

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

**FORM 10-Q**

Quarterly report pursuant to Section 13 or 15(d) of the Securities and Exchange Act of 1934  
For the quarterly period ended September 30, 2017

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

Commission File Number: 0-9376

**INNOVATIVE FOOD HOLDINGS, INC.**

(Exact Name of Registrant as Specified in its Charter)

**Florida**

(State or Other Jurisdiction of Incorporation or Organization)

**20-1167761**

(IRS Employer I.D. No.)

**28411 Race Track Rd.**

**Bonita Springs, Florida 34135**

(Address of Principal Executive Offices)

**(239) 596-0204**

(Registrant's Telephone Number, Including Area Code)

\_\_\_\_\_  
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. **YES**  **NO**

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

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.

(Check One):

Large Accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a 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 check mark whether the registrant is a shell company (as defined in Regulation 12b-2 of the Exchange Act): **YES**  **NO**

State the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 35,086,659 shares of common stock issued and 32,595,547 shares of common stock outstanding as of November 9, 2017.

**INNOVATIVE FOOD HOLDINGS, INC.**  
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**PART I. FINANCIAL INFORMATION****ITEM 1 - CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****Innovative Food Holdings, Inc.  
Consolidated Balance Sheet**

|  | <b>September 30,<br/>2017</b> | <b>December 31,<br/>2016</b> |
|--|-------------------------------|------------------------------|
|  | (unaudited)                   |                              |
| <b>ASSETS</b>  |                               |                              |
| Current assets   |                               |                              |
| Cash and cash equivalents  | \$ 4,337,662                  | \$ 3,764,053                 |
| Accounts receivable, net   | 2,417,104                     | 1,538,395                    |
| Inventory  | 983,733                       | 815,033                      |
| Other current assets   | 64,367                        | 55,393                       |
| Due from related parties   | -                             | -                            |
| <b>Total current assets</b>  | <b>7,802,866</b>              | <b>6,172,874</b>             |
| Property and equipment, net  | 1,988,055                     | 2,068,110                    |
| Investment   | 201,525                       | 208,983                      |
| Intangible assets, net   | 1,419,233                     | 707,684                      |
| <b>Total assets</b>  | <b>\$ 11,411,679</b>          | <b>\$ 9,157,651</b>          |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                               |                              |
| Current liabilities  |                               |                              |
| Accounts payable and accrued liabilities   | \$ 2,088,148                  | \$ 3,119,533                 |
| Accrued liabilities - related parties  | -                             | 65,000                       |
| Accrued interest   | 15,674                        | 626,873                      |
| Notes payable - related party, current portion   | -                             | 164,650                      |
| Notes payable - current portion, net of discount   | 547,183                       | 1,424,432                    |
| Contingent liability - current portion   | 200,000                       | -                            |
| <b>Total current liabilities</b>   | <b>2,851,005</b>              | <b>5,400,488</b>             |
| Contingent liability - long term   | 200,000                       | -                            |
| Other long-term liabilities  | 200,000                       | -                            |
| Note payable - long term portion, net of discount  | 918,646                       | 1,137,811                    |
| <b>Total liabilities</b>   | <b>4,169,651</b>              | <b>6,538,299</b>             |
| Stockholders' equity   |                               |                              |
| Common stock: \$0.0001 par value; 500,000,000 shares authorized; 35,086,659 and 25,301,816 shares issued, and 32,595,547 and 24,568,157 shares outstanding at September 30, 2017 and December 31, 2016, respectively | 3,506                         | 2,528                        |
| Additional paid-in capital   | 35,931,641                    | 33,974,470                   |
| Treasury stock: 2,276,703 and 519,254 shares outstanding at September 30, 2017 and December 31, 2016, respectively   | (992,313)                     | (174,949)                    |
| Accumulated deficit  | (27,700,806)                  | (31,182,697)                 |
| <b>Total stockholders' equity</b>  | <b>7,242,028</b>              | <b>2,619,352</b>             |
| <b>Total liabilities and stockholders' equity</b>  | <b>\$ 11,411,679</b>          | <b>\$ 9,157,651</b>          |

See notes to these unaudited condensed consolidated financial statements.

**Innovative Food Holdings, Inc.**  
**Condensed Consolidated Statements of Operations**  
**(unaudited)**

|   | <u>For the Three<br/>Months Ended<br/>September 30,<br/>2017</u> | <u>For the Three<br/>Months Ended<br/>September 30,<br/>2016</u> | <u>For the Nine<br/>Months Ended<br/>September 30,<br/>2017</u> | <u>For the Nine<br/>Months Ended<br/>September 30,<br/>2016</u> |
|---|--|--|---|---|
| Revenue   | \$ 10,495,637  | \$ 9,094,443   | \$ 30,494,462   | \$ 25,413,011   |
| Cost of goods sold  | <u>7,052,018</u>   | <u>6,404,185</u>   | <u>20,585,273</u>   | <u>17,979,553</u>   |
| Gross margin  | 3,443,619  | 2,690,258  | 9,909,189   | 7,433,458   |
| Selling, general and administrative expenses                | <u>1,894,588</u>   | <u>1,702,425</u>   | <u>6,269,386</u>  | <u>5,245,178</u>  |
| Total operating expenses                                    | 1,894,588  | 1,702,425  | 6,269,386   | 5,245,178   |
| Operating income  | 1,549,031  | 987,833  | 3,639,803   | 2,188,280   |
| Other (income) expense:                                     |  |  |   |   |
| Interest expense, net                                       | <u>16,139</u>  | <u>121,226</u>   | <u>157,912</u>  | <u>365,764</u>  |
| Total other (income) expense                                | 16,139   | 121,226  | 157,912   | 365,764   |
| Net income before taxes                                     | 1,532,892  | 866,607  | 3,481,891   | 1,822,516   |
| Income tax expense  | -  | -  | -   | -   |
| Net income from continuing operations                       | \$ 1,532,892   | \$ 866,607   | \$ 3,481,891  | \$ 1,822,516  |
| Net income from discontinued operations                     | -  | -  | -   | 4,447,279   |
| Consolidated net income                                     | <u>\$ 1,532,892</u>  | <u>\$ 866,607</u>  | <u>\$ 3,481,891</u>   | <u>\$ 6,269,795</u>   |
| Net income per share from continuing operations - basic     | <u>\$ 0.047</u>  | <u>\$ 0.035</u>  | <u>\$ 0.117</u>   | <u>\$ 0.073</u>   |
| Net income per share from discontinued operations - basic   | <u>\$ -</u>  | <u>\$ -</u>  | <u>\$ -</u>   | <u>\$ 0.178</u>   |
| Net income per share from continuing operations - diluted   | <u>\$ 0.046</u>  | <u>\$ 0.030</u>  | <u>\$ 0.113</u>   | <u>\$ 0.066</u>   |
| Net income per share from discontinued operations - diluted | <u>\$ -</u>  | <u>\$ -</u>  | <u>\$ -</u>   | <u>\$ 0.139</u>   |
| Weighted average shares outstanding - basic                 | <u>32,333,108</u>  | <u>25,047,134</u>  | <u>29,779,904</u>   | <u>24,980,317</u>   |
| Weighted average shares outstanding - diluted               | <u>33,476,756</u>  | <u>31,619,778</u>  | <u>30,842,167</u>   | <u>32,044,762</u>   |

See notes to these unaudited condensed consolidated financial statements.

