation method. The Company also calculates the fair value of any detachable warrants offered with its convertible notes via the Black-Scholes valuation method. The instruments were considered discounts to the notes, to the extent the aggregate value of the warrants and conversion features did not exceed the face value of the notes. These discounts were amortized to interest expense via the effective interest method over the term of the notes.

The following table illustrates certain key information regarding our conversion option valuation assumptions at December 31, 2017 and 2016 for options underlying both principal and convertible accrued interest:

	December 31,	
	2017	2016
Number of conversion options outstanding	-	5,756,352
Value at December 31	\$N/A	\$N/A
Number of conversion options issued during the period	-	49,632
Value of conversion options issued during the period	\$N/A	\$N/A
Number of conversion options exercised, expired, or underlying notes paid during the period	5,756,352	64,935
Value of conversion options exercised or underlying notes paid during the period	\$N/A	\$N/A
Revaluation loss (gain) during the period	\$N/A	\$N/A

14. RELATED PARTY TRANSACTIONS

For the year ended December 31, 2017:

The Company cancelled RSUs held by its Chief Executive Officer representing 1,382,540 shares of common stock, of which 700,000 were unvested and 682,540 were vested. In place of the 682,540 vested cancelled RSUs, the Company issued a net amount of 586,586 shares of common stock. The remaining 95,954 shares of the 682,540 cancelled vested RSUs were not issued and instead the cash value of those shares was held back by the Company to pay certain taxes related to the issuance. In addition, the 700,000 unvested RSUs were replaced with restricted stock awards under the same terms and conditions as the 700,000 RSUs. See note 16.

The Company cancelled RSUs held by its President representing 1,724,532 shares of common stock, of which 490,000 were unvested and 1,234,532 were vested. In place of the 1,234,532 vested cancelled RSUs, the Company issued a net amount of 928,027 shares of common stock. The remaining 306,505 shares of the 1,234,532 cancelled vested RSUs were not issued and instead the cash value of those shares was held back by the Company to pay certain

taxes related to the issuance. In addition, the 490,000 unvested RSUs were replaced with restricted stock awards under the same terms and conditions as the 490,000 RSUs. See note 16.

The Company cancelled RSUs held by its two of its Directors representing 545,000 shares of common stock, of which 180,000 were unvested and 365,000 were vested. In place of the 365,000 vested cancelled RSUs, the Company issued 365,000 shares of common stock. In addition, the 180,000 unvested RSUs were replaced with restricted stock awards under the same terms and conditions as the 180,000 RSUs. See note 16.

Index

The Company's Chief Executive Officer converted a note payable in the amount of \$164,650 into 658,600 shares of common stock.

The Company acquired options to purchase 100,000 shares of the Company's common stock from its President for \$9,000 cash, which was the difference between the exercise price of the options and the market price of the stock on the date of purchase.

The Company acquired options to purchase 140,000 shares of the Company's common stock from its President for \$13,400 cash, which was the difference between the exercise price of the options and the market price of the stock on the date of purchase.

The Company acquired options to purchase 87,500 shares of the Company's common stock from its Principal Accounting Officer for \$8,125 cash, which was the difference between the exercise price of the options and the market price of the stock on the date of purchase.

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

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

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

The Company acquired options to purchase 100,000 shares of the Company's common stock from a director for \$33,000, which was the difference between the exercise price of the options and the market price of the stock on the date of purchase.

The Company's Chief Executive Officer exercised 100,000 options at a price of \$0.35 per share and an additional 100,000 options at a price of \$0.57 per share. The amount due to the Company for these conversions was extended to April 26, 2018. See note 16.

The Company's President exercised 100,000 options at a price of \$0.35 per share and an additional 100,000 options at a price of \$0.57 per share. The amount due to the Company for these conversions was extended to April 26, 2018. See note 16.

A Director exercised 100,000 options at a price of \$0.35 per share. The amount due to the Company for these conversions was extended to April 26, 2018. See note 16.

For the year ended December 31, 2016:

At December 31, 2015, the Company had an accrued liability in the amount of \$160,150 representing an aggregate of 210,520 shares of common stock to be issued to officers, directors, and employees for services performed during 2013; during the twelve months ended December 31, 2016, the Company issued 210,520 RSUs in exchange of this liability. Also at December 31, 2015, the Company had an accrued liability in the amount of \$157,780 representing 244,620 RSUs to be issued to officers and employees as a bonus for services performed in 2015; during the twelve months ended December 31, 2016, the Company issued an aggregate of 244,620 RSUs in exchange of this liability.

During the twelve months ended December 31, 2016, the Company issued 95,000 shares of its common stock to a former Director of the Company pursuant to the exercise of RSUs.

During the twelve months ended December 31, 2016, the Company purchased the following options held by three of its officers and one of its directors: options to purchase an aggregate 92,500 shares of the Company's common stock exercisable at a price of \$0.38 per share were purchased for a total amount of \$10,175, and options to purchase an aggregate 275,000 shares of the Company's common stock exercisable at a price of \$0.40 per share were purchased for a total amount of \$24,750. The purchase price was calculated as the excess of the closing market price of the Company's stock on the purchase date over the exercise price of the options.

47

Index

15. INCOME TAXES

Deferred income taxes result from the temporary differences primarily attributable to amortization of intangible assets and debt discount 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 \$3,400,000, which will expire through 2037. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Due to significant changes in the Company's ownership, the Company's future use of its existing net operating losses may be limited.

The provision (benefit) for income taxes for the years ended December 31, 2017 and 2016 consist of the following:

	2017	2016
Current	\$ -	\$ -
Deferred	-	-
Total	\$ -	\$ -

The provision (benefit) for income taxes differs from the amount of income tax determined by applying the applicable statutory income tax rate of 39.6% for the December 31, 2017 and 2016, respectively, to the loss before taxes as a result of the following differences:

	2017	2016
Income (loss) before income taxes	\$4,529,262	\$2,816,405
Statutory tax rate	39.6	% 39.6 %
Total tax at statutory rate	1,794,000	1,115,000
Temporary differences	255,000	235,000
Permanent differences - restructuring	--	(4,070,500)
Permanent difference – meals and entertainment	6,000	5,000
Permanent differences- non cash compensation, and discount amortization	256,700	463,000
Total	2,311,700	(2,252,500)
Changes in valuation allowance	(2,311,700)	2,252,500
Income tax expense	\$-	\$-

Deferred income taxes reflect the tax impact of temporary differences between the amounts of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws and regulations.

Deferred income taxes include the net tax effects of net operating loss (NOL) carryforwards and the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. As of December 31, 2017 and 2016 significant components of the Company's deferred tax assets are as follows:

	2017	2016
Deferred Tax Assets (Liabilities):		
Net operating loss carryforwards	\$997,500	\$3,808,000

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

Allowance for doubtful accounts	(7,100)	17,000
Property and equipment	38,000	(87,000)
Intangible assets	(154,800)	(220,000)
Accrued officer compensation	18,700	-
Debt discount	-	74,000
Net deferred tax assets (liabilities)	892,300	3,592,000
Valuation allowance	(892,300)	(3,592,000)
Net deferred tax assets (liabilities)	\$-	\$-

Index

The Company's tax returns for the previous three years remain open for audit by the respective tax jurisdictions.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cut and Jobs Act (the "Tax Act"). The Tax Act establishes new tax laws that affect 2018 and future years, including a reduction in the U.S. federal corporate income tax rate to 21%, effective January 1, 2018. For certain deferred tax assets and deferred tax liabilities, we have recorded a provisional decrease of \$388,000, with a corresponding net adjustment to valuation allowance of \$388,000 as of December 31, 2017.

16. EQUITY

Common Stock

At December 31, 2017 and 2016, a total of 2,491,112 and 733,662 shares, respectively, are deemed issued but not outstanding by the Company.

Twelve months ended December 31, 2017:

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

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

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

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

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

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

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

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

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

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

Index

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

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

The Company retired to treasury 642,688 shares of common stock pursuant to an agreement signed to acquire those shares. The Company also retired to treasury an aggregate of 37,000 shares of common stock purchased on the open market for cash of \$18,592.

