

INNOVATIVE FOOD HOLDINGS INC
Form 10-K
March 30, 2012

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

FORM 10-K

Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended
December 31, 2011

OR

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

COMMISSION FILE NUMBER: 0-9376

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

FLORIDA
(State or Other Jurisdiction of Incorporation or
Organization)

20-116776
(I.R.S. Employer Identification No.)

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

34114
(Zip Code)

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

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:
NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:
COMMON STOCK, \$0.0001 PAR VALUE PER SHARE
(Title of class)

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

The aggregate market value of the voting and non-voting stock held by non-affiliates was approximately \$1,034,097 as of June 30, 2011, based upon a closing price of \$0.008 per share for the registrant's common stock on such date.

On March 22, 2012, a total of 282,956,546 shares of our common stock were outstanding and 293,692,189 shares issued.

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FILED WITH THE SECURITIES AND EXCHANGE COMMISSION
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

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FORWARD LOOKING INFORMATION
MAY PROVE INACCURATE

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

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PART I

ITEM 1. Business

Our History

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., a Delaware corporation, for 25,000,000 shares of our common stock.

Our Operations

Our business is currently conducted by our subsidiaries, Food Innovations, Inc. (“FII” or “Food Innovations”), which was incorporated in the State of Delaware on January 9, 2002, 4 The Gourmet, Inc. (d/b/a For The Gourmet, Inc.) and Gourmet Foodservice Group, Inc. Since its incorporation, Food Innovations, primarily through a relationship with US Foodservices, Inc. (“USF”), has been in the business of providing premium restaurants with the freshest origin-specific perishables and specialty products shipped directly from our network of vendors within 24 – 72 hours. Our customers include restaurants, hotels, country clubs, national chain accounts, casinos, and catering houses. Since its incorporation, For The Gourmet has been in the business of providing consumers with gourmet food products shipped directly from our network of vendors within 24 – 72 hours. Since its incorporation, Gourmet Foodservice Group holds all the companies' intellectual property including the Artistre® line of products. In our business model, we receive orders from our customers and then work closely with our suppliers 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.

Our Products

We distribute over 5,000 perishable and specialty food products, including origin-specific seafood, domestic and imported meats, exotic game and poultry, artisanal cheeses, caviar, wild and cultivated mushrooms, micro-greens, heirloom and baby produce, organic farmed and manufactured food products, estate-bottled olive oils and aged vinegars. We are constantly adding other products that food distributors cannot effectively warehouse, including organic products and specialty grocery items. We offer our customers access to the best food products available nationwide, quickly, most direct, and cost-effectively. Some of our best-selling items include:

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

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

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

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

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

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

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

Customer Service and Logistics

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

- Flavor profile and eating qualities

- Recipe and usage ideas

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Origin, seasonality, and availability

Cross utilization ideas and complementary uses of products

Our logistics team tracks every package to ensure timely delivery of products to our customers. The logistics manager receives tracking information on all products ordered, and packages are monitored from origin to delivery. In the event that delivery service is interrupted, our logistics department begins the process of expediting the package to its destination. The customer is then contacted before the expected delivery commitment time allowing the customer ample time to make arrangements for product replacement or menu changes. Our logistics manager works directly with our vendors to ensure our strict packaging requirements are in place at all times.

Relationship with U.S. Foods

In February 2010, our subsidiary, Food Innovations, signed a new contract with USF. Under the current terms of the contract, FII supplies overnight delivered, perishable, sea foods, fresh produce, and other exotic fresh foods. Such products are difficult for broadline food distributors to manage profitably and keep in warehouse stock due to their perishable nature and high-end limited customer base. Through USF's sales associates, FII's products are available to USF accounts nationwide, ensuring superior freshness and extended shelf life to their customers. This current contract with USF expires on December 31, 2012. The contract is automatically renews for an additional 12-month term unless either party notifies the other in writing 30 days prior to the End Date of its intent not to renew. During the years ended December 31, 2011, and 2010, sales through USF's sales associates accounted for 93% and 92% of total sales, respectively. We believe that although a significant portion of our sales occurs through the USF sales force, the success of the program is less contingent on a contract than on the actual performance and quality of our products. Other than our business arrangements with USF, we are not affiliated with either USF or its subsidiary, Next Day Gourmet, L.P. ("Next Day Gourmet").

Growth Strategy

While the U.S. economic recovery remains fragile, there appears to be much for the restaurant industry to celebrate. According to market research firm Packaged Facts, restaurant sales are expected to grow 4.2 percent to \$487 million in 2012, on the heels of 6.1 percent market growth in 2011.

For our continued growth within the foodservice industry, we rely heavily on the availability to our customers of our chefs' culinary skills, a high level of personal customer service, premium quality products, new product introductions and sales available through our relationship with USF.

We anticipate attempting to grow our current business both through increased sales of existing products to our existing foodservice customers, the introduction of new products to our foodservice customers, increasing our foodservice customer base, and through further entry into markets such as the direct to consumer market through a variety of potential sales channels, and sales partnerships and directly via the web.

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

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

Competition

While we face intense competition in the marketing of our products and services, it is our belief that there is no other single company in the United States that offers such a broad range of customer service oriented, quality, chef driven, perishables, for delivery in 24 to 72 hours. Our primary competition is from local purveyors that supply a limited local market and have a limited range of products and from other specialty gourmet distributors. However, many purveyors are well established, have reputations for success in the development and marketing of these types of products and services and have significantly greater financial, marketing, distribution, personnel and other resources. These financial and other capabilities permit such companies to implement extensive advertising and promotional campaigns, both generally and in response to efforts by additional competitors such as us, to enter into new markets and introduce new products and services.

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Insurance

We maintain a general liability insurance policy with a per occurrence limit of \$1,000,000 and aggregate policy covering \$2,000,000 of liability. In addition, we have non-owned automobile personal injury coverage with a limit of \$1,000,000. Such insurance may not be sufficient to cover all potential claims against us and additional insurance may not be available in the future at reasonable costs.

Government Regulation

Various federal and state laws currently exist, and more are sure to be adopted, regulating the delivery of fresh food products. However, our business plan does not require us to deliver fresh food products directly, as third-party vendors ship the products directly to our customers. We require all third-party vendors to certify that they maintain at least \$2,000,000 liability insurance coverage and compliance with Hazard Analysis and Critical Control Point (HACCP), an FDA- and USDA-mandated food safety program, or a similar standard. Any changes in the government regulation of delivering of fresh food products that hinders our current ability and/or cost to deliver fresh products, could adversely impact our net revenues and gross margins and, therefore, our profitability and cash flows could also be adversely affected.

Employees

We currently employ 15 full-time employees, including 4 chefs and 2 executive officers. We believe that our relations with our employees are satisfactory. None of our employees are represented by a union.

Transactions with Major Customers

Transactions with major customers and related economic dependence information is set forth under the heading Relationship with USF, above.

How to Contact Us

Our executive offices are located at 3845 Beck Blvd., Naples, Florida 34109; our Internet address is www.foodinno.com; and our telephone number is (239) 596-0204. The contents of our website are not incorporated in or deemed to be a part of this Annual Report on Form 10-K.

Risk Factors

Prior to 2011, We Have a History of Losses Requiring Us To Seek Additional Sources of Capital

As of December 31, 2011, we had an accumulated deficit of \$7,207,600. We cannot assure you that we can sustain profitability on a quarterly or annual basis in the future. If revenues grow more slowly than we anticipate, or if operating expenses exceed our expectations or cannot be adjusted accordingly, we will incur losses. We will also incur losses if the fair value of warrants, options, etc. changes unfavorably. We will incur operating losses until we are able to establish significant sales. Our possible success is dependent upon the successful development and marketing of our services and products, as to which we can give no assurance. Any future success that we might enjoy will depend upon many factors, including factors out of our control or which cannot be predicted at this time. These factors may include changes in or increased levels of competition, including the entry of additional competitors and increased success by existing competitors, changes in general economic conditions, increases in operating costs, including costs of supplies, personnel, marketing and promotions, reduced margins caused by competitive pressures and other economic and non-economic factors. These conditions may have a materially adverse effect upon us or may force us

to reduce or curtail operations. In addition, we will require additional funds to sustain and expand our sales and marketing activities, particularly if a well-financed competitor emerges. We can give no assurance that financing will be available in amounts or on terms acceptable to us, if at all. Our inability to obtain sufficient funds from our operations or external sources could require us to curtail or cease operations.

If We Are Unable to Obtain Additional Funding Our Business Operations Will be Harmed and If We Do Obtain Additional Financing Our Then Existing Shareholders May Suffer Substantial Dilution.