**Innovative Food Holdings, Inc.**  
**Condensed Consolidated Statements of Cash Flows**  
**(unaudited)**

|  | <b>For the Nine<br/>Months Ended<br/>September 30,<br/>2017</b> | <b>For the Nine<br/>Months Ended<br/>September 30,<br/>2016</b> |
|--|---|---|
| Cash flows from operating activities:  |   |   |
| Net income   | \$ 3,481,891  | \$ 6,269,795  |
| Gain on sale of discontinued operations  | -   | (7,201,196)   |
| Adjustments to reconcile net income to net cash provided by operating activities:            |   |   |
| Depreciation and amortization  | 409,283   | 409,228   |
| Stock based compensation   | 315,968   | 673,523   |
| Stock based compensation for TFD employees   | -   | 1,028,908   |
| Amortization of discount on notes payable  | 185,018   | 277,529   |
| Allowance for doubtful accounts  | -   | 11,963  |
| Changes in assets and liabilities:   |   |   |
| Accounts receivable, net   | (878,709)   | (237,265)   |
| Deferred revenue   | -   | 289,254   |
| Inventory and other current assets, net  | (177,674)   | 81,012  |
| Accounts payable and accrued expenses - related party  | -   | (146,018)   |
| Accounts payable and accrued liabilities   | (1,199,680)   | 197,603   |
| Accrued liabilities - related party  | (65,000)  | -   |
| Due from related party   | -   | 110   |
| Contingent liability   | -   | (91,000)  |
| <b>Net cash provided by operating activities</b>   | <b>2,071,097</b>  | <b>1,563,446</b>  |
| Cash flows from investing activities:  |   |   |
| Cash decrease due to sale of discontinued operations   | -   | (470,482)   |
| Acquisition of property and equipment  | (40,777)  | (10,512)  |
| Cash paid in the acquisition of Oasis  | (300,000)   | -   |
| <b>Net cash (used in) investing activities</b>   | <b>(340,777)</b>  | <b>(480,994)</b>  |
| Cash flows from financing activities:  |   |   |
| Common stock sold for exercise of warrants   | 196,741   | -   |
| Payments made on revolving credit facilities   | -   | (841,831)   |
| Purchase of stock options from officers, directors, and employees                            | (163,925)   | -   |
| Cash received from exercise of stock options   | 70,000  | -   |
| Purchase of treasury stock   | (505,660)   | (14,850)  |
| Borrowings on revolving credit facilities  | -   | 805,959   |
| Principal payments on debt   | (746,941)   | (1,021,829)   |
| Principal payments capital leases  | (6,926)   | (8,094)   |
| <b>Net cash (used in) financing activities</b>   | <b>(1,156,711)</b>  | <b>(1,080,645)</b>  |
| Increase in cash and cash equivalents  | 573,609   | 1,807   |
| Cash and cash equivalents at beginning of period   | 3,764,053   | 2,137,289   |
| Cash and cash equivalents at end of period   | \$ 4,337,662  | \$ 2,139,096  |
| Supplemental disclosure of cash flow information:  |   |   |
| Cash paid during the period for:   |   |   |
| Interest   | \$ 64,198   | \$ 96,318   |
| Taxes  | \$ -  | \$ -  |
| Common stock issued for conversion of note payable by related party                          | \$ 164,650  | \$ -  |
| Equipment acquired under capital lease   | \$ -  | \$ 9,217  |
| Fair value of 25,000 shares of common stock issued to a service provider, previously accrued | \$ -  | \$ 34,000   |

See notes to these unaudited condensed consolidated financial statements.

**INNOVATIVE FOOD HOLDINGS, INC.**  
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2017**  
**(Unaudited)**

**1. BASIS OF PRESENTATION**

Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements of Innovative Food Holdings, Inc., and its wholly owned subsidiaries, some of which are non-operating, Artisan Specialty Foods, Inc. (“Artisan”), Food Innovations, Inc. (“Food Innovations” or “FII”), Food New Media Group, Inc. (“FNM”), Oasis Sales Corp. (“Oasis”), Organic Food Brokers, Inc. (“OFB”), Gourmet Food Service Group, Inc. (“GFG”), Gourmet Foodservice Warehouse, Inc., Gourmating Inc., The Haley Group, Inc. (“Haley”), 4 The Gourmet, Inc. (d/b/a For The Gourmet, Inc.), (“Gourmet” and collectively with IVFH and the other subsidiaries, the “Company” or “IVFH”) have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. All material intercompany transactions have been eliminated upon consolidation of these entities.

The accompanying unaudited interim condensed consolidated financial statements have been prepared by the Company, in accordance with generally accepted accounting principles pursuant to Regulation S-X of the Securities and Exchange Commission and with the instructions to Form 10-Q. Certain information and footnote disclosures normally included in audited consolidated financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. Accordingly, these interim financial statements should be read in conjunction with the Company’s audited financial statements and related notes as contained in Form 10-K for the year ended December 31, 2016. In the opinion of management, the interim unaudited condensed consolidated financial statements reflect all adjustments, including normal recurring adjustments, necessary for fair presentation of the interim periods presented. The results of the operations for the three and nine months ended September 30, 2017 are not necessarily indicative of the results of operations to be expected for the full year.

Discontinued Operations

On February 23, 2016, the Company consummated the sale of 90% of our ownership in The Fresh Diet (“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 condensed consolidated statements of operations for the nine months ended September 30, 2016.

**2. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES**

Business Activity

Our business is currently conducted by our wholly-owned subsidiaries, Artisan, Food Innovations, FNM, OFB, GFG, Gourmet Foodservice Warehouse, Inc., Gourmating, Inc., Haley, Oasis, and Gourmet (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 US Foods, Inc. (“U.S. Foods” or “USF”), has been in the business of providing premium restaurants and other foodservice establishments, 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](http://www.forethegourmet.com) and through [www.amazon.com](http://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 niche gourmet products to over 500 customers in the Greater Chicago area. Haley is a dedicated foodservice consulting and advisory firm that works closely with companies to access private label and manufacturers’ label food service opportunities with the intent of helping them launch and commercialize new products in the foodservice industry. OFB and Oasis are outsourced national sales and brand management teams for emerging organic and specialty food CPG companies of a variety of sizes and business stages, and provide emerging CPG specialty food brands distribution and shelf placement access in key major metro markets in the retail food industry. FNM provides value-added, synergistic, seed and early stage capital to food related businesses including foodtech, foodservice products, and CPG companies. Through its temperature controlled warehouse, Gourmet Foodservice Warehouse fulfills specialty food product orders for the Company’s wholesale and direct to consumer customers.