The Company acquired 639,383 shares of common stock for cash of \$235,000 and returned these shares to treasury. The Company also acquired an additional 438,379 shares of common stock for \$252,068 and returned these shares to treasury.

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

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

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

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

The Company issued 200,000 shares of common stock pursuant to the terms of a structured equity agreement related to the Oasis acquisition. See note 2.

Twelve months ended December 31, 2016:

The Company issued 25,000 shares of common stock with a fair value of \$34,000 to a service provider. The value of these shares was accrued during the twelve months ended December 31, 2015.

The Company issued an aggregate of 600,000 shares of common stock to an employee of FD pursuant to a separation agreement. These shares were issued as follows: 300,000 of these shares were issued for the exercise of RSUs held by the employee, and an additional 300,000 shares were charged to discontinued operations at the fair value of \$147,000.

The Company issued 133,333 shares of common stock to an employee of FD pursuant to an employee agreement. The fair value of these shares in the amount of \$68,000 was charged to discontinued operations during the period.

The Company issued 200,000 shares of common stock to an employee of FD pursuant to a separation agreement. These shares were issued via the exercise of RSUs; the par value of \$20 was charged to additional paid-in capital during the period.

The Company charged the amount of \$317,930 to additional paid-in capital for the value of RSUs previously accrued for officer and director compensation.

The Company reduced additional paid-in capital by the amount of \$620,000 for the value of 642,688 shares of the Company's common stock and rights to 1,450,000 RSUs. These equity instruments were purchased pursuant to an agreement subsequent to December 31, 2016. See note 16.

The Company issued 95,000 shares of common stock pursuant to the exercises of RSUs by an ex-director.

50

IndexTreasury Stock

At December 31, 2017 and 2016, the Company had 2,276,703 and 519,254 shares of treasury stock, respectively.

Warrants

The Company had no warrants outstanding at December 31, 2017. Transactions involving warrants are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
Warrants outstanding at December 31, 2016	3,537,284	\$ 0.45
Granted	-	-
Exercised	(3,537,284)	\$ 0.45
Cancelled / Expired	-	-
Warrants outstanding at December 31, 2017	-	\$ -

Options

Twelve months ended December 31, 2017:

The Company acquired options to purchase 100,000 shares of the Company's common stock from its President for \$9,000 cash, which was the difference between the exercise price of the options and the market price of the stock on the date of purchase.

The Company acquired options to purchase 140,000 shares of the Company's common stock from its President for \$13,400 cash, which was the difference between the exercise price of the options and the market price of the stock on the date of purchase.

The Company acquired options to purchase 87,500 shares of the Company's common stock from its Principal Accounting Officer for \$8,125 cash, which was the difference between the exercise price of the options and the market price of the stock on the date of purchase.

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

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

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

The Company acquired options to purchase 100,000 shares of the Company's common stock from a director for \$33,000, which was the difference between the exercise price of the options and the market price of the stock on the date of purchase.

The Company's Chief Executive Officer exercised 100,000 options at a price of \$0.35 per share and an additional 100,000 options at a price of \$0.57 per share. The amount due to the Company for these conversions was extended to April 26, 2018. A net number of 55,192 shares will be issued to the Chief Executive Officer, after a cash payment of \$45,000, which was a portion of the difference between the exercise price of the options and the market price of the stock on the date of purchase, and taxes.

The Company's President exercised 100,000 options at a price of \$0.35 per share and an additional 100,000 options at a price of \$0.57 per share. The amount due to the Company for these conversions was extended to April 26, 2018. A net number of 60,507 shares will be issued to the President, after a cash payment of \$45,000, which was a portion of the difference between the exercise price of the options and the market price of the stock on the date of purchase, and taxes. A Director exercised 100,000 options at a price of \$0.35 per share. The amount due to the Company for these conversions was extended to April 26, 2018. A net number of 0 shares will be issued to the Director, net of shares held back for the exercise price and for taxes, along with a cash payment of \$77,000 as a cash-out amount.

Also during the year, the following options expired: options to purchase 15,000 shares of the Company's common stock at a price of \$1.90 per share, and options to purchase 500,000 shares of the Company's common stock at a price of \$2.00 per share.

51

Index

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

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
\$ 0.57	25,000	0.02	\$ 0.57	25,000	\$ 0.57
\$ 1.04	200,000	2.83	\$ 1.04	-	\$ -
\$ 1.31	200,000	0.50	\$ 1.31	200,000	\$ 1.31
\$ 1.38	100,000	1.92	\$ 1.38	100,000	\$ 1.38
\$ 1.42	100,000	0.47	\$ 1.42	100,000	\$ 1.42
\$ 1.43	50,000	1.00	\$ 1.43	50,000	\$ 1.43
\$ 1.46	100,000	0.50	\$ 1.46	100,000	\$ 1.46
\$ 1.60	310,000	0.01	\$ 1.60	310,000	\$ 1.60
\$ 1.70	75,000	0.28	\$ 1.70	75,000	\$ 1.70
\$ 1.90	175,000	1.48	\$ 1.90	175,000	\$ 1.90
\$ 2.00	50,000	0.28	\$ 2.00	50,000	\$ 2.00
\$ 2.40	20,000	0.41	\$ 2.40	20,000	\$ 2.40
\$ 2.50	37,500	0.28	\$ 2.50	37,500	\$ 2.50
\$ 3.40	30,000	0.41	\$ 3.40	30,000	\$ 3.40
\$ 3.50	37,500	0.28	\$ 3.50	37,500	\$ 3.50
	1,510,000	0.89	\$ 1.60	1,310,000	\$ 1.68

Transactions involving stock options are summarized as follows:

	Number of Shares	Weighted Average Exercise Price
Options outstanding at December 31, 2016	2,445,000	\$ 1.01

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

Granted	950,000	\$ 1.55
Exercised	(1,370,000)	\$ 0.38
Cancelled / Expired	(515,000)	\$ 2.00

Options outstanding at December 31, 2017 1,510,000 \$ 1.60

Index

Aggregate intrinsic value of options outstanding and exercisable at December 31, 2017 and 2016 was \$15,500 and \$0, respectively. Aggregate intrinsic value represents the difference between the Company's closing stock price on the last trading day of the fiscal period, which was \$1.19 and \$0.45 as of December 31, 2017 and 2016, respectively, and the exercise price multiplied by the number of options outstanding.

During the year ended December 31, 2017 and 2016, the Company charged \$38,847 and \$19,752, respectively, to operations related to recognized stock-based compensation expense for stock options.

The exercise price grant dates in relation to the market price during 2017 and 2016 are as follows:

	2017	2016
Exercise price lower than market price	-	-
Exercise price equal to market price	-	-
Exercise price exceeded market price	\$ 1.04 to \$1.38	0.57 to \$ \$3.50

As of December 31, 2017 and 2016, there were 200,000 and 0, respectively, non-vested options outstanding.

Accounting for warrants and stock options

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

	December 31, 2017	December 31, 2016	
Volatility	47.3-56.9%	N/A	%
Dividends	\$0	N/A	
Risk-free interest rates	0.87-2.0 %	N/A	%
Term (years)	0.8-2.5	N/A	

Restricted Stock Units ("RSUs")

During the twelve months ended December 31, 2017, the Company cancelled all of its outstanding RSUs and issued the following: For vested RSUs representing 3,104,205 shares of common stock, the Company issued a net amount of 2,480,392 shares of restricted common stock (net of 623,813 shares held back by the Company to pay certain taxes owed related to the issuance); for unvested RSUs representing 1,370,000 shares of common stock, the Company issued 1,370,000 shares of restricted common stock under the same terms as the cancelled RSUs. 1,070,000 of the restricted stock awards vested on July 1, 2017, the same date at which the RSUs which they replaced would have vested. These 1,070,000 shares were issued during the twelve months ended December 31, 2017. The vesting for the remaining 300,000 restricted stock awards is contingent upon meeting certain price and volume conditions related to the Company's stock; these conditions are the same conditions required for vesting of the cancelled RSUs. The Company charged the amount of \$0 and \$240,208, respectively, to operations during the twelve months ended December 31, 2017 representing the amortization of the cost of these restricted stock awards. The amounts charged to operations is the same amount that the Company would have charged for the RSUs that were cancelled had they not been cancelled.