Additional capital may be required to effectively support our operations and to otherwise implement our overall business strategy. However, we can give no assurance that financing will be available when needed on terms that are acceptable to us. Our inability to obtain additional capital will restrict our ability to grow and may reduce our ability to continue to conduct business operations. If we are unable to obtain additional financing, we will likely be required to curtail our marketing and development plans and possibly cease our operations. Any additional equity financing (or equity related financing such as convertible debt financing) may involve substantial dilution to our then existing shareholders.

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Our Independent Auditors Have Expressed Substantial Doubt About Our Ability to Continue As a Going Concern, and We Concur With This Assessment

In their report dated March 26, 2012, our independent auditors stated that our financial statements for the year ended December 31, 2011 were prepared assuming that we would continue as a going concern. Our ability to continue as a going concern is an issue raised as a result of our significant losses from operations since inception and our working capital deficiency. Our ability to continue as a going concern is subject to our ability to continue to generate a profit and/or obtain necessary funding from outside sources, including obtaining additional funding from the sale of our securities, increasing our sales of product or services or obtaining loans and grants from various financial institutions where possible.

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

In 2003, Next Day Gourmet initially contracted with our subsidiary, Food Innovations, to handle the distribution of over 3,000 perishable and specialty food products to customers of USF. In February 2010, Food Innovations signed a new contract with USF that expires in December 2012. Our sales through USF's sales force generated gross revenues for us of \$10,754,467 in the year ended December 31, 2011, and \$9,107,504 in the year ended December 31, 2010. Those amounts contributed 93% and 92%, respectively, of our total sales in those periods. Our sales efforts are for the most part substantially dependent upon the efforts of the USF sales force. Although we have generated revenues from additional customers other than USF, if our relationship with USF were to be materially changed and we are unable to generate substantial new sales to offset such loss, we may be forced to cease or curtail our operations.

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

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

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

We compete against other providers of quality foods, some of which sell their services globally, and some of these providers have considerably greater resources and abilities than we have. These competitors may have greater marketing and sales capacity, established distribution networks, significant goodwill and global name recognition. Furthermore, it may become necessary for us to reduce our prices in response to competition. This could negatively impact our ability to be profitable.

Our Success Depends on Our Acceptance by the Chef Community and if the Chef Community Does Not Accept Our Products Then Our Revenue Will be Severely Limited.

The chef community may not embrace our products. Acceptance of our services will depend on several factors, including: cost, product freshness, convenience, timeliness, strategic partnerships and reliability. Any of these factors could have a material adverse effect on our business, results of operations and financial condition. We also cannot be sure that our business model will gain wide acceptance among chefs. If the market fails to continue to develop, or develops more slowly than we expect, our business, results of operations and financial condition will be adversely affected.

We Rely Upon Outside Vendors and Shippers for Our Specialty Food Products and Interruption in the Supply of Our Products May Negatively Impact Our Revenues.

Shortages in supplies of the food products we sell may impair our ability to provide our services. Our vendors are independent and we cannot guarantee their future ability to source the products that we sell. Many of our products are wild-caught, and we cannot guarantee their availability in the future. Unforeseen strikes and labor disputes as well as adverse weather conditions may result in our inability to deliver our products in a timely manner. Since our customers rely on us to deliver their orders within 24-72 hours, delivery delays could significantly harm our business.

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

Changes in government regulation and supervision or proposed Department of Agriculture reforms could impair our sources of revenue and limit our ability to expand our business. In the event any future laws or regulations are enacted which apply to us, we may have to expend funds and/or alter our operations to insure compliance.

The Issuance of Shares Upon Conversion of Convertible Notes and Exercise of Outstanding Warrants May Cause Immediate and Substantial Dilution to Our Existing Stockholders.

The issuance of shares upon conversion of convertible notes and exercise of warrants may result in substantial dilution to the interests of other stockholders since the note/warrant holders may ultimately convert or exercise and sell the full amount of shares issuable on conversion/exercise. Although, for the most part, such note/warrant holders may not convert their convertible notes and/or exercise their warrants if such conversion or exercise would cause them to own more than 4.99% of our outstanding common stock unless waived in writing by the investor with 61 day notice to the Company, this restriction does not prevent them from converting and/or exercising some of their holdings, selling off those shares, and then converting the rest of their holdings. In this way, they could sell more than this limit while never holding more than this limit. We anticipate that eventually, over time, the full amount of the convertible notes will be converted into shares of our common stock, in accordance with the terms of the secured convertible notes, which will cause significant dilution to our other shareholders.

If We Are Required for any Reason to Repay Our Outstanding Convertible Notes We Would Be Required to Deplete Our Working Capital, If Available, or Raise Additional Funds.

We can be required to repay certain of our convertible notes or other notes. If we are required to repay a significant amount of these notes, we would be required to use our limited working capital and/or raise additional funds (which may be unavailable) which would have the effect of causing further dilution and lowering shareholder value.

We Have a History of Being In Default Under Certain Convertible Notes Which Could Result in Legal Action Against Us, Which Could Require the Sale of Substantial Assets.

While we have not received a notice of default under any of our outstanding notes, we have a history of being in default under certain of our outstanding convertible notes, including but not limited to notes currently overdue, and possibly could receive a notice of default in the future. This could require the early repayment of the convertible notes, including a default interest rate of 15% on the outstanding principal balance of the notes if the default is acted upon by the note holders and not cured within the specified grace period. In addition all our secured notes carry cross-default provisions. If we were unable to repay the notes when required, the note holders could commence legal action against us and foreclose on all of our assets to recover the amounts due. Any such action could require us to curtail or cease operations.

Our Revenues Can be Affected by Price Increases Imposed by our Carriers.

We deliver our products to our customers through third party overnight or express delivery carriers. If the carriers we use raise their shipping rates or add charges such as fuel surcharges and other charges, we will either have to absorb the increased costs which will put pressure on our bottom line or pass on the cost to our customers which may result in reduced sales if our customers are unwilling to pay the higher prices. Either way, such an increase in shipping costs will likely have a negative impact on our results of operations.

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

Stock.

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

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

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

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

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

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

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

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

ITEM 2. Properties

On October 17, 2008, we entered into a three-year lease with Grand Cypress Communities, Inc. for new premises consisting of 4,000 square feet at 3845 Beck Blvd., Naples, Florida. The commencement date of the lease is January 1, 2009. On November 11, 2011, the Company extended the lease with Grand Cypress Communities, Inc. for 3 years, commencing on January 1, 2012. The annual rent and fees under the lease is approximately \$54,000. The lease provides for a buyout option at the end of the lease with credit towards the purchase price received for the rental payments made during the term of the lease.

On October 1, 2011, the Company entered into a month-to-month lease with Grand Cypress Communities, Inc. for warehouse space consisting of 2,000 square feet at 3845 Back Blvd., Naples, Florida. The commencement date of this lease is October 1, 2011. The monthly rent and fees under this lease is \$848.

ITEM 3. Legal Proceedings

In September 2006, we commenced an action in New York Supreme Court, Nassau County, against Pasta Italiana, Inc., Robert Yandolino and Lloyd Braider (collectively "Pasta") to collect on outstanding promissory notes totaling \$360,000 (plus interest and collection expenses) of which \$65,000 was personally guaranteed by the two individual defendants. The defendants counterclaimed for an unspecified amount of damages due to our alleged breach of an agreement to purchase the corporate defendant.

On September 5, 2008, we reached a settlement agreement with Pasta. The settlement agreement (the "Pasta Settlement Agreement") calls for Pasta to pay to the Company \$165,000 of the principal amount of the note. Pasta is to make 36 monthly payments in the amount of \$4,500 beginning in September, 2008 and a final payment of \$3,000. The first of these 36 payments was received by the Company during the third quarter of 2008. Upon execution of the agreement, Pasta was also obligated to deliver to the Company 10% of its fully diluted common stock. This stock is valued at \$0 in the Company's financial statements for the period ended September 30, 2008. The Company was obligated to deliver to Pasta 1,500,000 shares of its common stock (valued at \$9,000 at September 5, 2008) and warrants to purchase an additional 1,000,000 shares of common stock at a price of \$0.012 (valued at \$5,977 at September 5, 2008). The Company recorded an impairment charge in the amount of \$142,124 during the three months ended September 30, 2008, representing the difference between the net book value of the Pasta receivable prior to the Pasta Settlement Agreement and the amount of the new note receivable negotiated

in the Pasta Settlement Agreement, plus the value of the Company's common stock and warrants provided to Pasta.

Interest will accrue at a rate of 8% on the unpaid portion of the \$138,050. The Company has not recorded interest income on this note in 2011. The accrued interest is to be paid semi-annually in shares of common stock of Pasta (the "Pasta Interest Shares"). The Pasta Interest Shares are valued at \$0 in the financial statements of the Company, and no interest income is recorded by the Company for these shares during the three months ended September 30, 2008.