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. 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.

Principles of Consolidation

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

Concentrations of Credit Risk

Financial instruments and related items, which potentially subject the Company to concentrations of credit risk, consist primarily of cash, cash equivalents and trade receivables. The Company places its cash and temporary cash in investments with credit quality institutions. At times, such investments may be in excess of applicable government mandated insurance limit. At September 30, 2017 and December 31, 2016, trade receivables from the Company's largest customer amounted to 49% and 44%, respectively, of total trade receivables.

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.

Basic and Diluted Earnings Per Share

Basic net income (loss) per share is based on the weighted average number of shares outstanding during the period, while fully-diluted net income (loss) 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.

**Dilutive shares at September 30, 2017:**Convertible notes and interest

At September 30, 2017, the Company had outstanding convertible notes payable in the aggregate principal amount of \$20,000 convertible at the rate of \$0.25 per share with accrued interest of \$15,764.

Warrants

At September 30, 2017, the Company had outstanding warrants for holders to purchase the following additional shares: 700,000 shares at a price of \$0.01 per share.

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:

|    | <b>Exercise<br/>Price</b> | <b>Number<br/>of Options</b> | <b>Weighted<br/>Average<br/>Remaining<br/>Contractual<br/>Life (years)</b> |
|----|---------------------------|------------------------------|--|
| \$ | 0.35                      | 470,000                      | 0.31   |
| \$ | 0.57                      | 225,000                      | 0.25   |
| \$ | 1.31                      | 200,000                      | 0.69   |
| \$ | 1.42                      | 100,000                      | 0.72   |
| \$ | 1.43                      | 50,000                       | 1.25   |
| \$ | 1.46                      | 100,000                      | 0.75   |
| \$ | 1.60                      | 310,000                      | 0.25   |
| \$ | 1.70                      | 75,000                       | 0.54   |
| \$ | 1.90                      | 190,000                      | 1.60   |
| \$ | 2.00                      | 50,000                       | 0.54   |
| \$ | 2.40                      | 20,000                       | 0.67   |
| \$ | 2.50                      | 37,500                       | 0.54   |
| \$ | 3.40                      | 30,000                       | 0.67   |
| \$ | 3.50                      | 37,500                       | 0.54   |
|    |                           | <u>1,895,000</u>             | <u>0.57</u>  |

RSUs

During the nine months ended September 30, 2017, the Company cancelled all outstanding restricted stock units ("RSUs") and replaced them with common stock or restricted stock awards; see note 16. At September 30, 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 nine months ended September 30, 2017 and 2016, respectively.

Restricted Stock Awards

During the nine months ended September 30, 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 will vest over the same vesting period and under the same terms as the RSUs they replaced. Restricted stock awards representing 1,070,000 shares have stock are vested at September 30, 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 nine months ended September 30, 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 nine months ended September 30, 2016, there was no such cost during that period.



**Dilutive shares at September 30, 2016:**Convertible notes and interest

At September 30, 2016, the Company had outstanding convertible notes payable in the aggregate principal amount of \$812,215 with accrued interest of \$623,771 convertible at the rate of \$0.25 per share into an aggregate of 5,743,994 shares of common stock.

Warrants

At September 30, 2016, the Company had outstanding warrants for holders to purchase the following additional shares: 2,294,491 shares at a price of \$0.575 per share; 448,010 shares at a price of \$0.55 per share; 94,783 shares at a price of \$0.25 per share; and 700,000 shares at a price of \$0.01 per share.

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<br>Prices | Number of<br>Options | Weighted<br>Average<br>Remaining<br>Contractual<br>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  |
|    |                    | <u>3,105,000</u>     | <u>1.07</u>   |

RSUs

At September 30, 2016, the Company had 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 of the RSUs were issued to members of the board of directors of the Company ("Board RSUs"); certain RSUs were issued to the executive officers of the Company ("Executive RSUs"); certain RSUs were issued to employees of the Company ("Employee RSUs"); and certain RSUs were issued to employees of The Fresh Diet ("FD RSUs").

In August 2016, 95,000 Board RSUs were exercised. At September 30, 2016, the following Board RSUs were outstanding: a total of 545,000 RSUs were vested, and 270,000 RSUs will vest on July 1, 2017.

At September 30, 2016, the following Executive RSUs were outstanding: a total of 1,137,072 RSUs were vested; 600,000 RSUs will vest on December 31, 2016; and 800,000 RSUs 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.

At September 30, 2016, the following FD RSUs were outstanding: A total of 300,000 RSUs were vested; 300,000 RSUs will vest on December 31, 2016; and 400,000 RSUs will vest on July 1, 2017.

At September 30, 2016, a total of 251,174 Employee RSUs were outstanding, all of which were vested.

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 (continuing operations) of \$190,692 related to recognition of RSUs during the three months ended September 30, 2016 and \$658,709 related to recognition of RSUs during the nine months ended September 30, 2016.

#### Significant Recent 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 is currently assessing the impact that this standard will have on any awards that are modified once this standard is adopted.

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.

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.

### **3. 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"). The SEI is recorded as Other Long Term Liabilities on the Company's balance sheet at September 30, 2017. The SEI can be paid 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. 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 at September 30, 2017. 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 \$52,500 and \$157,500 was amortized to operations during the three and nine months ended September 30, 2017, respectively. The Company has presented preliminary estimates of the fair value of the intangible assets acquired. The Company is in the process of finalizing its review and evaluation of the related valuation assumptions supporting its fair value estimates of acquired intangible assets; therefore, the estimates used herein are subject to change. This may result in adjustments to the values presented.

**4. 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. 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 any payments related to liabilities previously accrued by the Company, there were no other cash outflows related 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. During the three and nine months ended September 30, 2017, the Company paid cash for liabilities related to discontinued operations in the amount of \$96,231 and \$1,460,122, respectively. The Company also retired 642,688 shares of the Company stock to treasury.