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

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

Index

17. COMMITMENTS AND CONTINGENCIES

Contingent Liability

Pursuant to the Oasis acquisition, the Company was contingently liable for certain performance-based payments over the twenty-four months following the acquisition date. At December 31, 2017, the Company carried the amount of \$200,000 on its balance sheet as contingent liability – current, and an additional \$200,000 as contingent liability – long term. See notes 2 and 16.

Litigation

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

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

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

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

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

18. MAJOR CUSTOMER

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

Index

19. FAIR VALUE MEASUREMENTS

Our short-term financial instruments, including cash, accounts payable and other liabilities, consist primarily of instruments without extended maturities, the fair value of which, based on management's estimates, reasonably approximate their book value. The fair value of the Company's stock option, convertible debt features and warrant instruments is determined using option pricing models.

As a result of the adoption of ASC 815-40, the Company is required to disclose the fair value measurements required by ASC 820, "Fair Value Measurements and Disclosures." The other liabilities recorded at fair value in the balance sheet as of December 31, 2009 are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels, defined by ASC 820 are directly related to the amount of subjectivity associated with the inputs to fair valuations of these liabilities are as follows:

Level 1 - Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date;

Level 2 - In15puts other than Level 1 inputs that are either directly or indirectly observable; and

Level 3 - Unobservable inputs, for which little or no market data exist, therefore requiring an entity to develop its own assumptions.

As December 31, 2017 and 2016, the Company did not have financial assets or liabilities that are required to be accounted for at fair value on a recurring basis.

20. SUBSEQUENT EVENTS

Asset Acquisition – iGourmet, LLC

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

The consideration for and in connection with the acquisition consisted of: (i) \$1,500,000, which satisfied or reduced secured, priority and administrative debt of Sellers; (ii) in connection with and prior to the acquisition, our wholly-owned subsidiary, Food Funding, funded advances of \$325,000 to Sellers on a secured basis, pursuant to certain loan documents and as bridge loans, which loans were reduced by the proceeds of the APA; (iii) the purchase for \$200,000 of certain debt owed by Sellers, to be paid out of, if available, Innovative Gourmet's cash flow; (iv) potential contingent liability allocation for a percentage of Sellers' approximately \$2,300,000 of certain debt, not purchased or assumed by Innovative Gourmet, which under certain circumstances, Innovative Gourmet may determine to pay; and (v) additional purchase price consideration of (a) up to a maximum of \$1,500,000, if EBITDA of Innovative Gourmet reaches \$3,800,000 million in 2018, (b) up to a maximum of \$1,750,000, if EBITDA of Innovative Gourmet in 2019 exceeds its EBITDA in 2018 by at least 20% and if its EBITDA reaches \$5,000,000; and (c) up to a maximum of \$2,125,000, if EBITDA of Innovative Gourmet in 2020 exceeds its EBITDA in 2019 by at least 20% and if its EBITDA reaches \$8,000,000. The EBITDA based earnout shall be paid 37.5% in cash, 25% in Innovative Food Holdings shares valued at the time of the closing of this transaction and 37.5%, at Innovative Gourmet's option, in Innovative Food Holdings shares valued at the time of the payment of the earnout or in cash.

In connection with the acquisition, our wholly-owned subsidiary, Food Funding, purchased Seller's senior secured note at a price of approximately \$1,187,000, pursuant to the terms of a Loan Sale Agreement with UPS Capital Business Credit. That note was reduced by the proceeds of the APA as disclosed in (i) above.

Restated Loan Agreement

On March 23, 2018 and effective February 26, 2018, we entered into a Fifth Amended and Restated Loan Agreement with Fifth Third Bank, an Ohio banking corporation ("Lender"), to, among other things, reduce the amount of an existing loan to Two Hundred Seventy Three Thousand Dollars and extend its due date to February 28, 2023 and enter into a new term loan in the amount of One Million Five Hundred Thousand Dollars due on August 28, 2019 carrying interest at LIBOR plus 4.25%. We also entered into an equipment loan with Lender in the amount of Five Hundred Thousand Dollars due March 31, 2019 carrying interest at LIBOR plus 2.75%. All of these loans continue to be secured by the assets of the Company and its subsidiaries.

Index

Exercise of Options

In January 2018, the Company issued 100,000 shares of common stock to a former board member for the exercise of options at a price of \$0.35 per share.

In December 2017, the Company's Chief Executive Officer exercised 100,000 options at a price of \$0.35 per share and an additional 100,000 options at a price of \$0.57 per share. The date for payment of the exercise price of these options was extended to April 26, 2018. 55,192 shares of common stock will be issued in April 2018, which number of shares represents a net amount after a cash payment of \$45,000 which was a portion of the difference between the exercise price of the options and the market price of the stock on the date of purchase, and taxes.

In December 2017, the Company's President exercised 100,000 options at a price of \$0.35 per share and an additional 100,000 options at a price of \$0.57 per share. The date for payment of the exercise price of these options was extended to April 26, 2018. 60,749 shares of common stock will be issued in April 2018, which number of shares represents a net amount after a cash payment of \$45,000 made in March 2018 which was a portion of the difference between the exercise price of the options and the market price of the stock on the date of purchase, and taxes.

In December 2017, a Board Member exercised 100,000 options at a price of \$0.35 per share. The date for payment of the exercise price of these options was extended to April 26, 2018. In March 2018 the Company made a payment of \$77,000 which is the difference between the exercise price of the options and the market price of the stock on the date of purchase.

Amendment of Bylaws

In January 2018, Pursuant to the authority granted by Article XII of our Bylaws, Article III, Section 11 of the Bylaws was amended to permit the Board of Directors to remove, with or without cause, a director appointed by the Board of Directors by the affirmative vote of a majority of directors.

Director Resignation

In January 2018, Mr. Nathaniel Klein voluntarily resigned from our Board of Directors. Prior to his resignation, Mr. Klein was a member of the Audit, Compensation and Nominating and Corporate Governance Committees.

Contingent Liability – Oasis Acquisition

In January 2018, the Company paid the amount of \$200,000 to satisfy a performance-based contingent liability related to the Oasis acquisition; see notes 2 and 16.

Index

ITEM 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

ITEM 9A. Controls and Procedures

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Under the supervision and with the participation of our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act). Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions as appropriate to allow timely decisions regarding required disclosure. We concluded that our disclosure controls and procedures as defined in Rule 13a-15(e) under the Exchange Act were effective as of December 31, 2017 to ensure that information required to be disclosed in reports we file or submit under the Exchange Act is recorded, processed, and summarized and reported within the time periods specified in SEC rules and forms and our disclosure controls and procedures are also effective to ensure that the information required to be disclosed in reports that we file under the Exchange Act is accumulated and communicated to our principal executive and financial officers to allow timely decisions regarding required disclosures.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) and 15d-(f) under the Exchange Act. Our internal control over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with U.S. generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that:

- (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
- (ii) provide reasonable assurance that transactions are recorded as necessary to permit the preparation of our consolidated financial statements in accordance with U.S. generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the consolidated financial statements.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2017. In making this assessment, management used the criteria set forth in Internal Control Over Financial Reporting — Guidance for Smaller Public Companies issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013).

Subject to the inherent limitations described in the following paragraph, our management has concluded that our internal control over financial reporting was effective at December 31, 2017 at the reasonable assurance level.

Inherent Limitations Over Internal Controls

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations, including the possibility of human error and circumvention by collusion or overriding of controls. Accordingly, even an effective internal control system may not prevent or detect material misstatements on a timely basis. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate. Accordingly, our internal controls and procedures are designed to provide reasonable assurance of achieving their objectives.