During the year ended December 31, 2011, the Company reserved the remaining amount of the loan receivable to Pasta Italiana, Inc. in the amount of \$136,550. The Company increased its reserve for this loan in order to maintain a conservative financial statement presentation. The Company intends to vigorously pursue collection activities and will re-evaluate our reserve in future periods; any receipt of funds from Pasta will result in a credit to operations in the period received.

Pasta made several payments required by the settlement agreement, totaling \$26,950. Thereafter, Pasta defaulted on the next payment, and failed to cure its default within the required time period after a Notice of Default was sent to it. We are continuing discussions with Pasta in regards to resuming payments and continue examine all legal remedies available to us to insure compliance with the agreement. We intend to pursue the monies owed to us under the Pasta Settlement Agreement in a cost-effective manner.

ITEM 4. Mine Safety Disclosure

Not Applicable.

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PART II

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

Market Information

Prices for our common stock are quoted on the OTCQB. Since March 2004, our common stock has traded under the symbol "IVFH". Prior thereto, our common stock traded under the symbol "FBSN". 282,956,946 shares of our common stock were outstanding as of February 20, 2012. The following table sets forth the high and low closing sales prices of our common stock as reported in the OTCQB for each full quarterly period within the two most recent fiscal years.

| Fiscal Year Ending December 31, 2011 | HIGH | LOW |
|--------------------------------------|-----------|-----------|
| First Quarter | \$ 0.0092 | \$ 0.0064 |
| Second Quarter | 0.0085 | 0.0035 |
| Third Quarter | 0.0095 | 0.0070 |
| Fourth Quarter | 0.0088 | 0.0058 |
| | | |
| Fiscal Year Ending December 31, 2010 | HIGH | LOW |
| First Quarter | \$ 0.008 | \$ 0.002 |
| Second Quarter | 0.008 | 0.007 |
| Third Quarter | 0.010 | 0.007 |
| Fourth Quarter | 0.009 | 0.005 |

The quotations listed above reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions. On February 20, 2012, the closing price of our common stock as reported by the OTC Bulletin Board was \$0.0053.

Security Holders

On March 22, 2012, there were approximately 4,000 record holders of our common stock. In addition, we believe there are at least several hundred additional beneficial owners of our common stock whose shares are held in "street name."

Dividends

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

Recent Sales and Other Issuances of Our Equity Securities

During the twelve months ended December 31, 2011, the Company had the following transactions:

The Company issued 9,000,000 share of common stock for the settlement of a claim of a debt in the amount of \$63,000. The Company recorded a loss on the settlement of debt in the amount of \$63,000 to operations during the year ended December 31, 2011.

The Company issued 3,609,114 shares of common stock to directors for services. The value of these shares in the amount of \$22,000 was previously accrued.

The Company issued 67,977,529 shares of common stock in satisfaction of notes payable and accrued interest in the aggregate amount of \$410,964. A gain in the amount of \$165,326 was recorded on the transactions during the twelve months ended December 31, 2011. An additional 6,103,664 shares of common stock with a value of \$61,034 are due to be issued under these transactions as of December 31, 2011. This amount is shown as Common Stock Subscribed on the Company's balance sheet at December 31, 2011.

The Company issued 720,443 shares of common stock in error. The Company will return these shares for cancellation.

The Company cancelled 4,000,000 shares of common stock, which were issued in error by the transfer agent.

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

Derivative Securities Currently Outstanding

As of December 31, 2011 and 2010, the Company has issued convertible notes payable in the aggregate principal amount of \$1,109,481 and \$1,660,106, respectively, with accrued interest of \$693,085 and \$844,662, respectively, which, if converted to common stock, will result in our issuance of approximately 221,896,400 and 323,058,200 shares of common stock, respectively, at conversion rates ranging from \$0.005 to \$0.010 per share. The fair value of these embedded conversion options was \$1,245,761 and \$2,465,565 at December 31, 2011 and 2010, respectively. The Company revalues the conversion options at each reporting period, and charges any change in value to operations. During the years ended December 31, 2011 and 2010, the Company recorded a gain of \$595,967 and a loss of \$1,244,239, respectively, due to the change in value of the conversion option liability.

The Company has issued warrants for holders to purchase an additional 273,200,000 shares of common stock at December 31, 2011 and 2010. The fair value of these warrants was \$500,825 and \$1,183,175 at December 31, 2011 and 2010, respectively. The Company revalues the warrants at each reporting period, and charges any change in value to operations. During the years ended December 31, 2011 and 2010, the Company recorded a gain of \$682,350 and \$396,718, respectively, due to the change in value of the warrants.

The Company also has outstanding stock options to purchase an additional 48,500,000 and 63,500,000 shares of common stock at December 31, 2011 and 2010, respectively. The fair value of these stock options was \$161,884 and \$336,719 at December 31, 2011 and 2010, respectively. The Company revalues the stock options at each reporting period, and charges any change in value to operations. During the years ended December 31, 2011 and 2010, the Company recorded a gain of \$174,835 and a loss of \$23,683, respectively, due to the change in value of the stock options.

Securities Authorized for Issuance Under Equity Compensation Plans

As of December 31, 2011 we did not have any equity compensation plans. The following shares are issuable pursuant to individual employment arrangements:

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

| | | | | |
|--|------------|----|--------|-----|
| Equity compensation plans approved by security holders | None | | N/A | N/A |
| Equity compensation plans not approved by security holders | | | | |
| Stock options | 22,000,000 | \$ | 0.0070 | N/A |
| Stock options | 6,625,000 | \$ | 0.0076 | N/A |
| Stock options | 6,625,000 | \$ | 0.0095 | N/A |
| Stock options | 6,625,000 | \$ | 0.0090 | N/A |
| Stock options | 6,625,000 | \$ | 0.0096 | N/A |
| Total | 48,500,000 | \$ | 0.0072 | N/A |

ITEM 6. Selected Financial Data

Not Applicable.

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

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

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

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

Our ability to implement our business plan,

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

Our ability to employ and retain qualified management and employees,

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

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

Changes in the demand for our services,

The degree and nature of our competition,

The lack of diversification of our business plan,

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

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

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

Critical Accounting Policy and Estimates

Use of Estimates in the Preparation of Financial Statements

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

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On August 25, 2005, the Company entered into contracts which obligated the company under certain circumstances to issue shares of common stock in excess of the number of shares of common stock authorized. Under accounting guidance provided by FASB ASC 815-40-05, effective August 25, 2005 the Company began to account for all derivative financial instruments, including warrants, conversion features embedded in notes payable, and stock options, via the liability method of accounting. Accordingly, all these instruments are valued at issuance utilizing the Black-Scholes valuation method, and are re-valued at each period ending date, also using the Black-Scholes valuation method. Any gain or loss from revaluation is charged to operations during the period.

(a) Warrants:

The Company values warrants using the Black-Scholes valuation model. Warrants are valued upon issuance, and re-valued at each financial statement reporting date. Any change in value is charged to income or expense during the period. The following table illustrates certain key information regarding our warrants and warrant valuation assumptions at December 31, 2011 and 2010:

| | December 31, | |
|---|--------------|--------------|
| | 2011 | 2010 |
| Number of warrants outstanding | 273,200,000 | 273,200,000 |
| Value at December 31 | \$ 500,825 | \$ 1,183,175 |
| Number of warrants issued during the year | - | - |
| Value of warrants issued during the year | \$ - | \$ - |
| Revaluation gain (loss) during the year | \$ 682,350 | \$ 396,718 |
| Black-Scholes model variables: | | |
| | 92.52% - | 119.60% - |
| Volatility | 114.30% | 336% |
| Dividends | \$ 0 | \$ 0 |
| | 0.06% - | 0.19% - |
| Risk-free interest rates | 0.17% | 0.20% |
| Term (years) | 0.01 - 5.00 | 0.01-5.00 |

(b) Embedded conversion features of notes payable:

The Company accounts for conversion options embedded in convertible notes in accordance with ASC 815-10-05. ASC 815-10-05 generally requires companies to bifurcate conversion options embedded in convertible notes and preferred shares from their host instruments and to account for them as free standing derivative financial instruments in accordance with ASC 815-40-05.