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

|   | <b>For the Nine<br/>Months Ended<br/>September 30,<br/>2016</b> |
|---|---|
| Revenue   | \$ 2,389,950  |
| Cost of goods sold                              | 1,764,834   |
| Gross margin                                    | 625,116   |
| Selling, general and administrative expenses    | 3,368,213   |
| Total operating expenses                        | 3,368,213   |
| Operating loss                                  | (2,743,097)   |
| Other (income) expense:                         |   |
| Gain on sale of discontinued operations         | (7,201,196)   |
| Interest expense, net                           | 10,820  |
| Total other (income) expense                    | (7,190,376)   |
| Income from discontinued operations, net of tax | <u>\$ 4,447,279</u>   |

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:

|  | <b>For the Nine<br/>Months Ended<br/>September 30,<br/>2016</b> |
|--|---|
| Cash Flow: Major line items                  |   |
| Depreciation and Amortization                | 107,009   |
| 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:

|  | <b>February 22,<br/>2016</b> |
|--|------------------------------|
| Receivable due from buyer, net of reserve of \$8,700,000 | \$ -                         |
| Net proceeds from sale of assets and liabilities         | -                            |
| Assets sold  | (6,225,073)                  |
| Liabilities sold   | 13,426,269                   |
| Net liabilities sold                                     | 7,201,196                    |
| Gain on sale   | 7,201,196                    |
| Loss from discontinued operations before income tax      | (2,753,917)                  |
| Income tax expense                                       | -                            |
| Income from discontinued operations                      | <u>\$ 4,447,279</u>          |

## 5. ACCOUNTS RECEIVABLE

At September 30, 2017 and December 31, 2016, accounts receivable consists of:

|                                    | <b>September 30,<br/>2017</b> | <b>December 31,<br/>2016</b> |
|------------------------------------|-------------------------------|------------------------------|
| Accounts receivable from customers | \$ 2,422,540                  | \$ 1,546,518                 |
| Allowance for doubtful accounts    | (5,436)                       | (8,123)                      |
| Accounts receivable, net           | <u>\$ 2,417,104</u>           | <u>\$ 1,538,395</u>          |

## 6. INVENTORY

Inventory consists primarily of specialty food products. At September 30, 2017 and December 31, 2016, inventory consisted of the following:

|                          | <b>September 30,<br/>2017</b> | <b>December 31,<br/>2016</b> |
|--------------------------|-------------------------------|------------------------------|
| Finished Goods Inventory | \$ 983,733                    | \$ 815,033                   |

## 7. PROPERTY AND EQUIPMENT

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. During the twelve months ended December 31, 2015, the Company paid a total of \$474,301 for various building improvements, furniture, fixtures, and equipment related to this property. Depreciation on the building and the related improvements, furniture, fixtures, and equipment began when Artisan occupied the facility in October, 2015.

A summary of property and equipment at September 30, 2017 and December 31, 2016, was as follows:

|                                       | September 30,<br>2017 | December 31,<br>2016 |
|---------------------------------------|-----------------------|----------------------|
| Land                                  | \$ 385,523            | \$ 385,523           |
| Building                              | 1,326,165             | 1,326,165            |
| Computer and Office Equipment         | 497,191               | 466,177              |
| Warehouse Equipment                   | 226,953               | 226,953              |
| Furniture, Fixtures                   | 464,502               | 454,743              |
| Vehicles                              | 40,064                | 40,064               |
| Total before accumulated depreciation | 2,940,398             | 2,899,625            |
| Less: accumulated depreciation        | (952,343)             | (831,515)            |
| Total                                 | <u>\$ 1,988,055</u>   | <u>\$ 2,068,110</u>  |

Depreciation and amortization expense for property and equipment amounted to \$41,700 and \$37,807 for the three months ended September 30, 2017 and 2016, respectively. Depreciation and amortization expense for property and equipment amounted to \$120,832 and \$120,017 for the nine months ended September 30, 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. At September 30, 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 the companies it invests in.

## 9. INTANGIBLE ASSETS

The Company acquired certain intangible assets pursuant to the acquisition of Artisan, Oasis (see note 3), and OFB, and the acquisition of certain assets of The Haley Group, LLC. The following is the net book value of these assets:

|                        | September 30, 2017  |                             |                     |
|------------------------|---------------------|-----------------------------|---------------------|
|                        | Gross               | Accumulated<br>Amortization | Net                 |
| Trade Name             | \$ 217,000          | \$ -                        | \$ 217,000          |
| Non-Compete Agreement  | 444,000             | (281,500)                   | 162,500             |
| Customer Relationships | 1,930,994           | (1,042,261)                 | 888,733             |
| Goodwill               | 151,000             | -                           | 151,000             |
| Total                  | <u>\$ 2,742,994</u> | <u>\$ (1,323,761)</u>       | <u>\$ 1,419,233</u> |

  

|                        | December 31, 2016   |                             |                   |
|------------------------|---------------------|-----------------------------|-------------------|
|                        | Gross               | Accumulated<br>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                  | <u>\$ 1,742,994</u> | <u>\$ (1,035,310)</u>       | <u>\$ 707,684</u> |

Total amortization expense charged to continuing operations for the three months ended September 30, 2017 and 2016 was \$82,317 and \$50,567, respectively. Total amortization expense charged to continuing operations for the nine months ended September 30, 2017 and 2016 was \$288,451 and \$182,201, respectively.

The trade names are not considered finite-lived assets, and are not being amortized. The non-compete agreements are being amortized over a period of 48 months. The customer relationships acquired in the Artisan, Haley, Oasis, and OFB transactions are being amortized over periods of 60, 36, 60, and 60 months, respectively.

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 2016 determined that there was no impairment to goodwill assets.

## 10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at September 30, 2017 and December 31, 2016 are as follows:

|  | September 30,<br>2017 | December 31,<br>2016 |
|--|-----------------------|----------------------|
| Trade payables                           | \$ 1,921,920          | \$ 1,547,603         |
| Accrued costs of discontinued operations | 18,765                | 1,478,887            |
| Accrued payroll and commissions          | 147,463               | 93,043               |
| Total                                    | <u>\$ 2,088,148</u>   | <u>\$ 3,119,533</u>  |

At September 30, 2017 and December 31, 2016, accrued liabilities to related parties of \$0 and \$65,000, respectively, consisted of accrued bonus.

## 11. ACCRUED INTEREST

At September 30, 2017, accrued interest on a note outstanding was \$15,674. During the three and nine months ended September 30, 2017, the Company paid cash for interest in the aggregate amount of \$17,480 and \$59,432, respectively.