Changes in Internal Control over Financial Reporting

We have made no change in our internal control over financial reporting during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Index

Attestation Report of the Registered Public Accounting Firm

This annual report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our independent registered public accounting firm pursuant to temporary rules of the SEC that permit us to provide only management's report in this Annual Report on Form 10-K.

ITEM 9B. Other Information

None.

58

Index

PART III

ITEM 10. Directors, Executive Officers and Corporate Governance

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

Name	Age	Position
Sam Klepfish	43	Chief Executive Officer and Director
Justin Wiernasz	52	President and Director
Joel Gold	76	Director
Hank Cohn	48	Director

Directors

Sam Klepfish

Mr. Klepfish has been a director since December 1, 2005. From November 2007 to present Mr. Klepfish is the CEO of Innovative Food Holdings and its subsidiaries. From March 2006 to November 2007 Mr. Klepfish was the interim president of the Company and its subsidiary. Since February 2005 Mr. Klepfish was also a Managing Partner at ISG Capital, a merchant bank. From May 2004 through February 2005 Mr. Klepfish served as a Managing Director of Technoprises, Ltd. From January 2001 to May 2004 he was a corporate finance analyst and consultant at Phillips Nizer, a New York law firm. Since January 2001 Mr. Klepfish has been a member of the steering committee of Tri-State Ventures, a New York investment group. From 1998 to December 2000, Mr. Klepfish was an asset manager for several investors in small-cap entities.

Joel Gold, Director

Mr. Gold is currently a partner in a merchant banking firm, and has served on the board and committees of numerous companies. Prior to that, he was an investment banker at Buckman, Buckman and Reid located in New Jersey, a position he held since May 2010. Prior there to, from October 2004, he was head of investment banking of Andrew Garrett, Inc. From January 2000 until September 2004, he served as Executive Vice President of Investment Banking of Berry Shino Securities, Inc., an investment banking firm also located in New York City. From January 1999 until December 1999, he was an Executive Vice President of Solid Capital Markets, an investment-banking firm also located in New York City. From September 1997 to January 1999, he served as a Senior Managing Director of Interbank Capital Group, LLC, an investment banking firm also located in New York City. From April 1996 to September 1997, Mr. Gold was an Executive Vice President of LT Lawrence & Co., and from March 1995 to April 1996, a Managing Director of Fechter Detwiler & Co., Inc., a representative of the underwriters for the Company's initial public offering. Mr. Gold was a Managing Director of Furman Selz Incorporated from January 1992 until March 1995. From April 1990 until January 1992, Mr. Gold was a Managing Director of Bear Stearns and Co., Inc. ("Bear Stearns"). For approximately 20 years before he became affiliated with Bear Stearns, he held various positions with Drexel Burnham Lambert, Inc.

Hank Cohn, Director

Mr. Cohn has been a director since October 29, 2010. Hank Cohn is currently CEO of P1 Billing, LLC, a revenue cycle management services provider to ambulatory medical clinics. P1 Billing is a spinoff of PracticeOne Inc., (formerly PracticeXpert, Inc., an OTCBB traded company), an integrated PMS and EMR software and services company for physicians. Mr. Cohn served as President and Chief Executive Officer of PracticeOne from December 2009 until December 2009, at which time he sold the company to Francison Partners, one of the largest, global

technology focused, private equity firms in Silicon Valley. Prior to that, Mr. Cohn worked with a number of public companies. A partial list of his past and present board memberships include: Analytical Surveys, Inc., Kaching Kaching, Inc., and International Food and Wine, Inc., currently Evolution Resources Inc. Mr. Cohn also served as the executive vice president of Galaxy Ventures, LLC a closely-held investment fund concentrating in the areas of bond trading and early stage technology investments, where he acted as portfolio manager for investments.

59

Index

Justin Wiernasz, President

Mr. Wiernasz has been a director since November 1, 2013. Effective on July 31, 2008, Mr. Justin Wiernasz was promoted to the position of President of Innovative Food Holdings, Inc. Prior thereto he was the Executive Vice President of Marketing and Sales and Chief Marketing Officer of our operating subsidiary, Food Innovations, Inc. since May 2007 and the President of Food Innovations and our Chief Marketing Officer since December 2007. Prior thereto, he was at USF, our largest customer, for 13 years. From 2005 to 2007 he was the Vice President of Sales & Marketing, USF, Boston, and prior thereto, from 2003 to 2005 he was a National Sales Trainer at USF, Charleston SC, from 1996 to 2003 he was the District Sales Manager at USF, Western Massachusetts and from 1993 to 1996 he was Territory Manager, USF, Northampton, Easthampton & Amherst, MA. Prior to that from 1989 to 1993 he was the owner and operator J.J.'s food and spirit, a 110 seat restaurant.

Key Employee

John McDonald

Mr. McDonald, age 55, has been our principal accounting officer since November 2007; from November 2007 through October 2017, he was also our Chief Information Officer. From 2004 through 2007, Mr. McDonald worked as a consultant with Softrim Corporation of Estero, Florida where he created custom applications for a variety of different industries and assisted in building interfaces to accounting applications. Since 1999 he has also been President of McDonald Consulting Group, Inc. which provide consulting on accounts receivable, systems and accounting services.

Mike Fabrico

Mr. Fabrico is the Chief Information Officer of Innovative Food Holdings. Prior to this, from February 2017 to October 2017, he was an independent consultant and he led small-scale technology projects to modernize, upgrade, support, and improve on legacy applications and ERP systems. From January 2015 to June 2016, he was the CIO at Haddon House Food Products before its acquisition to UNFI in 2016. Before joining Haddon House, he was EVP & CIO for SharkNinja in Boston from 2008 to 2013, Prior to SharkNinja, he held various technology leadership positions at public and private equity backed companies. Before moving into corporate technology leadership positions, he was President and Co-Founder of a manufacturing and distribution software development firm.

Qualification of Directors

We believe that all of our directors are qualified for their positions and each brings a benefit to the board. Messrs. Kelpfish and Wiernasz, as our executive officers, are uniquely qualified to bring management's perspective to the board's deliberations. Mr. Gold, with his lengthy career working for broker/dealers, brings "Wall Street's" perspective. Mr. Cohn, with his prior history of being an executive and his experience as a director of other companies, brings a well-rounded background and wealth of experience to our board.

Committees

The Board of Directors currently has an Audit Committee, a Compensation Committee, a Nominating Committee and a Governance Committee. However, inasmuch as we only have two independent directors, each Committee only has two members. We are currently seeking to add additional qualified independent directors to the Board of Directors.

Code of Ethics

We have adopted a Code of Ethics that applies to each of our employees, including our CEO, our President, our principal financial officer, CIO, as well as members of our Board of Directors. A copy of such Code has been publicly filed with, and is available for free from, the Securities and Exchange Commission.

Section 16(a) Beneficial Ownership Reporting Compliance

During 2017, Messrs. Gold, Cohn, and Klepfish did not file four Forms 4, Mr. Wiernasz did not file five Forms 4, and Mr. McDonald did not file one Form 4. None of the unfiled Forms 4 related to the public sale of securities.

60

Index

ITEM 11. Executive Compensation

The following table sets forth information concerning the compensation for services rendered to us for the year ended December 31, 2017, of our Chief Executive Officer and our other executive officers whose annual compensation exceeded \$100,000 in the fiscal year ended December 31, 2017, if any. We refer to the Chief Executive Officer and these other officers as the named executive officers.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compen (\$)	Nonqualified Deferred Compensation Earnings (\$)	Other Compensation (\$)	Total (\$)
Sam Klepfish CEO	2017	\$376,997	\$-	\$117,060(j)	\$-	\$-	\$-	\$18,084	(a) \$512,141
	2016	\$362,550	\$-	\$375,297(b)	\$-	\$-	\$-	\$2,229	(a) \$740,075
	2015	\$317,709	\$85,000 (c)	\$644,835(b)	\$-	\$-	\$-	\$-	\$1,047,544
Justin Wiernasz President	2017	\$376,997	\$65,000 (d)	\$76,190 (e)	\$-	\$-	\$-	\$12,960	(a) \$531,147
	2016	\$346,920	\$50,000 (f)	\$308,192(g)	\$-	\$-	\$-	\$8,056	(a) \$713,168
	2015	\$312,119	\$124,800(h)	\$667,780(i)	\$-	\$-	\$-	\$8,016	(a) \$1,112,715
John McDonald Chief Information and Principal Accounting Officer	2017	\$199,301	\$69,000 (j)	\$-	\$-	(n) \$-	\$-	\$8,415	(a) \$276,716
	2016	\$181,182	\$30,000 (j)	\$43,660 (k)	\$992 (l)	\$-	\$-	\$7,959	(a) \$263,794
	2015	\$163,611	\$38,407 (m)	\$-	\$-	\$-	\$-	\$8,016	(a) \$210,034

(a) Consists of cash payments for health care benefits.