The Company values embedded conversion features utilizing the Black-Scholes valuation model. Warrants are valued upon issuance, and re-valued at each financial statement reporting date. Any change in value is charged to income or expense during the period. The following table illustrates certain key information regarding our warrants and warrant valuation assumptions at December 31, 2011 and 2010:

| | December 31, | |
|--|--------------|-------------|
| | 2011 | 2010 |
| Number of conversion options outstanding | 221,896,400 | 323,058,200 |

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| | | | | |
|--|----|-------------------|----|-----------------|
| Value at December 31 | \$ | 1,245,761 | \$ | 2,465,565 |
| Number of options issued during the year | | - | | - |
| Value of options issued during the year | \$ | - | \$ | - |
| Number of options exercised or underlying notes paid during the year | | 102,662,000 | | 23,190,600 |
| Value of options exercised or underlying notes paid during the year | \$ | 623,837 | \$ | 163,666 |
| Revaluation gain (loss) during the year | \$ | 595,967 | \$ | (1,244,239) |
| Black-Scholes model variables: | | | | |
| Volatility | | 92.52% to 114.30% | | 119.60% to 336% |
| Dividends | | 0 | | 0 |
| Risk-free interest rates | | 0.06 to 0.17% | | 0.20% |
| Term (years) | | 10.00 | | 10.00 |

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(c) Stock options:

The Company accounts for options in accordance FASB ASC 718-40. Options are valued upon issuance, and re-valued at each financial statement reporting date, utilizing the Black-Scholes valuation model. Option expense is recognized over the requisite service period of the related option award. Any change in value is charged to income or expense during the period. The following table illustrates certain key information regarding our options and option assumptions at December 31, 2011 and 2010:

| | December 31, | |
|--|--------------|-------------|
| | 2011 | 2010 |
| Number of options outstanding | 48,500,000 | 63,500,000 |
| Value at December 31 | \$ 161,884 | \$ 336,719 |
| Number of options issued during the year | - | 26,500,000 |
| Value of options issued during the year | \$ - | 167,850 |
| Number of options recognized during the year pursuant to SFAS 123(R) | - | 26,500,000 |
| Value of options recognized during the year pursuant to SFAS 123(R) | \$ - | \$ 167,850 |
| Revaluation gain (loss) during the year | \$ 174,835 | \$ (23,683) |
| Black-Scholes model variables: | | |
| | 92.52% to | 119.60% to |
| Volatility | 114.30% | 336% |
| Dividends | 0 | 0 |
| | 0.06% - | 0.19% - |
| Risk-free interest rates | 0.17% | 0.20% |
| Term (years) | 0.15 - 5.00 | 0.15-5.00 |

Doubtful Accounts Receivable

The Company maintained an allowance in the amount of \$11,044 for doubtful accounts receivable at December 31, 2011, and \$22,061 at December 31, 2010. Actual losses on accounts receivable were \$13,841 for 2011 and \$3,571 for 2010. The Company has an operational relationship of several years with our major customers, and we believe this experience provides us with a solid foundation from which to estimate our expected losses on accounts receivable. Should our sales mix change or if we develop new lines of business or new customers, these estimates and our estimation process will change accordingly. These estimates have been accurate in the past.

Fair Value of Financial Instruments

The Company measures its financial assets and liabilities in accordance with accounting principles generally accepted in the United States of America. The estimated fair values approximate their carrying value because of the short-term maturity of these instruments or the stated interest rates are indicative of market interest rates. These fair values also vary due to the market price of the Company's stock at the date of valuation. Generally, these liabilities will increase as the price of the Company's stock increases (with resultant gain), and decrease as the Company's stock decreases (yielding a loss). These fluctuations are likely to continue as long as the Company has large financial instrument liabilities on its balance sheet. Should the Company succeed in removing these liabilities from its balance sheet, either by satisfying them or by reclassifying them as equity, the amount of gains and losses recognized will be reduced.

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. In February 2003 we changed our name to Fiber Application Systems Technology, Ltd.

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

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Transactions With a Major Customer

Transactions with a major customer and related economic dependence information is set forth (1) following our discussion of Liquidity and Capital Resources, (2) under the heading Transactions with Major Customers in Note 14 to the Consolidated Financial Statements, and (3) as the fourth item under Risk Factors.

RESULTS OF OPERATIONS

The following is a discussion of our financial condition and results of operations for the years ended December 31, 2011 and 2010.

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

Year Ended December 31, 2011 Compared to Year Ended December 31, 2010

Revenue

Revenue increased by \$1,690,087 or approximately 17% to \$11,552,813 for the year ended December 31, 2011 from \$9,862,726 in the prior year. The increase was attributable to a significant increase in sales of specialty items, and smaller increases in meat and game and cheese products, partially offset by decreases in seafood and poultry products. We continue to assess the potential of new revenue sources from the manufacture and sale of proprietary food products and additional sales channel opportunities and will implement that strategy if, based on our analysis, we deem it beneficial to us.

Any changes in the food distribution operating landscape that materially hinders our current ability and/or cost to deliver our 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 year ended December 31, 2011 was \$8,874,000, an increase of \$1,266,448 or approximately 17% compared to cost of goods sold of \$7,607,552 for the year ended December 31, 2010. Cost of goods sold is primarily made up of the following expenses for the year ended December 31, 2011: cost of good of specialty, meat, game, cheese poultry and other sales categories in the amount of \$6,117,869; and shipping expenses in the amount of \$2,360,529. The cost of goods sold increase is mainly associated with an increase in sales and gross margins improved slightly in 2011 as compared to 2010.

In 2011 we continued to aggressively price our products in order to gain market share and increase the number of our end users. We were successful in doing so and increased the number of our end users by approximately 34% to more than 28,300 end users. We currently expect if market conditions remain constant that our cost of goods sold will stabilize and likely remain at historical levels in the first half of 2012.

Selling, general, and administrative expenses

Selling, general, and administrative expenses decreased by \$83,197 or approximately 4%, to \$2,007,367 during the year ended December 31, 2011 compared to \$2,090,564 for the year ended December 31, 2010. Selling, general and administrative expenses were primarily made up of the following for the year ended December 31, 2011: payroll and related expenses, including employee benefits, in the amount of \$1,167,203; consulting and professional fees in the amount of \$266,400; insurance costs in the amount of \$115,051; facilities and related expenses in the amount of \$103,153; travel and entertainment expenses in the amount of \$73,280; office expense in the amount of \$73,135; computer support expenses in the amount of \$65,815; commissions expense in the amount of \$48,489; advertising expenses in the amount of \$37,883; and amortization and depreciation expense in the amount of \$14,034. The decrease in selling, general, and administrative expenses was primarily due to decreases in a non-cash item the change in fair value of the option liability in the amount of \$174,835 for the year ended December 31, 2011. We expect our legal fees to slightly increase in 2012 and our accounting fees in 2012 to remain constant. We do however expect to increase our spending on advertising and marketing and web development fees in 2012.

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Interest expense, net

Interest expense, net of interest income, increased by \$83,049 or approximately 17% to \$561,972 during the twelve months ended December 31, 2011, compared to \$478,923 during the twelve months ended December 31, 2010. The primary reason for the increase was due to the acceleration of the amortization of the discount on the notes payable, due to the principal payments made.

(Gain) on extinguishment of debt

During the year ended December 31, 2011, the Company entered into agreements (the “Notes Settlement Agreements”) with several convertible note holders regarding thirteen convertible notes in the aggregate amount of \$333,000 principal and \$236,924 accrued interest. Pursuant to the Notes Settlement Agreements, the Company made cash payments in the aggregate amount of \$181,604, and agreed to pay an additional \$12,500 by February 15, 2012. The Company also committed to issue a total of 27,949,964 shares and agreed to issue an additional 6,103,664 shares of common stock to the note holders. The Notes Settlement Agreements resulted in the aggregate gain on extinguishment of debt in the amount of \$165,326.

Loss on Settlement of Debt

During the year ended December 31, 2011, the Company entered into an agreement (the “Morren Settlement Agreement”) with an investor. Pursuant to the settlement terms of the Morren Settlement Agreement, the Company issued 9,000,000 shares of common stock in full satisfaction of this claim of liability. The fair value of these shares in the amount of \$63,000 was recorded as a loss on the settlement of debt during the year ended December 31, 2011.

Fair value of warrants issued in excess of discount on notes payable

During the year ended December 31, 2010, the Company extended the date of warrants to purchase an aggregate of 132,000,000 shares of common stock. The Company valued this extension at \$134,216. During the year ended December 31, 2010, the Company executed a second extension of the expiration date of these 132,000,000 warrants along with the expiration date of warrants to purchase an additional 68,200,000 shares of common stock. The Company valued the extension of these warrants at \$813,824, which the Company charged to operations during the year ended December 31, 2010. There is no comparable activity for the year ended December 31, 2011.