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

|   | September 30,<br>2017 | December 31,<br>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 nine months ended September 30, 2017. | \$ -                  | \$ -                 |
| Total   | <u>\$ -</u>           | <u>\$ -</u>          |

**13. NOTES PAYABLE AND NOTES PAYABLE TO RELATED PARTIES**

|   | <u>September 30,</u><br><u>2017</u> | <u>December 31,</u><br><u>2016</u> |
|---|-------------------------------------|------------------------------------|
| 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 on the maturity date of February 5, 2018. 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 three months ended September 30, 2017, the Company made principal and interest payments on this loan in the amounts of \$200,000 and \$5,594, respectively. During the nine months ended September 30, 2017, the Company made principal and interest payments on this loan in the amounts of \$600,000 and \$24,187, respectively.  | \$ 314,033                          | \$ 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. During the three months ended September 30, 2017, the Company made payments of principal and interest on this note in the amounts of \$13,650 and \$3,288, respectively. During the nine months ended September 30, 2017, the Company made payments of principal and interest on this note in the amounts of \$40,950 and \$9,663, respectively.  | 295,750                             | 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 three months ended September 30, 2017, the Company made payments of principal and interest on this note in the amounts of \$24,500 and \$7,845, respectively. During the nine months ended September 30, 2017, the Company made payments of principal and interest on this note in the amounts of \$73,500 and \$22,919, respectively.   | 751,333                             | 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 three and nine months ended September 30, 2017, \$0 and \$185,018, respectively, of this discount was charged to operations. During the three and nine months ended September 30, 2017, the Company accrued interest in the amount of \$0 and \$179,304, respectively, on these notes. |                                     |                                    |
| During the three months ended June 30, 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 three and six months ended June 30, 2017.  | -                                   | 627,565                            |
| A convertible 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%. The principal is convertible into common stock of the Company at a conversion price of \$0.25 per share. During the three and nine months ended September 30, 2017, the Company accrued interest in the amount of \$93 and \$279, respectively, on this note.  | 20,000                              | 20,000                             |

|  | <u>September 30,<br/>2017</u>                       | <u>December 31,<br/>2016</u> |
|--|---|------------------------------|
| 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 three months ended March 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 three and nine months ended September 30, 2017, the Company made principal payments on this note in the amount of \$12,361 and \$530, respectively; during the three and nine months ended September 30, 2017, the Company made interest payments on this note in the amount of rest payments on this note in the amounts of \$32,496, and \$1,880, respectively.  | 67,504  | -                            |
| 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 three and nine months ended September 30, 2017, the Company made principal payments in the amount of \$778 and \$2,307, respectively. During the three and nine months ended September 30, 2017, the Company made interest payments on this lease obligation in the amounts of \$45 and \$159, respectively.  | 3,471   | 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 three and nine months ended September 30, 2017, the Company made principal payments in the amounts of \$1,558 and \$4,617, respectively. During the three and nine months end September 30, 2017, the Company made interest payments on this lease obligation in the amounts of \$178 and \$591, respectively.  | <u>13,738</u>                                       | <u>18,354</u>                |
| <b>Total</b>   | <b>\$ 1,465,829</b>                                 | <b>\$ 2,911,913</b>          |
| <b>Less: Discount</b>  | <b>-</b>  | <b>(185,020)</b>             |
| <b>Net</b>   | <b>\$ 1,465,829</b>                                 | <b>\$ 2,726,893</b>          |
| Current maturities, net of discount  | <u>\$ 547,183</u>                                   | <u>\$ 1,589,082</u>          |
| Long-term portion, net of discount   | <u>918,646</u>                                      | <u>1,137,811</u>             |
| <b>Total</b>   | <b>\$ 1,465,829</b>                                 | <b>\$ 2,726,893</b>          |
|  | <b>For the Three Months Ended<br/>September 30,</b> |                              |
|  | <b>2017</b>   | <b>2016</b>                  |
| Discount on Notes Payable amortized to interest expense:   | <u>\$ -</u>   | <u>\$ 92,509</u>             |
|  | <b>For the Nine Months Ended<br/>September 30,</b>  |                              |
|  | <b>2017</b>   | <b>2016</b>                  |
| Discount on Notes Payable amortized to interest expense:   | <u>\$ 185,018</u>                                   | <u>\$ 277,527</u>            |

At September 30, 2017 and December 31, 2016, the Company had unamortized discounts to notes payable in the aggregate amount of \$0 and \$185,020, respectively.

Aggregate maturities of long-term notes payable as of September 30, 2017 are as follows:



For the period ended September 30,

|            |    |                  |
|------------|----|------------------|
| 2018       | \$ | 547,183          |
| 2019       |    | 177,038          |
| 2020       |    | 609,933          |
| 2021       |    | 54,600           |
| 2022       |    | 54,600           |
| Thereafter |    | 22,475           |
| Total      | \$ | <u>1,465,829</u> |

#### 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.

#### **14. RELATED PARTY TRANSACTIONS**

##### **For the nine months ended September 30, 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.

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.

**For the nine months ended September 30, 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 three months ended March 31, 2016, the Company issued 210,520 RSUs in satisfaction 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 three months ended March 31, 2016, the Company issued an aggregate of 244,620 RSUs in satisfaction of this liability.

During the three months ended September 30, 2016, the Company issued 95,000 shares of its common stock to an ex-Director of the Company pursuant to the exercise of RSUs.

**15. COMMITMENTS AND CONTINGENT LIABILITIES**

Contingent Liability

Pursuant to the Oasis acquisition, the Company is contingently liable for certain performance-based payments over the twenty-four months following the acquisition date. The Company believes it is likely that these payments will be made, and accordingly recorded the entire amount of \$400,000 as a contingent liability on its balance sheet at acquisition. \$200,000 of this amount is classified as a current liability and \$200,000 is classified as a long term liability at September 30, 2017.

Litigation

From time to time, the Company may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. 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 business.

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 protect them, and their own personal guarantees and obligations, in connection with loans and other duties incurred by a former subsidiary of the Company. The Duchmans further allege that the defendants did not fulfill that alleged fiduciary obligation. In response to the lawsuit, IVFH has filed a motion, which is currently being considered by the court, seeking dismissal of claims on a number of bases. IVFH has also notified the court of a release and covenant not to sue executed by S. Duchman in April of 2016 in favor of IVFH and its officers which encompasses the claims the Duchmans have asserted. 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.

**16. EQUITY**

Common Stock

At September 30, 2017 and December 31, 2016, a total of 2,491,112 and 733,659 shares, respectively, are deemed issued but not outstanding by the Company. These include 2,276,703 shares of treasury stock as of September 30, 2017 and 519,254 shares of treasury stock as of December 31, 2016.

Nine months ended September 30, 2017:

The Company issued 274,783 shares of common stock for cash of \$68,697 pursuant to the exercise of warrants.

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

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 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 June 30, 2017.

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 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 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.

**Nine months ended September 30, 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 The Fresh Diet 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 The Fresh Diet pursuant to an employee agreement. The fair value of these shares in the amount of \$67,987 was charged to discontinued operations during the period.

The Company issued 200,000 shares of common stock to an employee of The Fresh Diet 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 repurchased 33,000 shares of common stock at a share price of \$0.45 per share. The value of these shares in the amount of \$14,850 has been recorded in treasury stock.