(b) Consists of the portion of RSUs which were recognized as a period cost during the year.

(c) Consists of a cash bonus paid during the year for services performed in 2014.

(d) Consists of a cash bonus paid during the year for services performed in 2016.

(e) Consists of the portion of restricted stock awards which were recognized as a period cost during the year for services as an executive officer. Does not include \$7,826 of restricted stock awards which were recognized as a period cost during the year for services as a board member.

(f) Consists of a cash bonus paid during the year for services performed in 2015. Does not include \$65,000 in cash bonuses for services performed in 2016 but not paid during the year.

(g) Consists of the portion of RSUs which were recognized as a period cost during the year for services as an executive officer. Does not include \$55,304 of RSUs which were recognized as a period cost during the year for services as a board member.

(h) Consists of a cash bonus paid during the year for services performed in 2015. Does not include \$50,000 in cash bonuses and 116,279 of RSUs with a fair value of \$75,000 for services performed in 2015 but not paid during the year.

(i) Consists of the portion of RSUs which were recognized as a period cost during the year for services as an executive officer. Does not include \$163,826 of RSUs which were recognized as a period cost during the year for services as a board member.

(j) Consists of the portion of restricted stock awards which were recognized as a period cost during the year for services as an executive officer.

Index

(j) Consists of a cash bonus paid during the year for services performed in 2016.

(k) Consists of 90,959 shares of common stock with a fair value of \$43,660.

(l) Consists of options to purchase 200,000 shares of common stock with a fair value of \$992.

(m) Consists of a cash bonus paid during the year for services performed in 2014. Does not include \$30,000 in cash bonuses and 46,512 RSUs with a fair value of \$30,000 for services performed in 2015 but not paid during the year.

Outstanding Equity Awards at Fiscal Year-End as of December 31, 2017

Name	Option Awards		Equity Incentive Plan Awards:				Stock Awards		Equity Incentive Plan Awards: Number of Unearned Shares, Other Rights That Have Vested (#)
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Number of Securities Underlying Unexercised Options (#) Unearned	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested	Market Value of Shares or Units of Stock That Have Not Vested (\$)		
Sam Klepfish						300,000 (a)	\$357,000 (b)		
Sam Klepfish	125,000			\$1.600	01/01/18				
Justin Wiernasz						300,000 (a)	357,000 (b)		
Justin Wiernasz	125,000	-	-	\$1.600	01/01/18	-	-	-	
John McDonald	25,000	-	-	\$0.570	01/01/18				
John McDonald	60,000	-	-	\$1.600	01/01/18				
John McDonald	75,000	-	-	\$1.700	04/04/18				
John McDonald	50,000	-	-	\$2.000	04/04/18				
John McDonald	37,500	-	-	\$2.500	04/04/18				

John McDonald	37,500	-	-	\$3.500	04/04/18
------------------	--------	---	---	---------	----------

(a) Restricted stock awards vest according to the following schedule: An additional 125,000 restricted stock awards will vest contingent upon the attainment of a stock price of \$2.00 per share for 20 consecutive trading days, and an additional 175,000 restricted stock awards will vest contingent upon the attainment of a stock price of \$3.00 per share for 20 consecutive trading days.

(b) Amounts are calculated by multiplying the number of shares shown in the table by \$1.19 per share, which is the closing price of common stock on December 31, 2017 (the last trading day of the 2016 fiscal year).

62

Index

Director Compensation

Name	Fees Earned or Paid in		Option Awards (\$)(b)	Non-Equity Incentive Plan Compensation (\$)	Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
	Cash (\$)	Stock Awards (\$)(a)					
Joel Gold	\$ -	\$ -	(a) \$ -	\$ -	\$ -	\$ -	\$ -
Sam Klepfish	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Hank Cohn	\$ -	\$ -	(a) \$ -	\$ -	\$ -	\$ -	\$ -
Justin Wiernasz	\$ -	\$ -	(a) \$ -	\$ -	\$ -	\$ -	\$ -

(a) Does not include 270,000 RSUs at \$1.00 per share granted to each director and included in 2014 for service in years 2015, 2016, and 2017. These RSUs are contingent upon being a member of the board in those years. The amount of \$163,826 was included as a period cost for these RSUs in 2015. Mr. Klepfish has declined this grant of RSUs which the Company offered to all Directors in 2014.

Employment Agreements

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

SAM KLEPFISH

On November 20, 2012 we entered into an employment agreement with Mr. Klepfish, the Corporation's CEO, having an effective date of January 1, 2013 and terminating on December 31, 2015. The agreement provides a base compensation in the amount of \$198,312 in cash plus an additional \$27,937 in restricted stock units for year one, \$223,987 in cash plus an additional \$24,875 in restricted stock units for year two, and \$260,075 in cash plus an additional \$13,688 in restricted stock units for year three. The agreement also provides for annual bonuses including bonuses based on increases in EBITDA (as defined in the agreement) of our various subsidiaries; additional bonuses upon the occurrence of certain events such as: listing on specific stock exchanges, spin-offs, investments and stock trading and volume levels. The agreement also provides for stock options with exercise prices ranging from \$0.40 - \$1.60 and an award of restricted stock, which only vests if certain volume and pricing milestones with respect to our common stock are met. Mr. Klepfish also has the option of receiving any portion of his salary or bonus in the form of equity. The agreement also contains non-compete and non-solicitation provisions.

On August 7, 2014, our board of directors approved the amendment of the Employment Agreement with Mr. Klepfish effective as of August 13, 2014. The employment agreement was amended as follows: (i) it has been extended by one year to December 31, 2016; (ii) it provides for 10% annual increases of Base Salary commencing in 2014; (iii) certain performance based bonuses in the employment agreement are eliminated; (iv) stock grants previously issued with vesting based upon performance or stock price are cancelled; (v) a new performance based bonus structure to partially replace the previous structure, based upon meeting certain Cash EBITDA (earnings before interest, taxes, depreciation, and amortization and non-cash compensation charges) targets, the new bonus will have a cash portion and a stock portion and all Base Salary can be paid in cash or in stock at the option of Mr. Klepfish, and (vi) 125,000 restricted stock units which vest if the 30 day average closing price of our common stock is \$2.00 or above and there is a 50,000 average daily volume or there is a 50,000 average daily volume for 14 straight trading days; and 175,000

restricted stock units which vest if the 30 day average closing price of our common stock is \$3.00 or above and there is a 50,000 average daily volume for 14 straight trading days. Mr. Klepfish will have the option, on an annual basis, to take all or part of the cash portion of the bonus, or any part of Base Salary in the form of stock at a valuation based upon the closing stock price on the last trading day of the prior year. The decision on how much, if any, of the bonus to take in stock must be made by May 1 of each year, unless earlier required. The Cash EBITDA target levels do not include the effect of any potential future acquisitions and also do not include certain one time or non-recurring expenses in the calculation of the Cash EBITDA. If a Cash EBITDA target is missed by 3% or less, the bonus for the target so missed shall be reduced by 20% and if it is missed by 3.1% -5%, the bonus for such target shall be reduced by 30%, except in both cases, Mr. Klepfish has negative discretion to further reduce the bonuses or even cancel them. In March 2016, Mr. Klepfish's employment agreement was extended for another year under the same terms.