Gain from change in fair value of warrant liability

At December 31, 2011, the Company had outstanding warrants to purchase an aggregate of 273,200,000 shares of the Company’s common stock. The Company valued the warrant liability at December 31, 2011 at \$500,825. This revaluation resulted in a gain of \$682,350 which the Company included in operations during the year ended December 31, 2011. This is an increase of \$285,632 or approximately 72% compared to a gain of \$396,718 from the revaluation of the warrant liability which the Company recorded during the year ended December 31, 2010.

Loss (Gain) from change in fair value of conversion option liability

At December 31, 2011, the Company had outstanding a liability to issue an aggregate of 221,896,400 shares of the Company’s common stock pursuant to convertible notes payable. The Company revalued this liability at December 31, 2011 at \$1,245,761. This revaluation resulted in a gain of \$595,967 which the Company included in operations for the year ended December 31, 2011. This is an increase of \$1,840,206 or approximately 148% compared to a loss of \$1,244,239 from the revaluation of the conversion option liability which the Company recorded during the year ended December 31, 2010.

Net (loss) Income

For the reasons above, the Company had a net income for the year ended December 31, 2011 of \$1,490,117, an increase of \$3,599,991 compared to a net loss of \$2,109,874 during the twelve months ended December 31, 2010. In 2011 operating income improved due to increases in sales, slightly improving gross margins and a 4% decrease in selling, general, and administrative expenses in 2011 as compared to 2010.

Liquidity and Capital Resources at December 31, 2011

As of December 31, 2011, the Company had current assets of \$1,403,896, consisting of cash of \$862,464, trade accounts receivable of \$493,700, inventory of \$42,312, and other current assets of \$5,420. Also at December 31, 2011, the Company had current liabilities of \$4,793,909, consisting of accounts payable and accrued liabilities of \$1,082,870 (of which \$157,080 is payable to a related party); accrued interest of \$663,691; accrued interest – related parties of \$29,396; current portion of notes payable, net of discounts of \$978,982; current portion of notes payable – related parties, net of discounts of \$130,500; warrant liability of \$500,825; option liability of \$161,884; and conversion option liability of \$1,245,761.

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During the twelve months ended December 31, 2011, the Company had generated cash from operating activities of \$594,564. This consisted of the Company's net income of \$1,490,117, offset by charges to operations \$14,034 for depreciation and amortization, \$147,594 for the reserve of bad debt, \$292,545 for the amortization of the discount on notes payable, \$148,399 for the amortization of the discount on accrued interest, \$165,326 gain for the extinguishment of debt, \$63,000 loss on the settlement of debt, \$682,350 gain for the revaluation of the warrant liability, \$595,967 gain for the revaluation of the conversion option liability, and a \$174,835 gain for the revaluation of the option liability. The Company's results also reflect a decrease in working capital deficiency of \$57,352.

The Company had cash used by investing activities of \$7,067 in 2011, which consisted of payments received on a loan receivable of \$1,500 offset by acquisitions of property and equipment of \$8,468 and the repurchase of treasury stock in the amount of \$99.

The Company had cash used by financing activities of \$243,115, in 2011, which consisted of principal payments on debt of \$243,115.

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

The Company's current liabilities exceeded its current assets by \$3,390,013 as of December 31, 2011. By adjusting its operation and development to the level of available resources, management believes it has sufficient capital resources to meet projected cash flow through the next twelve months. The Company also intends to focus on increasing market share and cash flow from operations by focusing its sales activities on specific market segments and new product lines. However, if thereafter, the Company is not successful in generating sufficient liquidity from operations or in raising sufficient capital resources, on terms acceptable to us, this could have a material adverse effect on our business, results of operations, liquidity and financial condition. Currently, we do not have any material long-term obligations other than those described in Note 8 to the financial statements included in this report. As we seek to increase our sales of perishables, as well as identify new and other consumer oriented products and services, we may use existing cash reserves, long-term financing, or other means to finance such diversification.

If the Company's cash flow from operations is insufficient, the Company may require additional financing in order to execute its operating plan and continue as a going concern. The Company cannot predict whether this additional financing will be in the form of equity or debt, or be in another form. The Company may not be able to obtain the necessary additional capital on a timely basis, on acceptable terms, or at all. The Company expects that any sale of additional equity securities or convertible debt will result in additional dilution to our stockholders.

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.

The independent auditors' reports on our December 31, 2011 and 2010 financial statements included in this Annual Report states that our working capital deficiency raises substantial doubts about our ability to continue as a going concern.

2012 Plans

During 2012, in addition to our efforts to increase sales in our existing foodservice operations we plan to expand our business by expanding our focus to additional Foodservice markets, exploring potential acquisition opportunities and

continuing to extend our focus from a mainly wholesale foodservice business directed towards chefs to commencing retail sales by making sales direct to consumers through a variety of direct to consumer 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, to leverage our existing foodservice 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.

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Inflation

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

Transactions With Major Customers

The Company's largest customer, USF and its affiliates, accounted for approximately 93% and 92% of total sales in the years ended December 31, 2011 and 2010, respectively. A contract with USF expires December 31, 2012. No other customer accounted for more than 1% of our net revenue.

We continue to conduct business with USF.

Stock-based Compensation

Effective January 1, 2006, the Company adopted FASB ASC 718-40. This statement requires the Company to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost is recognized over the period in which the employee is required to provide service in exchange for the award, which is usually the vesting period.

In August 2005, the Company's commitments to issue shares of common stock first exceeded its common stock authorized. At this time, the Company began to value its stock options via the liability method of accounting. Pursuant to guidance in ASC 718-40 the cost of these options are valued via the Black-Scholes valuation method when issued, and re-valued at each reporting period. The gain or loss from this revaluation is charged to compensation expense during the period.

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ITEM 8. Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of

Innovative Food Holdings, Inc.

Naples, Florida

We have audited the accompanying consolidated balance sheet of Innovative Food Holdings, Inc., and subsidiaries (“the Company”) as of December 31, 2011 and 2010 and the related consolidated statements of operations, stockholders' deficiency, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have nor were we engaged to perform, an audit of its Internal Control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2011 and 2010 and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1, the Company has incurred significant losses from operations since its inception and has a working capital deficiency. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ RBSM LLP

New York, NY

March 26, 2012

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Innovative Food Holdings, Inc. and Subsidiaries
Consolidated Balance Sheets

| | December 31, | |
|--|--------------|--------------|
| | 2011 | 2010 |
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 862,464 | \$ 518,082 |
| Accounts receivable, net | 493,700 | 427,559 |
| Loan receivable | - | 138,050 |
| Inventory | 42,312 | 52,657 |
| Other current assets | 5,420 | 5,420 |
| Total current assets | 1,403,896 | 1,141,768 |
| Property and equipment, net | 18,222 | 23,788 |
| Total | \$ 1,422,118 | \$ 1,165,556 |
| LIABILITIES AND STOCKHOLDERS' DEFICIENCY | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | \$ 925,790 | \$ 815,161 |
| Accrued liabilities- related parties | 157,080 | 244,645 |
| Accrued interest, net of discount | 663,691 | 646,876 |
| Accrued interest - related parties, net of discount | 29,396 | 197,786 |
| Notes payable, current portion, net of discount | 978,982 | 1,022,061 |
| Notes payable - related parties, current portion, net of discount | 130,500 | 345,500 |
| Warrant liability | 500,825 | 1,183,175 |
| Option liability | 161,884 | 336,719 |
| Conversion option liability | 1,245,761 | 2,465,565 |
| Total current liabilities | 4,793,909 | 7,257,488 |
| Stockholders' deficiency | | |
| Common stock, \$0.0001 par value; 500,000,000 shares authorized; 293,692,189 and 216,385,103 shares issued, and 282,956,546 and 202,385,103 shares outstanding at December 31, 2011 and 2010, respectively | 29,369 | 21,639 |
| Additional paid-in capital | 3,745,505 | 2,584,146 |
| Common stock subscribed | 61,034 | - |
| Treasury stock, 15,200 and none shares, respectively | (99) | - |
| Accumulated deficit | (7,207,600) | (8,697,717) |
| Total stockholders' deficiency | (3,371,791) | (6,091,932) |
| Total | \$ 1,422,118 | \$ 1,165,556 |

See notes to consolidated financial statements.