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

## Warrants

The following table summarizes the significant terms of warrants outstanding at September 30, 2017. These warrants may be settled in cash and, unless the underlying shares are registered, via cashless exercise, into shares of the Company's common stock at the request of the warrant holder. These warrants were granted in 2012 as part of a financing and loan agreement related to the acquisition of Artisan Specialty Foods in 2012:

| Range of exercise Prices | Number of warrants Outstanding | Weighted average remaining contractual life (years) | Weighted average exercise price of outstanding Warrants | Number of warrants Exercisable | Weighted average exercise price of exercisable Warrants |
|--------------------------|--------------------------------|---|---|--------------------------------|---|
| \$ 0.010                 | 700,000                        | 2.63  | \$ 0.01   | 700,000                        | \$ 0.01   |
|                          | <u>700,000</u>                 | <u>2.63</u>   | <u>\$ 0.01</u>  | <u>700,000</u>                 | <u>\$ 0.01</u>  |

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                                  | (2,837,284)        | \$ 0.56                         |
| Cancelled / Expired                        | -                  | -                               |
| Warrants outstanding at September 30, 2017 | <u>700,000</u>     | <u>\$ 0.01</u>                  |

## 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:

| 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 |
|--------------------------|-------------------------------|---|--|-------------------------------|--|
| \$ 0.35                  | 470,000                       | 0.31  | \$ 0.35  | 470,000                       | \$ 0.35  |
| \$ 0.57                  | 225,000                       | 0.25  | \$ 0.57  | 225,000                       | \$ 0.57  |
| \$ 1.31                  | 200,000                       | 0.69  | \$ 1.31  | 200,000                       | \$ 1.31  |
| \$ 1.42                  | 100,000                       | 0.72  | \$ 1.42  | 100,000                       | \$ 1.42  |
| \$ 1.43                  | 50,000                        | 1.25  | \$ 1.43  | 50,000                        | \$ 1.50  |
| \$ 1.46                  | 100,000                       | 0.75  | \$ 1.46  | 100,000                       | \$ 1.46  |
| \$ 1.60                  | 310,000                       | 0.25  | \$ 1.60  | 310,000                       | \$ 1.60  |
| \$ 1.70                  | 75,000                        | 0.54  | \$ 1.70  | 75,000                        | \$ 1.70  |
| \$ 1.90                  | 190,000                       | 1.60  | \$ 1.90  | 190,000                       | \$ 1.90  |
| \$ 2.00                  | 50,000                        | 0.54  | \$ 2.00  | 50,000                        | \$ 2.00  |
| \$ 2.40                  | 20,000                        | 0.67  | \$ 2.40  | 20,000                        | \$ 2.40  |
| \$ 2.50                  | 37,500                        | 0.54  | \$ 2.50  | 37,500                        | \$ 0.79  |
| \$ 3.40                  | 30,000                        | 0.67  | \$ 3.40  | 30,000                        | \$ 3.40  |
| \$ 3.50                  | 37,500                        | 0.54  | \$ 3.50  | 37,500                        | \$ 3.50  |
|                          | <u>1,895,000</u>              | <u>0.57</u>   | <u>\$ 1.25</u>   | <u>1,895,000</u>              | <u>\$ 1.25</u>   |

Transactions involving stock options are summarized as follows:

|   | Number of<br>Shares | Weighted<br>Average<br>Exercise Price |
|---|---------------------|---------------------------------------|
| Options outstanding at December 31, 2016  | 2,445,000           | \$ 1.01                               |
| Granted                                   | 650,000             | \$ 1.73                               |
| Exercised                                 | (200,000)           | \$ 0.35                               |
| Cancelled / Expired                       | (1,000,000)         | \$ 1.18                               |
| Options outstanding at September 30, 2017 | <u>1,895,000</u>    | <u>\$ 1.25</u>                        |

Aggregate intrinsic value of options outstanding and exercisable at September 30, 2017 and 2016 was \$339,700 and \$737,905, 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 \$0.91 and \$0.48 as of September 30, 2017 and 2016, respectively, and the exercise price multiplied by the number of options outstanding.

During the three months ended September 30, 2017 and 2016, the Company charged a total of \$0 and \$4,983, respectively, to operations related to recognized stock-based compensation expense for employee stock options. During the nine months ended September 30, 2017 and 2016, the Company charged a total of \$8,707 and \$14,814, respectively, to operations related to recognized stock-based compensation expense for employee stock options.

#### Accounting for warrants and stock options

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

|                          | <u>September 30,<br/>2017</u> |
|--------------------------|-------------------------------|
| Volatility               | 56.9%                         |
| Dividends                | \$ -                          |
| Risk-free interest rates | 0.87%                         |
| Term (years)             | 0.78-2.44                     |

#### Restricted Stock Units ("RSUs")

During the nine months ended September 30, 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 three months ended September 30, 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 three and nine months ended September 30, 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 three and nine months ended September 30, 2017 and 2016 are summarized in the table below:

|  | <b>September 30,</b> |                   |
|--|----------------------|-------------------|
|  | <b>2017</b>          | <b>2016</b>       |
| RSUs expense – Continuing operations   | \$ -                 | \$ 190,692        |
| RSUs expense – Discontinued operations | -                    | -                 |
| Total                                  | <u>\$ -</u>          | <u>\$ 190,692</u> |

|  | <b>September 30,</b> |                     |
|--|----------------------|---------------------|
|  | <b>2017</b>          | <b>2016</b>         |
| RSUs expense – Continuing operations   | \$ -                 | \$ 658,709          |
| RSUs expense – Discontinued operations | -                    | 813,908             |
| Total                                  | <u>\$ -</u>          | <u>\$ 1,472,617</u> |

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

### FORWARD LOOKING STATEMENTS

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

Certain information contained in this discussion and elsewhere in this report may include "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, and is subject to the safe harbor created by that act. The safe harbor created by the 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 or comparable terminology are intended to identify forward-looking statements. Factors that may affect our results include, but are not limited to, the risks and uncertainties associated with:

- Our ability to raise capital necessary to sustain our anticipated operations and implement our business plan,
- Our ability to implement our business plan,
- Our ability to generate sufficient cash to pay our lenders and other creditors,
- 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.

## **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.

### **Doubtful Accounts Receivable**

The Company maintained an allowance in the amount of \$5,436 for doubtful accounts receivable at September 30, 2017, and \$56,371 at September 30, 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.

### **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 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 were met over the next one or two years. Those milestones have been met. The purchase price was primarily financed via a loan from Alpha Capital in the principal amount of \$1,200,000. The loan was repaid in November 2013 via the issuance of a loan from Fifth Third Bank which has been paid in full. Prior to the acquisition, Artisan was a supplier and had sold products to the Company.

Pursuant to an asset purchase agreement, effective November 2, 2012, the Company purchased the outstanding assets of The Haley Group, LLC ("Haley"). Pursuant to a purchase agreement, effective June 30, 2014, the Company purchased 100% of the membership interest of Organic Food Brokers, LLC, a Colorado limited liability company ("OFB").



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.

On 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.