Index

In November 2014, the employment agreement of Mr. Klepfish was amended (i) in the event of a change of control (as defined below) all equity based compensation (including options and restricted stock units) payable pursuant to such employment agreements, shall immediately vest and/or restrictions thereon shall lapse, and (ii) to provide that in the event of a termination without Cause (as defined in the employment agreement) they shall receive a lump sum payment equal to the greater of (x) the salary payable over the last six months of the term of the agreement, or (y) the Base Salary (as defined in the employment agreement) remaining through the end of the then-current term of the agreement. The definition of change of control shall mean the occurrence of any of the following events: (w) the sale or transfer by the Company for at least \$25 million (such consideration consisting of cash, cash equivalents, notes or securities) of more than 50% of its Voting Securities (as defined below) or substantially all of its assets; or (x) the acquisition, other than from the Company or employees of it or any of its subsidiaries, by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934) (other than an employee benefit plan of the Company) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of more than 50% of the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Voting Securities"); or (y) the approval by the stockholders of the Company of a reorganization, merger, consolidation or recapitalization of the Company (a "Business Combination"), other than a Business Combination in which more than 50% of the combined voting power of the outstanding Voting Securities of the surviving or resulting entity immediately following the Business Combination is held by the persons who, immediately prior to the Business Combination, were the holders of the Voting Securities; or (z) the approval by the stockholders of the Company of a complete liquidation or dissolution of the Company, or a sale of all or substantially all of the assets of the Company.

Mr. Klepfish was awarded, as a special bonus, effective November 17, 2014, an aggregate of 1,000,000 restricted stock units ("RSU") subject to time and performance vesting conditions, with the timing conditions as follows: 150,000 RSUs vest on each of July 1 and December 31, 2015; 300,000 RSUs vest on December 31, 2016 and 400,000 RSUs vest on July 1, 2017, and the performance conditions are as follows: for the RSUs vesting in 2015, the Corporation, on a consolidated basis, must have four months with sales above \$2,500,000 during 2015, for the RSUs vesting in 2016, the Corporation, on a consolidated basis, must have four months with sales above \$2,500,000 during 2016 and for the RSUs vesting in 2017, the Corporation, on a consolidated basis, must have four months with sales above \$2,500,000 during 2017, provided however, that if the performance condition is not met in any year, the RSUs scheduled to vest in such year will still vest if the Corporation, on a consolidated basis, has six months with sales of at least \$2,500,000 during the following year. The company's board of directors will modify and increase the performance requirements, with the consent of executive, if warranted and appropriate.

Effective March 29, 2017, we entered into a new employment agreement with Mr. Klepfish. The new agreement, which runs through December 31, 2019 maintains the current base salary, and provides for all bonuses and salary increases to be approved by a compensation committee.

JUSTIN WIERNASZ

On November 20, 2012 we entered into an employment agreement with Mr. Wiernasz, the Company's President, having an effective date of January 1, 2013 and terminating on December 31, 2015 The agreement is for a term of three years, and provides a base compensation in the amount of \$226,250 per annum for year one, \$248,875 per annum for year two, and \$273,763 per annum for year three. The agreement also provides for annual bonuses including bonuses based on increases in EBITDA (as defined in the agreement) of our various subsidiaries; additional bonuses upon the occurrence of certain events such as: listing on specific stock exchanges, spin-offs, investments and stock trading and volume levels. The agreement also provides for stock options with exercise prices ranging from \$0.40 - \$1.60 and an award of restricted stock, which only vests if certain volume and pricing milestones with respect to our common stock are met. Mr. Wiernasz also has the option of receiving any portion of his salary or bonus in the form of equity. The agreement also contains non-compete and non-solicitation provisions.

Index

On August 7, 2014, our board of directors approved the amendment of the Employment Agreement with Mr. Wiernasz effective as of August 13, 2014. The employment agreement was amended as follows: (i) it has been extended by one year to December 31, 2016; (ii) it provides for 10% annual increases of Base Salary commencing in 2014; (iii) certain performance based bonuses in the employment agreement are eliminated; (iv) stock grants previously issued with vesting based upon performance or stock price are cancelled; (v) a new performance based bonus structure to partially replace the previous structure, based upon meeting certain Cash EBITDA (earnings before interest, taxes, depreciation, and amortization and non-cash compensation charges) targets, the new bonus will have a cash portion and a stock portion and all Base Salary can be paid in cash or in stock at the option of Mr. Wiernasz, and (vi) an award of 75,000 restricted stock units which vest on January 1, 2015 and 75,000 restricted stock units which vest on May 1, 2016. Mr. Wiernasz will have the option, on an annual basis, to take all or part of the cash portion of the bonus, or any part of Base Salary in the form of stock at a valuation based upon the closing stock price on the last trading day of the prior year. The decision on how much, if any, of the bonus to take in stock must be made by May 1 of each year, unless earlier required. The Cash EBITDA target levels do not include the effect of any potential future acquisitions and also do not include certain one time or non-recurring expenses in the calculation of the Cash EBITDA. If a Cash EBITDA target is missed by 3% or less, the bonus for the target so missed shall be reduced by 20% and if it is missed by 3.1% -5%, the bonus for such target shall be reduced by 30%. In March 2016, Mr. Wiernasz's employment agreement was extended for another year under the same terms.

The employment agreement of Mr. Wiernasz was amended (i) in the event of a change of control (as defined below) all equity based compensation (including options and restricted stock units) payable pursuant to such employment agreements, shall immediately vest and/or restrictions thereon shall lapse, and (ii) to provide that in the event of a termination without Cause (as defined in the employment agreement) they shall receive a lump sum payment equal to the greater of (x) the salary payable over the last six months of the term of the agreement, or (y) the Base Salary (as defined in the employment agreement) remaining through the end of the then-current term of the agreement. The definition of change of control shall mean the occurrence of any of the following events: (w) the sale or transfer by the Company for at least \$25 million (such consideration consisting of cash, cash equivalents, notes or securities) of more than 50% of its Voting Securities (as defined below) or substantially all of its assets; or (x) the acquisition, other than from the Company or employees of it or any of its subsidiaries, by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934) (other than an employee benefit plan of the Company) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of more than 50% of the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Voting Securities"); or (y) the approval by the stockholders of the Company of a reorganization, merger, consolidation or recapitalization of the Company (a "Business Combination"), other than a Business Combination in which more than 50% of the combined voting power of the outstanding Voting Securities of the surviving or resulting entity immediately following the Business Combination is held by the persons who, immediately prior to the Business Combination, were the holders of the Voting Securities; or (z) the approval by the stockholders of the Company of a complete liquidation or dissolution of the Company, or a sale of all or substantially all of the assets of the Company.

Mr. Wiernasz was awarded, as a special bonus, effective November 17, 2014, an aggregate of 1,000,000 restricted stock units ("RSU") subject to time and performance vesting conditions, with the timing conditions as follows: 150,000 RSUs vest on each of July 1 and December 31, 2015; 300,000 RSUs vest on December 31, 2016 and 400,000 RSUs vest on July 1, 2017, and the performance conditions are as follows: for the RSUs vesting in 2015, the Corporation, on a consolidated basis, must have four months with sales above \$2,500,000 during 2015, for the RSUs vesting in 2016, the Corporation, on a consolidated basis, must have four months with sales above \$2,500,000 during 2016 and for the RSUs vesting in 2017, the Corporation, on a consolidated basis, must have four months with sales above \$2,500,000 during 2017, provided however, that if the performance condition is not met in any year, the RSUs scheduled to vest in such year will still vest if the Corporation, on a consolidated basis, has six months with sales of at least \$2,500,000 during the following year. The company's board of directors will modify and increase the

performance requirements, with the consent of executive, if warranted and appropriate.

On March 21, 2017, the board of directors approved a \$65,000 cash bonus for Mr. Wiernasz with respect to his performance in 2016.

Effective March 29, 2017, we entered into a new employment agreement with Mr. Wiernasz. The new agreement, which runs through December 31, 2019 maintains the current base salary, and provides for all bonuses and salary increases to be approved by the board of directors compensation committee.