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

| | Year Ended December 31, | |
|---|-------------------------|----------------|
| | 2011 | 2010 |
| Revenue | \$ 11,552,813 | \$ 9,862,726 |
| Cost of goods sold | 8,874,000 | 7,607,552 |
| Gross margin | 2,678,813 | 2,255,174 |
| Selling, general and administrative expenses | 2,007,367 | 2,090,564 |
| Operating income | 671,446 | 164,610 |
| Other expense (income): | | |
| Interest expense | 561,972 | 478,923 |
| Gain on extinguishments of debt | (165,326) | - |
| Loss on settlement of debt | 63,000 | - |
| Fair value of warrants issued in excess of discount on notes | - | 948,040 |
| Gain from change in fair value of warrant liability | (682,350) | (396,718) |
| Loss(gain) from change in fair value of conversion option liability | (595,967) | 1,244,239 |
| | (818,671) | 2,274,484 |
| (Loss) income before income tax expense | 1,490,117 | (2,109,874) |
| Income tax expense | - | - |
| Net (loss) income | \$ 1,490,117 | \$ (2,109,874) |
| Net (loss) income per share - basic | \$ 0.01 | \$ (0.01) |
| Net (loss) income per share- diluted | \$ 0.01 | \$ (0.01) |
| Weighted average number of shares outstanding - basic | 219,122,957 | 196,674,996 |
| Weighted average number of shares outstanding- diluted | 730,107,709 | 196,674,996 |

See notes to consolidated financial statements.

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

| | Year Ended December 31, | |
|--|-------------------------|----------------|
| | 2011 | 2010 |
| Cash flows from operating activities: | | |
| Net (loss) income | \$ 1,490,117 | \$ (2,109,874) |
| Adjustments to reconcile net (loss) income to net cash provided by operating activities: | | |
| Depreciation and amortization | 14,034 | 24,616 |
| Non-cash compensation | - | 192,409 |
| Reserve for bad debt | 147,594 | 22,061 |
| Fair value of warrants issued | - | 948,040 |
| Amortization of discount on notes payable | 292,545 | 197,297 |
| Amortization of discount on accrued interest | 148,399 | 130,170 |
| Gain on extinguishment of debt | (165,326) | - |
| Loss on settlement of debt | 63,000 | - |
| Change in fair value of warrant liability | (682,350) | (396,718) |
| Change in fair value of option liability | (174,835) | 23,682 |
| Change in fair value of conversion option liability | (595,967) | 1,244,239 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable, net | (77,185) | (110,414) |
| Prepaid expenses and other current assets | 10,345 | (32,881) |
| Accounts payable and accrued expenses- related party | (6,769) | 93,442 |
| Accounts payable and accrued expenses | 130,962 | 242,861 |
| Net cash provided by operating activities | 594,564 | 468,930 |
| Cash flows from investing activities: | | |
| Principal payments received on loan | 1,500 | 5,000 |
| Purchase of treasury stock | (99) | - |
| Acquisition of property and equipment | (8,468) | (14,706) |
| Net cash used in by investing activities | (7,067) | (9,706) |
| Cash flows from financing activities: | | |
| Principal payments on debt | (243,115) | (85,907) |
| Net cash used in financing activities | (243,115) | (85,907) |
| Net increase in cash and cash equivalents | 344,382 | 373,317 |
| Cash and cash equivalents at beginning of year | 518,082 | 144,765 |
| Cash and cash equivalents at end of year | \$ 862,464 | \$ 518,082 |

See notes to consolidated financial statements.

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

| | Year Ended December 31, | |
|--|-------------------------|-----------|
| | 2011 | 2010 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid during the period for: | | |
| Interest | \$ 31,304 | \$ 817 |
| Taxes | \$ - | \$ - |
| Other items not affecting cash: | | |
| Common stock issued for conversion of notes payable and accrued interest | \$ 318,634 | \$ 84,892 |

See notes to consolidated financial statements.

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Innovative Food Holdings, Inc. and Subsidiaries
 Consolidated Statements of Changes in Stockholders' Deficiency
 For the two years ended December 31, 2011

| | Common Stock | | Additional Paid-In Capital | Common Stock Subscribed | Treasury Stock | | Accumulated Deficit | Total |
|---|---------------------|--------------|----------------------------------|-------------------------------|------------------------|-------|------------------------|---------------|
| | Number of Shares | Par Value | | | Number of Shares | Value | | |
| Balance as of December 31, 2009 | 194,638,638 | \$ 19,464 | \$ 2,197,413 | \$ - | - | \$- | \$ (6,587,843) | \$(4,370,966) |
| Common stock issued for the conversion of notes payable and accrued interest | 16,996,465 | 1,700 | 83,282 | - | - | - | - | 84,982 |
| Common stock issued pursuant to consulting agreements | 750,000 | 75 | 5,925 | - | - | - | - | 6,000 |
| Common stock issued in error | 4,000,000 | 400 | (400) | - | - | - | - | - |
| Discount due to beneficial conversion feature of interest accrued on convertible notes payable | - | - | 134,260 | - | - | - | - | 134,260 |
| Reclassification from conversion options liability to equity | - | - | 163,666 | - | - | - | - | 163,666 |
| Net loss for the year ended December 31, 2010 | - | - | - | - | - | - | (2,109,874) | (2,109,874) |
| Balance as of December 31, 2010 | 216,385,103 | \$ 21,639 | \$ 2,584,146 | \$ - | - | \$- | \$ (8,697,717) | \$(6,091,932) |

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Innovative Food Holdings, Inc. and Subsidiaries
Consolidated Statements of Changes in Stockholders' Deficiency
For the two years ended December 31, 2011 (continued)

| | Common Stock | | | Common Stock Subscribed | Treasury Stock | | Accumulated Deficit | Total |
|--|---------------------|--------------|----------------------------------|-------------------------------|------------------------|-------|------------------------|-----------|
| | Number of Shares | Par Value | Additional Paid-In Capital | | Number of Shares | Value | | |
| Shares repurchased and held in treasury | - | - | - | - | 15,200 | (99) | - | (99) |
| Common stock issued to director for services | 3,609,114 | 361 | 21,639 | - | - | - | - | 22,000 |
| Common stock issued for settlement of debt | 9,000,000 | 900 | 62,100 | - | - | - | - | 63,000 |
| Common stock issued for the conversion of notes payable and accrued interest | 67,977,529 | 6,797 | 343,133 | 61,034 | - | - | - | 410,964 |
| Common stock issued in error | 720,443 | 72 | (72) | - | - | - | - | - |
| Cancellation of shares of common stock issued in error | (4,000,000) | (400) | 400 | - | - | - | - | - |
| Discount due to beneficial conversion feature of interest accrued on convertible notes payable | - | - | 110,322 | - | - | - | - | 110,322 |
| Reclassification from conversion options liability to equity | , | , | 623,837 | - | - | - | - | 623,837 |
| | - | - | - | - | - | - | 1,490,117 | 1,490,117 |

Income for the
year ended
December 31,
2011

Balance as of
December 31,
2011

| | | | | | | | |
|-------------|----------|-------------|-----------|--------|---------|---------------|---------------|
| 293,692,189 | \$29,369 | \$3,745,505 | \$ 61,034 | 15,200 | \$(99) | \$(7,207,600) | \$(3,371,791) |
|-------------|----------|-------------|-----------|--------|---------|---------------|---------------|

See notes to consolidated financial statements.

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INNOVATIVE FOOD HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business Activity

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

Use of Estimates

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

Principles of Consolidation

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

Revenue Recognition

The Company recognizes revenue upon product delivery. We ship all our products either overnight shipping terms or three day shipping terms to the customer and the customer takes title to product and assumes risk and ownership of the product when it is 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. ASC 605-15-05 incorporates ASC 605-25-05 "Multiple-Deliverable Revenue Arrangements". ASC 605-25-05 addresses accounting for arrangements that may involve the delivery or performance of multiple products, services and/or rights to use assets. The effect of implementing ASC 605-25-05 on the Company's consolidated

financial position and results of operations was not significant.

This issue addresses determination of whether an arrangement involving more than one deliverable contains more than one unit of accounting and how the arrangement consideration should be measured and allocated to the separate units of accounting. ASC 605-25-05 became effective for revenue arrangements entered into in periods beginning after June 15, 2003. For revenue arrangements occurring on or after August 1, 2003, the Company revised its revenue recognition policy to comply with the provisions of ASC 605-25-05.

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 the product plus the shipping costs.

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INNOVATIVE FOOD HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

Selling, general, and administrative expenses

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

Cash and Cash Equivalents

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

Accounts Receivable

The Company provides an allowance for doubtful accounts equal to the estimated uncollectible amounts. The Company's estimate is based on historical collection experience and a review of the current status of trade accounts receivable. It is reasonably possible that the Company's estimate of the allowance for doubtful accounts will change. Accounts receivable are presented net of an allowance for doubtful accounts of \$11,044 and \$22,061 at December 31, 2011 and 2010, respectively.