#### Transactions With a Major Customer

Transactions with a major customer and related economic dependence information is set forth immediately below and above in Note 2 to the Condensed Consolidated Financial Statements and also in our Annual Report on Form 10-K for the year ended December 31, 2016 (1) following our discussion of Liquidity and Capital Resources, (2) Concentrations of Credit Risk in Note 17 to the Consolidated Financial Statements, and (3) as the fourth item under Risk Factors.

#### **Relationship with U.S. Foods**

We have historically sold the majority of our products through a distributor relationship between FII and Next Day Gourmet, L.P., a subsidiary of U.S. Foods, a leading broadline distributor. These sales amounted to \$7,604,308 (72% of total sales) and \$6,546,697 (72% of total sales) for the three months ended September 30, 2017 and 2016, respectively; and \$22,004,270 (72% of total sales) and \$18,352,407 (72% of total sales) for the nine months ended September 30, 2017 and 2016, respectively. 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 up to three (3) 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 2017.

#### **RESULTS OF OPERATIONS**

Prior year balances have been recast to reflect the sale of 90% of our interest in The Fresh Diet, Inc. in February 2016. Results of discontinued operations are excluded from the accompanying results of operations for all periods presented, unless otherwise noted. See Note 4 – 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.

#### **Three Months Ended September 30, 2017 Compared to Three Months Ended September 30, 2016**

##### Revenue

Revenue increased by \$1,401,194 or approximately 15% to \$10,495,637 for the three months ended September 30, 2017 from \$9,094,443 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 that strategy if, based on our analysis, we deem it beneficial to us.

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 segments may be hampered and negatively impacted by any economic tariffs that may be imposed in the United States or in foreign countries.

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

#### Cost of goods sold

Our cost of goods sold for the three months ended September 30, 2017 was \$7,052,018, an increase of \$647,833 or approximately 10% compared to cost of goods sold of \$6,404,185 for the three months ended September 30, 2016. Cost of goods sold is made up of the following expenses for the three months September 30, 2017: cost of goods of specialty, meat, game, cheese, seafood, poultry and other sales categories in the amount of \$4,982,334; and shipping, delivery, handling, and purchase allowance expenses in the amount of \$2,069,684. Total gross margin was approximately 32.8% of sales in 2017 compared to approximately 29.6% 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 is primarily attributable to variation in product and revenue mix as well as variations in cost of goods sold as a percentage of total expenses, 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 \$192,163 or approximately 11% to \$1,894,588 during the three months ended September 30, 2017 compared to \$1,702,425 for the three months ended September 30, 2016. The increase in selling, general, and administrative expenses was primarily due to an increase in SGA expenses associated with Oasis, and to an increase in office, facilities, and vehicles costs. Increases in payroll taxes and employee benefit costs also contributed to the increase.

#### Interest expense, net

Interest expense, net of interest income, decreased by \$105,087 or approximately 87% to \$16,139 during the three months ended September 30, 2017, compared to \$121,226 during the three months ended September 30, 2016. The decrease was due primarily to a reduction of the amortization of discounts on the Company’s notes payable. These discounts are fully amortized, and there was \$0 interest expense associated with this amortization during the three months ended September 30, 2017, compared to \$92,509 during the three months ended September 30, 2016. There was a decrease of approximately \$17,481 or 100% of the gross interest expense of \$17,481 was accrued or paid interest on the company’s commercial loans and notes payable. The Company also had \$1,342 of interest income during the three months ended September 30, 2017.

#### Net income from continuing operations

For the reasons above, the Company had net income from continuing operations for the three months ended September 30, 2017 of \$1,532,892 which is an increase of approximately 77% compared to a net income of \$866,607 during the three months ended September 30, 2016. The income for the three months ended September 30, 2017 includes a total of \$124,013 in non-cash charges, including amortization of intangible assets in the amount of \$82,317 and depreciation expense of \$41,696. The income for the three months ended September 30, 2016 includes a total of \$376,513 in non-cash charges, including amortization of intangible assets in the amount of \$50,567, depreciation expense of \$37,807, charges for non-cash compensation in the amount of \$195,630, and amortization of the discount on notes payable in the amount of \$92,509.

### **Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016**

#### Revenue

Revenue increased by \$5,081,451 or approximately 20% to \$30,494,462 for the nine months ended September 30, 2017 from \$25,413,011 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 that strategy if, based on our analysis, we deem it beneficial to us.

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 segments may be hampered and negatively impacted by any economic tariffs that may be imposed in the United States or in foreign countries.

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

#### Cost of goods sold

Our cost of goods sold for the nine months ended September 30, 2017 was \$20,585,273, an increase of \$2,605,720 or approximately 15% compared to cost of goods sold of \$17,979,553 for the nine months ended September 30, 2016. Cost of goods sold is made up of the following expenses for the nine months September 30, 2017: cost of goods of specialty, meat, game, cheese, seafood, poultry and other sales categories in the amount of \$14,614,941; and shipping, delivery, handling, and purchase allowance expenses in the amount of \$5,970,332. Total gross margin was approximately 32.5% of sales in 2017 compared to approximately 29.3% 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 is primarily attributable to variation in product and revenue mix as well as variations in cost of goods sold as a percentage of total expenses, 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 \$1,024,208 or approximately 20% to \$6,269,386 during the nine months ended September 30, 2017 compared to \$5,245,178 for the nine months ended September 30, 2016. The increase in selling, general, and administrative expenses was primarily due to an increase in SGA expenses associated with Oasis, and to an increase in office, facilities, and vehicles costs. Increases in payroll taxes and employee benefit costs also contributed to the increase.

#### Interest expense, net

Interest expense, net of interest income, decreased by \$207,852 or approximately 57% to \$157,912 during the nine months ended September 30, 2017, compared to \$365,764 during the nine months ended September 30, 2016. The decrease was due primarily to 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 \$4,026, gross interest expense would have been \$248,027 for the period. Approximately \$63,009 or 25.4% of the gross interest expense was accrued or paid interest on the company’s commercial loans and notes payable; approximately \$185,018 or 74.6% of the gross interest expense was a non-cash GAAP accounting charge associated with the amortization of the discounts on the Company’s notes payable.

#### Net income from continuing operations

For the reasons above, the Company had net income from continuing operations for the nine months ended September 30, 2017 of \$3,481,891 which is an increase of approximately 91% compared to a net income of \$1,822,516 during the nine months ended September 30, 2016. The income for the nine months ended September 30, 2017 includes a total of \$910,269 in non-cash charges, including amortization of intangible assets in the amount of \$288,451, depreciation expense of \$120,832, charges for non-cash compensation in the amount of \$315,968, and amortization of the discount on notes payable in the amount of \$185,018. The income for the nine months ended September 30, 2016 includes a total of \$1,253,239 in non-cash charges, including amortization of intangible assets in the amount of \$182,201, depreciation expense of \$120,018, charges for non-cash compensation in the amount of \$673,523, and amortization of the discount on notes payable in the amount of \$277,527.