Compensation Committee Interlocks and Insider Participation

None of our executive officers has served as a director or member of a compensation committee (or other board committee performing equivalent functions) of any other entity, one of whose executive officers served as a director or a member of our Compensation Committee.

Index

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table sets forth certain information as of March 16, 2018, with respect to the beneficial ownership of our common stock by (1) each person known by us to own beneficially more than 5% of the outstanding shares of our common stock, (2) each of our directors, (3) each Named Officer, and (4) all our directors and executive officers as a group. Unless otherwise stated, each person listed below uses the Company's address. Pursuant to SEC rules, includes shares that the person has the right to receive within 60 days from March 16, 2018.

Name and Address of Beneficial Owners		Number of Shares Beneficially Owned	Percent of Class	
Sam Klepfish (Officer, Director)	(1)	2,010,935	6.3	%
Joel Gold (Director)	(2)	399,054	1.3	%
Justin Wiernasz (Officer, Director)	(3)	1,703,776	5.4	%
Hank Cohn (Director)		275,000	0.9	%
Yorkmont Capital Partners, LP	(4)	2,073,398	6.6	%
All officers and directors as a whole (4 persons)	(5)	4,388,765	13.8	%

(1) Includes 1,825,186 shares of common stock held by Mr. Klepfish; 60,749 shares of common stock issuable upon the cashless conversion of 200,000 options; and options to purchase 125,000 shares of common stock.

(2) Includes 380,654 shares of common stock held by Mr. Gold. Also includes 18,400 shares of common stock held by Mr. Gold's spouse.

(3) Includes 1,518,027 shares of common stock held by Mr. Wiernasz; 60,749 shares of common stock issuable upon the cashless conversion of 200,000 options; and options to purchase 125,000 shares of common stock.

(4) Consists of 2,073,398 shares of common stock held by Yorkmont Capital Partners, LP. The address of Yorkmont Capital Partners, LP is 2313 Lake Austin Blvd. Suite 202, Austin, TX 78703. Information gathered from a Schedule 13G/A filed with the Securities and Exchange Commission on January 4, 2018.

(5) Includes 4,017,267 shares of common stock held by officers and directors; 121,498 shares of common stock issuable upon the cashless conversion of 400,000 options; and options to purchase 250,000 shares of common stock.

ITEM 13. Certain Relationships and Related Transactions, and Director Independence

We are not currently subject to the requirements of any stock exchange or national securities association with respect to having a majority of "independent directors". Messrs. Gold and Cohn, are "independent" and only Messrs. Klepfish and Wiernasz, by virtue of being our Executive Officers, are not independent. Mr. Klepfish and Mr. Wiernasz do not participate in board discussions concerning their compensation.

The Company cancelled RSUs held by its Chief Executive Officer representing 1,382,540 shares of common stock, of which 700,000 were unvested and 682,540 were vested. In place of the 682,540 vested cancelled RSUs, the Company issued a net amount of 586,586 shares of common stock. The remaining 95,954 shares of the 682,540 cancelled vested RSUs were not issued and instead the cash value of those shares was held back by the Company to pay certain taxes related to the issuance. In addition, the 700,000 unvested RSUs were replaced with restricted stock awards

under the same terms and conditions as the 700,000 RSUs. See note 16.

Index

The Company cancelled RSUs held by its President representing 1,724,532 shares of common stock, of which 490,000 were unvested and 1,234,532 were vested. In place of the 1,234,532 vested cancelled RSUs, the Company issued a net amount of 928,027 shares of common stock. The remaining 306,505 shares of the 1,234,532 cancelled vested RSUs were not issued and instead the cash value of those shares was held back by the Company to pay certain taxes related to the issuance. In addition, the 490,000 unvested RSUs were replaced with restricted stock awards under the same terms and conditions as the 490,000 RSUs. See note 16.

The Company cancelled RSUs held by its two of its Directors representing 545,000 shares of common stock, of which 180,000 were unvested and 365,000 were vested. In place of the 365,000 vested cancelled RSUs, the Company issued 365,000 shares of common stock. In addition, the 180,000 unvested RSUs were replaced with restricted stock awards under the same terms and conditions as the 180,000 RSUs. See note 16.

The Company's Chief Executive Officer converted a note payable in the amount of \$164,650 into 658,600 shares of common stock.

The Company acquired options to purchase 100,000 shares of the Company's common stock from its President for \$9,000 cash, which was the difference between the exercise price of the options and the market price of the stock on the date of purchase.

The Company acquired options to purchase 140,000 shares of the Company's common stock from its President for \$13,400 cash, which was the difference between the exercise price of the options and the market price of the stock on the date of purchase.

The Company acquired options to purchase 87,500 shares of the Company's common stock from its Principal Accounting Officer for \$8,125 cash, which was the difference between the exercise price of the options and the market price of the stock on the date of purchase.

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

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

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

The Company acquired options to purchase 100,000 shares of the Company's common stock from a director for \$33,000, which was the difference between the exercise price of the options and the market price of the stock on the date of purchase.

The Company's Chief Executive Officer exercised 100,000 options at a price of \$0.35 per share and an additional 100,000 options at a price of \$0.57 per share. The date for payment of the exercise price of these options was extended to April 26, 2018. 55,192 shares of common stock will be issued in April 2018, which number of shares represents a net amount after a cash payment of \$45,000 which was a portion of the difference between the exercise price of the options and the market price of the stock on the date of purchase, and taxes.

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

The Company's President exercised 100,000 options at a price of \$0.35 per share and an additional 100,000 options at a price of \$0.57 per share. The date for payment of the exercise price of these options was extended to April 26, 2018. 60,749 shares of common stock will be issued in April 2018, which number of shares represents a net amount after a cash payment of \$45,000 made in March 2018 which was a portion of the difference between the exercise price of the options and the market price of the stock on the date of purchase, and taxes.

A Board Member exercised 100,000 options at a price of \$0.35 per share. The date for payment of the exercise price of these options was extended to April 26, 2018. In March 2018 the Company made a payment of \$77,000 which is the difference between the exercise price of the options and the market price of the stock on the date of purchase.

67

Index

ITEM 14. Principal Accountant Fees and Services

Audit Fees

The Company engaged Liggett & Webb P.A. (“LW”) as our independent registered public accounting firm since November 9, 2012. During the year ended December 31, 2017 and 2016, LW billed us audit fees of approximately \$85,200 and \$104,200, respectively.

Audit-Related Fees

The aggregate fees billed in each of the last two fiscal years for assurance and related services by LW that are reasonably related to the performance of the audit or review of our consolidated financial statements including our quarterly interim reviews on Form 10-Q and are reported under Audit Fees above.

Tax Fees

LW tax fees were \$10,000 and \$10,000 for the years ended December 31, 2017 and 2016, respectively.

All Other Fees

LW has not billed any other fees since their engagement on November 9, 2012.

For the fiscal years ended December 31, 2017 and 2016 the board of directors considered the audit fees, audit-related fees, tax fees and other fees paid to our accountants, as disclosed above, and determined that the payment of such fees was compatible with maintaining the independence of the accountants. Our board of directors pre-approves all auditing services and all permitted non-auditing services (including the fees and terms thereof) to be performed by our independent registered public accounting firm, except for de minimis non-audit services that are approved by the board of directors prior to the completion of the audit.