Property and Equipment

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

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

| | |
|-------------------------------|---------|
| Computer | 3 years |
| Equipment | |
| Office Furniture and Fixtures | 5 years |

Inventories

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

Income Taxes

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

Fair Value of Financial Instruments

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

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

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INNOVATIVE FOOD HOLDINGS, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

Long-Lived Assets

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

As of December 31, 2011, the Company's management believes there is no impairment of its long-lived assets. There can be no assurance, however, that market conditions will not change which could result in impairment of long-lived assets in the future.

Comprehensive Income

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

Basic and Diluted Loss Per Share

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

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

Diluted earnings per share was computed as follows for the year ended December 31, 2011:

| | Income (Numerator) | Shares (Denominator) | Per-Share Amount |
|---|-----------------------|-------------------------|---------------------|
| Basic earnings per share | \$ 1,490,117 | 293,692,189 | \$ 0.01 |
| Effect of Dilutive Securities | | | |
| Conversion of notes and interest into common stock: | | | |
| Additional shares | | 419,222,342 | |
| Decrease in interest expense due to conversion | 693,087 | | |

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| | | | | |
|---|-------------|-------------|----|------|
| Remove gain on revaluation of conversion option liability | (1,768,724) | | | |
| Shares accrued, not yet issued | | 17,193,178 | | |
| Diluted earnings per share | \$ 414,480 | 730,107,709 | \$ | 0.01 |

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INNOVATIVE FOOD HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

Anti-dilutive shares at December 31, 2011:

For the year ended December 31, 2011, the Company excluded warrants to purchase 93,500,000 shares because the warrant exercise prices were greater than the average market price of the common shares. In addition, the Company has excluded in the calculation of dilutive loss per share 48,500,000 shares issuable upon the exercise of options at \$0.0076-\$0.0096 per share.

Anti-dilutive shares at December 31, 2010:

For the year ended December 31, 2010, the Company excluded warrants to purchase 92,500,000 shares because the warrant exercise prices were greater than the average market price of the common shares. In addition, the Company has excluded in the calculation of dilutive loss per share 7,467,720 shares issuable upon the conversion of debt and convertible interest; 48,500,000 shares issuable upon the exercise of options at \$0.0076-\$0.0096 per share and 3,000,000 shares of common stock the Company has committed to issue to its President.

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 December 31, 2011 and 2010, trade receivables from the Company's largest customer amount to 93% and 86%, respectively, of total trade receivables.

Reclassification

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

Stock-based Compensation

Effective January 1, 2006, the Company adopted FASB ASC 718-40. This statement requires the Company to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost is recognized over the period in which the employee is required to provide service in exchange for the award, which is usually the vesting period.

In August 2005, the Company's commitments to issue shares of common stock first exceeded its common stock authorized. At this time, the Company began to value its stock options via the liability method of accounting. Pursuant to guidance in ASC 718-40 the cost of these options are valued via the Black-Scholes valuation method when issued, and re-valued at each reporting period. The gain or loss from this revaluation is charged to compensation expense during the period. Options expense and gain or loss on revaluation during the twelve months ended December 31, 2011 and 2010 are summarized in the table below:

| | December 31, | |
|--|--------------|------|
| | 2011 | 2010 |

| | | | | |
|---------------------------------------|----|-----------|----|---------|
| Option expense | \$ | - | \$ | 168,409 |
| (Gain) loss on revaluation of options | \$ | (174,834) | \$ | 23,683 |

Going Concern

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Company as a going concern. The Company's current liabilities exceeded its current assets by \$3,390,013 as of December 31, 2011. However, the Company has reported a net income for the year ended December 31, 2011, due to both cash earnings and to non-cash items related to the revaluation of warrant liability and conversion option liability.

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INNOVATIVE FOOD HOLDINGS, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

The Company is working to manage its current liabilities while it continues to make changes in operations to further improve its cash flow and liquidity position. Management believes the Company will generate sufficient capital from operations and from debt and equity financing in order to satisfy current liabilities in the succeeding twelve months. Management's belief is based, if necessary, on the Company's operating plans, which in turn is based on assumptions that may prove to be incorrect.

If the Company's the cash flow from operations is insufficient, the Company may require additional financing in order to execute its operating plan and continue as a going concern. The Company cannot predict whether this additional financing will be in the form of equity or debt, or be in another form. The Company may not be able to obtain the necessary additional capital on a timely basis, on acceptable terms, or at all. In any of these events, the Company may be unable to implement its current plans for expansion, repay its debt obligations as they become due or respond to competitive pressures, any of which circumstances would have a material adverse effect on its business, prospects, financial condition and results of operations. The Company has not made any adjustments to the financial statements which would be necessary should the Company not be able to continue as a going concern.

Significant Recent Accounting Pronouncements

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

2. ACCOUNTS RECEIVABLE

At December 31, 2011 and 2010, accounts receivable consists of:

| | 2011 | 2010 |
|------------------------------------|------------|------------|
| Accounts receivable from customers | \$ 504,744 | \$ 449,620 |
| Allowance for doubtful accounts | (11,044) | (22,061) |
| Accounts receivable, net | \$ 493,700 | \$ 427,559 |

3. LOAN RECEIVABLE AND INTEREST RECEIVABLE

The balance of loan receivable consisted of a loan to Pasta Italiana, Inc. ("Pasta") in the net carrying amount of \$0 and \$138,050 at December 30, 2011 and 2010, respectively. This note bears interest at the rate of 8% per annum, payable in shares of Pasta stock. The company has not received a payment on this loan since March, 2011; the entire amount of this loan is currently past due. During the year ended December 31, 2011, the Company reserved the remaining amount of the loan receivable to Pasta Italiana, Inc. in the amount of \$136,550. The Company increased its reserve for this loan in order to maintain a conservative financial statement presentation. We intend to vigorously pursue collection activities and we will re-evaluate our reserve in future periods; any receipt of funds from Pasta will result in a credit to operations in the period received.

| | 2011 | 2010 |
|--|------------|------------|
| Loan receivable | \$ 136,550 | \$ 138,050 |
| Reserve | (136,550) | - |
| Net carrying amount of loan receivable | \$ - | \$ 138,050 |

4. INVENTORY

Inventory consists of specialty products which are warehoused in Naples, Florida; and prepaid meat products held by our meat vendors. At December 31, 2011 and 2010, finished goods inventory is as follows:

| | 2011 | 2010 |
|--------------------------|-----------|-----------|
| Finished goods inventory | \$ 42,312 | \$ 52,657 |

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INNOVATIVE FOOD HOLDINGS, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

5. PROPERTY AND EQUIPMENT

A summary of property and equipment at December 31, 2011 and 2010 is as follows:

| | 2011 | 2010 |
|--|------------|------------|
| Computer hardware and software | \$ 321,716 | \$ 320,800 |
| Furniture and fixtures | 74,850 | 67,298 |
| | 396,566 | 388,098 |
| Less accumulated depreciation and amortization | (378,344) | (364,310) |
| Total | \$ 18,222 | \$ 23,788 |

Depreciation and amortization expense for property and equipment amounted to \$14,034 and \$24,616 for the year ended December 31, 2011 and 2010, respectively.

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at December 31, 2011 and 2010 are as follows:

| | 2011 | 2010 |
|---------------------------------|------------|------------|
| Trade payables | \$ 891,785 | \$ 788,137 |
| Accrued payroll and commissions | 34,005 | 27,024 |
| Total | \$ 925,790 | \$ 815,161 |

At December 31, 2011 and 2010, accrued liabilities to related parties consisted of accrued payroll and payroll related benefits.

7. ACCRUED INTEREST

Accrued interest on the Company's convertible notes payable is convertible at the option of the note holders into the Company's common stock at \$0.005. There is a beneficial conversion feature embedded in the convertible accrued interest, which can be exercised at any time by the note holders. The Company is amortizing this beneficial conversion feature over the life of the related notes payable. Certain of the notes payable have exceeded their stated terms, and are still outstanding; in those instances, the Company expenses the value of the beneficial conversion feature on the accrued interest immediately.

During the twelve months ended December 31, 2011 and 2010, the amounts of \$110,322, and \$134,260, respectively, were credited to additional paid-in capital as a discount on convertible interest. The aggregate amount of discounts on convertible interest charged to operations during the twelve months ended December 31, 2011 and 2010 was \$148,399 and \$130,170, respectively.