#### **Liquidity and Capital Resources at September 30, 2017**

As of September 30, 2017, the Company had current assets of \$7,802,866, consisting of cash and cash equivalents of \$4,337,662; trade accounts receivable, net of \$2,417,104; inventory of \$983,733; and other current assets of \$64,367. Also at September 30, 2017, the Company had current liabilities of \$2,851,005, consisting of trade payables and accrued liabilities of \$2,088,148; accrued interest of \$15,674; current portion of notes payable and capital leases of \$547,183; and current portion of contingent liability of \$200,000.

During the nine months ended September 30, 2017, the Company had cash provided by operating activities of \$2,071,097. Cash flow from operations consisted of: the Company's consolidated net income of \$3,481,891 plus non-cash compensation in the amount of \$315,968; non-cash amortization of discount on notes payable of \$185,018, and depreciation and amortization of \$409,283. The Company's cash position decreased by \$2,321,063 as a result of changes in the components of current assets and current liabilities, primarily a reduction in accrued liabilities related to discontinued operations in the amount of \$1,460,122.

The Company had cash used in investing activities of \$340,777 for the nine months ended September 30, 2017, which consisted of cash paid in the acquisition of Oasis in the amount of \$300,000, and cash paid for the acquisition of property and equipment in the amount of \$40,777. The Company had cash used in financing activities of \$1,156,711 for the nine months ended September 30, 2017, which consisted of principal payments made on notes payable of \$746,941; principal payments on capital leases of \$6,926, 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 \$70,000 for the exercise of common stock options.

The Company had net working capital of \$4,951,861 as of September 30, 2017. The Company had cash provided by operations during the nine months ended September 30, 2017 in the amount of \$2,071,097; this amount is net of certain payments in the amount of \$1,460,122 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 compared to cash generated from operating activities of \$1,563,446 during the nine months ended September 30, 2016. Without the cash flow items associated with discontinued operations, cash operating cash flow would have been \$3,531,219 for the nine months ended September 30, 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.

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 4 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. The Company has not made any adjustments to the financial statements which would be necessary should the Company not be able to continue as a going concern.

#### **2017 Plans**

During 2017, 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.

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.

## **RISK FACTORS**

The Company's business and success is subject to numerous risk factors as detailed in its Annual Report on Form 10-K for the year ended December 31, 2016 which is available at no cost at [www.sec.gov](http://www.sec.gov).

## **ITEM 4 - CONTROLS AND PROCEDURES**

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

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

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

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

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

**PART II. OTHER INFORMATION****Item 1. Legal Proceedings**

From time to time, the Company may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. 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 business.

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. In response to the lawsuit, IVFH has filed a motion, which is currently being considered by the court, seeking dismissal of all claims on a number of basis including providing the court with a copy of a release and covenant not to sue executed by the Duchmans in April of 2017 in favor of IVFH and its officers which encompasses the claims the Duchmans have asserted. 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.

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

The Company issued the following shares of common stock during the nine months ended September 30, 2017:

The Company issued 274,783 shares of common stock for cash of \$68,697 representing the exercise of warrants at a price of \$0.25 per shares.

The Company issued 2,410,392 shares of common stock (net of 623,813 shares held back for withholding taxes) 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 \$59,584 to additional paid-in capital representing the value of these shares that had not been previously charged to operations.

The Company issued 658,600 shares of common stock to its Chief Executive Officer for the conversion of a note payable at \$0.25 per share.

The Company issued 4,626,427 shares of common stock to investors for the conversion of principal and accrued interest on notes payable in the amounts of \$627,565 and \$528,242, respectively.

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

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

The Company issued 224,638 shares of common stock for a subscription receivable in the amount of \$128,044.

The Company issued 250,000 shares of common stock in exchange for the cashless conversion of warrants.

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 made the following purchases of its common stock during the nine months ended September 30, 2017:

| Period        | (a)<br>Total number of<br>shares purchased | (b)<br>Average price<br>paid per share | (c)<br>Total number of<br>shares purchased<br>as part of<br>publicly<br>announced plans<br>or programs | (d)<br>Maximum<br>number (or<br>approximate<br>dollar value) of<br>shares that may<br>yet be purchased<br>under the plans<br>or programs |
|---------------|--|--|--|--|
| January 2017  | 37,000                                     | \$ 0.502                               | N/A  | N/A  |
| February 2017 | 642,688                                    | \$ 0.485                               | N/A  | N/A  |
| May 2017      | 639,383                                    | \$ 0.368                               | N/A  | N/A  |
| June 2017     | 438,379                                    | \$ 0.575                               | N/A  | N/A  |

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable

**Item 5. Other Information**

None.

**Item 6. Exhibits**

- 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 \(incorporated by reference to exhibit 3.2 of the Company's annual report Form 10-K for the year ended December 31, 2010 filed with the Securities and Exchange Commission on March 16, 2011\).](#)
- 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 \(incorporated by reference to exhibit 10.4 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 7, 2009\).](#)
  
- 31.1 [Section 302 Certification](#)
- 31.2 [Section 302 Certification](#)
  
- 32.1 [Section 906 Certification](#)
- 32.2 [Section 906 Certification](#)
  
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase
- 101.DEF XBRL Taxonomy Extension Definition Linkbase
- 101.LAB XBRL Taxonomy Extension Label Linkbase
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase

**SIGNATURES**

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

| <b><u>SIGNATURE</u></b>                   | <b><u>TITLE</u></b>         | <b><u>DATE</u></b> |
|---|-----------------------------|--------------------|
| <u>/s/ Sam Klepfish</u><br>Sam Klepfish   | Chief Executive Officer     | November 14, 2017  |
| <u>/s/ John McDonald</u><br>John McDonald | Principal Financial Officer | November 14, 2017  |



**Certifications**

I, Sam Klepfish, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Innovative Food Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2017

/s/ Sam Klepfish  
Sam Klepfish, Chief Executive Officer

**Certifications**

I, John McDonald, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Innovative Food Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2017

/s/ John McDonald  
John McDonald, Principle Accounting Officer

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES OXLEY ACT OF 2002  
CERTIFICATION**

In connection with the Quarterly Report of Innovative Food Holdings, Inc. and Subsidiaries (the "Company") on Form 10-Q for the period ended September 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Sam Klepfish, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Sam Klepfish  
Sam Klepfish  
Chief Executive Officer and Director

November 14, 2017

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES OXLEY ACT OF 2002  
CERTIFICATION**

In connection with the Quarterly Report of Innovative Food Holdings, Inc. and Subsidiaries (the "Company") on Form 10-Q for the period ended September 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John McDonald, Principal Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ John McDonald  
John McDonald  
Principal Accounting Officer

November 14, 2017