Index

PART IV

ITEM 15. Exhibits

EXHIBIT
NUMBER

- 3.1 Articles of Incorporation (incorporated by reference to exhibit 3.1 of the Company's annual report on Form 10-KSB for the year ended December 31, 2004 filed with the Securities and Exchange Commission on September 28, 2005).
- 3.2 Amended Bylaws of the Company (incorporated by reference to exhibit 3.2 of the Company's annual report Form 10-K for the year ended December 31, 2010 filed with the Securities and Exchange Commission on March 16, 2011).
- 3.2.1 Amended Bylaws of the Company (incorporated by reference to exhibit 3.2 of the Company's current report Form 8-K filed with the Securities and Exchange Commission on January 23, 2018).
- 4.1 Form of Convertible Note (incorporated by reference to exhibit 4.1 of the Company's annual report on Form 10-KSB for the year ended December 31, 2004 filed with the Securities and Exchange Commission on September 28, 2005).
- 4.2 Form of Convertible Note (incorporated by reference to exhibit 4.2 of the Company's annual report on Form 10-KSB for the year ended December 31, 2004 filed with the Securities and Exchange Commission on September 28, 2005).
- 4.3 Form of Warrant - Class A (incorporated by reference to exhibit 4.3 of the Company's annual report on Form 10-KSB for the year ended December 31, 2004 filed with the Securities and Exchange Commission on September 28, 2005).
- 4.4 Form of Warrant - Class B (incorporated by reference to exhibit 4.4 of the Company's annual report on Form 10-KSB for the year ended December 31, 2004 filed with the Securities and Exchange Commission on September 28, 2005).
- 4.5 Form of Warrant - Class C (incorporated by reference to exhibit 4.5 of the Company's annual report on Form 10-KSB for the year ended December 31, 2004 filed with the Securities and Exchange Commission on September 28, 2005).
- 4.6 Secured Convertible Promissory Note dated December 31, 2008 in favor of Alpha Capital Anstalt (incorporated by reference to exhibit 10.1 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 7, 2009).
- 4.7 Class B Common Stock Purchase Warrant dated December 31, 2008 in favor of Alpha Capital Anstalt (incorporated by reference to exhibit 10.2 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 7, 2009).
- 4.8 Subscription Agreement between the Registrant and Alpha Capital Anstalt dated December 31, 2008 (incorporated by reference to exhibit 10.3 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 7, 2009).

4.9 Amendment, Waiver, and Consent Agreement effective January 1, 2009 between the Registrant and Alpha Capital Anstalt (incorporated by reference to exhibit 10.4 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 7, 2009).

10.2 Security and Pledge Agreement – IVFH (incorporated by reference to exhibit 10.2 of the Company's annual report on Form 10-KSB for the year ended December 31, 2004 filed with the Securities and Exchange Commission on September 28, 2005).

10.3 Security and Pledge Agreement – FII (incorporated by reference to exhibit 10.3 of the Company's annual report on Form 10-KSB for the year ended December 31, 2004 filed with the Securities and Exchange Commission on September 28, 2005).

10.5 Subscription Agreement (incorporated by reference to exhibit 10.5 of the Company's annual report on Form 10-KSB for the year ended December 31, 2004 filed with the Securities and Exchange Commission on September 28, 2005).

Index

- 10.6 Agreement and Plan of Reorganization between IVFH and FII. (incorporated by reference to exhibit 10.6 of the Company's annual report on Form 10-KSB for the year ended December 31, 2004 filed with the Securities and Exchange Commission on September 28, 2005).
- 10.9 Employment Agreement with Sam Klepfish (incorporated by reference to exhibit 10.1 of the Company's Form 10-Q filed with the Securities and Exchange Commission on November 21, 2012)
- 10.10 Employment Agreement Justin Wiernasz (incorporated by reference to exhibit 10.2 of the Company's Form 10-Q filed with the Securities and Exchange Commission on November 21, 2012)
- 10.11 Subscription Agreement dated as of May 11, 2012 between the Registrant and Alpha Capital Anstalt (incorporated by reference to exhibit 10.1 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 17, 2012)
- 10.12 Secured Convertible Promissory Note dated as of May 11, 2012 of the registrant issued to Alpha Capital Anstalt (incorporated by reference to exhibit 10.2 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 17, 2012)
- 10.13 Class E Common Stock Purchase Warrant issued to Alpha Capital Anstalt (incorporated by reference to exhibit 10.3 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 17, 2012)
- 10.14 Class F Common Stock Purchase Warrant issued to Alpha Capital Anstalt (incorporated by reference to exhibit 10.4 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 17, 2012)
- 10.15 Class G Common Stock Purchase Warrant issued to Alpha Capital Anstalt (incorporated by reference to exhibit 10.5 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 17, 2012)
- 10.16 Class H Common Stock Purchase Warrant issued to Alpha Capital Anstalt (incorporated by reference to exhibit 10.6 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 17, 2012)
- 10.17 Stock Purchase Agreement dated as of May 10, 2012 between the Registrant, Artisan Specialty Foods, Inc. and David Vohaska (incorporated by reference to exhibit 10.1 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 24, 2012)
- 10.19 Employment Agreement dated May 10, 2012 between Artisan Specialty Foods, Inc. and David Vohaska (incorporated by reference to exhibit 10.3 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 24, 2012)
- 10.20 Loan Agreement between the registrant and Fifth Third Bank effective February 26, 2013 (incorporated by reference to exhibit 10.1 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 15, 2013)
- 10.21 Security Agreement between the registrant and Fifth Third Bank effective February 26, 2013 (incorporated by reference to exhibit 10.2 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 15, 2013)

10.22 Mortgage by registrant in favor of Fifth Third Bank effective February 26, 2013 (incorporated by reference to exhibit 10.3 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 15, 2013)

10.23 Note by registrant in favor of Fifth Third Bank effective February 26, 2013 (incorporated by reference to exhibit 10.4 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 15, 2013)

10.24 Employment Agreement with Sam Klepfish dated as of March 29, 2017 (incorporated by reference to the Company's Form 10-K filed with the Securities and Exchange Commission on March 30, 2017)

10.25 Employment Agreement with Justin Wiernasz dated as of March 29, 2017 (incorporated by reference to the Company's Form 10-K filed with the Securities and Exchange Commission on March 30, 2017)

70

Index

- 10.26 Asset Purchase Agreement dated as of January 22, 2018 by and among Innovative Gourmet, LLC, a subsidiary of the registrant, and iGourmet LLC and iGourmet NY LLC (incorporated by reference to the Company's Form 8-K filed with the Securities and Exchange Commission on January 30, 2018)
- 10.27 Loan Sale Agreement dated as of January 10, 2018 between Food Funding, LLC, a subsidiary of the registrant and UPS Capital Business Credit (incorporated by reference to the Company's Form 8-K filed with the Securities and Exchange Commission on January 30, 2018)
- 10.28 Fifth Amendment to Restated Loan Agreement dated February 28, 2018 between Fifth Third Bank and the registrant and its subsidiaries
- 10.29 Promissory Note of the registrant and its subsidiaries in favor of Fifth Third Bank dated as of February 28, 2018
- 10.30 Draw Promissory Note of the registrant and its subsidiaries in favor of Fifth Third Bank dated as of March 13, 2018
- 10.31 Master Loan and Security Agreement dated March 13, 2018 between Fifth Third Bank and the registrant and its subsidiaries
- 14 Code of Ethics (incorporated by reference to exhibit 14 of the Company's Form 10-KSB/A for the year ended December 31, 2006, filed with the Securities and Exchange Commission on July 31, 2008).
- 21 Subsidiaries of the Company
- 31.1 Rule 13a-14(a) Certification of Chief Executive Officer
- 31.2 Rule 13a-14(a) Certification of Principal Accounting Officer
- 32.1 Rule 1350 Certification of Chief Executive Officer
- 32.2 Rule 1350 Certification of Principal Accounting Officer
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema
- 101.CALXBRL Taxonomy Extension Calculation Linkbase
- 101.DEF XBRL Taxonomy Extension Definition Linkbase
- 101.LABXBRL Taxonomy Extension Label Linkbase
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase

Index

SIGNATURES

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

INNOVATIVE FOOD HOLDINGS, INC.

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

Dated: March 29, 2018

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

Name	Title	Date
/s/ Sam Klepfish Sam Klepfish	CEO and Director (Chief Executive Officer)	March 29, 2018
/s/ John McDonald John McDonald	Principal Accounting Officer (Principal Financial Officer)	March 29, 2018
/s/ Joel Gold Joel Gold	Director	March 29, 2018
/s/ Hank Cohn Hank Cohn	Director	March 29, 2018
/s/ Justin Wiernasz Justin Wiernasz	Director	March 29, 2018