At December 31, 2011, the Company has the following accrued interest on its balance sheet:

| Gross | Discount | Net |
|-------|----------|-----|
|-------|----------|-----|

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| | | | | | | |
|---------------------|----|---------|----|---|----|---------|
| Non-related parties | \$ | 663,691 | \$ | - | \$ | 663,691 |
| Related parties | | 29,396 | | - | | 29,396 |
| Total | \$ | 693,887 | \$ | - | \$ | 693,887 |

At December 31, 2010, the Company has the following accrued interest on its balance sheet:

| | | Gross | | Discount | | Net |
|---------------------|----|---------|----|----------|----|---------|
| Non-related parties | \$ | 685,448 | \$ | 38,572 | \$ | 646,876 |
| Related parties | | 197,786 | | - | | 197,786 |
| Total | \$ | 883,234 | \$ | 38,572 | \$ | 844,662 |

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INNOVATIVE FOOD HOLDINGS, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

Certain of the accrued interest is convertible in to shares of the Company's common stock at \$0.005 per share. At December 31, 2011, convertible accrued interest was \$693,085 which is convertible into 32,355,571 shares of common stock; at December 31, 2010, convertible accrued interest was \$844,662 which was convertible into 165,053,920 shares of common stock.

8. NOTES PAYABLE AND NOTES PAYABLE TO RELATED PARTIES

| | December 31, 2011 | December 31, 2010 |
|--|----------------------|----------------------|
| <p>Convertible secured note payable in the original amount of \$350,000 originally payable to Alpha Capital Aktiengesellschaft ("Alpha Capital"), dated February 25, 2005. This note consists of \$100,000 outstanding under a previous note payable which was cancelled on February 25, 2005, and \$250,000 of new borrowings. We did not meet certain of our obligations under the loan documents relating to this issuance. These lapses include not reserving the requisite number of treasury shares, selling subsequent securities without offering a right of first refusal, not complying with reporting obligations, not having our common shares quoted on the OTC:BB and not timely registering certain securities. This note entered technical default status on May 16, 2005. The note originally carried interest at the rate of 8% per annum, and was due in full on February 24, 2007. Upon default, the note's interest rate increased to 15% per annum, and the note became immediately due. This note contains a cross default provision. The note is convertible into common stock of the Company at a conversion price of \$0.005 per share. A beneficial conversion feature in the amount of \$250,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2005. Accrued interest is convertible into common stock of the Company at a conversion price of \$0.005 per share. Interest in the amount of \$26,128 and \$27,597 was accrued on this note during the twelve months ended December 31, 2011 and 2010, respectively. During the twelve months ended December 31, 2006 the note holder converted \$5,000 into shares of common stock. During the twelve months ended December 31, 2006 the holder of the note converted \$27,865 of accrued interest into common stock. In April 2009, the noteholder agreed to waive the default interest rate of 15%, and the note resumed accruing interest at the rate of 8% per annum. During the year ended December 31, 2011, the note holder converted \$81,500 of principal and \$46,793 of accrued interest into 25,658,616 shares of common stock. This note was initially past due at December 31, 2008. This note was previously extended until January 1, 2010. During the three months ended June 30, 2010, the noteholder agreed to further extend the maturity date of this note until April 15, 2011. This note is past due as of December 31, 2011.</p> | \$ 263,500 | \$ 345,000 |
| <p>Convertible note payable in the original amount of \$100,000 originally payable to Joel Gold, a board member and related party, dated October 12, 2004. The note bears interest at the rate of 8% per annum, has no provisions for a default or past due rate and was due in full on October 12, 2006. The note is convertible by the</p> | - | 25,000 |

holder into common stock of the Company at a conversion price of \$0.005 per share. A beneficial conversion feature in the amount of \$100,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2004 and 2005. Accrued interest is convertible by the holder into common stock of the Company at maturity of the note at a price of \$0.005 per share. Interest in the amount of \$810 and \$1,999 was accrued on this note during the twelve months ended December 31, 2011 and 2010, respectively. During the twelve months ended December 31, 2006, \$75,000 of the principal amount was converted into common stock. During the year ended December 31, 2011, the Company entered into an agreement with the noteholder whereby the Company, committed to issue 4,635,682 shares of common stock for the conversion of \$23,298 of convertible accrued interest, and the noteholder forgave the principal of the note in the amount of \$25,000. This resulted in a gain on the extinguishment of debt in the amount of \$25,120.

Convertible note in the amount of \$85,000 originally payable to Briquette Investments, Ltd, dated March 11, 2004. The note bears interest at the rate of 8% per annum, has no provisions for a default or past due rate and was due in full on March 11, 2006. The note is convertible into common stock of the Company at a conversion price of \$0.005 per share. A beneficial conversion feature in the amount of \$85,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2004, 2005, and 2006. During the twelve months ended December 31, 2005, the note holder converted \$44,000 of the note payable into common stock. During the twelve months ended December 31, 2006, the Company made a \$3,000 cash payment on the principal amount of the note. On December 21, 2006, this note was transferred to Whalehaven Capital Fund, Ltd. (“Whalehaven”). Accrued interest is convertible by the holder into common stock of the Company at a price of \$0.005 per share. Interest in the amount of \$2,198 and \$3,039 was accrued on this note during the twelve months ended December 31, 2011 and 2010, respectively. During the year ended December 31, 2009, the noteholder agreed to extend the maturity date until February 15, 2010. During the year ended December 31, 2010, the noteholder agreed to extend the maturity date of this note until April 15, 2011. On September 21, 2011, this note was sold to Alpha Capital Anstalt in the amount of \$21,478 of principal and accrued interest in the amount of \$13,938 to Osher Capital Patners LLC in the amount of \$9,638 in principal and \$6,254 of accrued interest, and to Assameka Capital, Inc. in the amount of \$6,884 in principal and \$4,467 of accrued interest.

- 38,000

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|---|----------------------|----------------------|
| Reference is made to the convertible note in the amount of \$38,000 originally payable to Whalehaven, dated December 21, 2006. On September 21, 2011, a portion of that note was sold to Alpha in the amount of \$21,478 of principal and accrued interest in the amount of \$13,938. Interest in the amount of \$235 and \$0 was accrued on this note during the twelve months ended December 31, 2011 and 2010, respectively. This note is past due at December 31, 2011. | 21,478 | - |
| Reference is made to the convertible note in the amount of \$38,000 originally payable to Whalehaven, dated December 21, 2006. On September 21, 2011, a portion of that note was sold to Osher Capital Partners LLC in the amount of \$9,638 of principal and accrued interest in the amount of \$6,254. Interest in the amount of \$158 and \$0 was accrued on this note during the twelve months ended December 31, 2011 and 2010, respectively. This note is past due at December 31, 2011. | 9,638 | - |
| Reference is made to the convertible note in the amount of \$38,000 originally payable to Whalehaven, dated December 21, 2006. On September 21, 2011, a portion of that note was sold to Assameka Capital Inc. in the amount of \$6,884 of principal and accrued interest in the amount of \$4,467. Interest in the amount of \$14 and \$0 was accrued on this note during the twelve months ended December 31, 2011 and 2010, respectively. This note is past due at December 31, 2011. | 6,884 | - |
| Convertible note payable in the amount of \$80,000 originally payable to Brown Door, Inc., dated March 11, 2004. The note bears interest at the rate of 8% per annum, has no provisions for a default or past due rate and was due in full on March 11, 2006. The note is convertible into common stock of the Company at a conversion price of \$0.005 per share. A beneficial conversion feature in the amount of \$80,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2004, 2005, and 2006. Accrued interest is convertible by the holder into common stock of the Company at maturity of the note at a price of \$0.005 per share. Interest in the amount of \$2,263 and \$6,403 was accrued on this note during the twelve months ended December 31, 2011 and 2010, respectively. During the year ended December 31, 2011, the Company entered into an agreement with the note holder for the extinguishment of the debt, whereby the Company made a cash payment of \$90,875, which represented a payment of \$68,000 of principal and \$22,875 of accrued interest. This transaction resulted in a gain on the extinguishment of debt in the amount of \$34,998. | - | 80,000 |
| Convertible note payable in the amount of \$50,000 to Whalehaven dated February 25, 2005. We did not meet certain of our obligations under the loan documents relating to this issuance. These lapses include not reserving the requisite numbers of treasury shares, selling subsequent securities without offering a right of first refusal, | - | 40,000 |

not complying with reporting obligations, not having our common shares quoted on the OTC:BB and not timely registering certain securities. This note was in technical default as of May 16, 2005. The note originally carried interest at the rate of 8% per annum, and was due in full on February 24, 2007. Upon default, the note's interest rate increased to 15% per annum, and the note became due immediately. This note contains a cross default provision. The note is convertible into common stock of the Company at a conversion price of \$0.005 per share. A beneficial conversion feature in the amount of \$50,000 was recorded as a discount to the note, and was amortized to interest expense when the note entered default status in May, 2005. Accrued interest is convertible into common stock of the Company at a price of \$0.005 per share. Interest in the amount of \$2,315 and \$3,201 was accrued on this note during the twelve months ended December 31, 2011 and 2010, respectively. During the twelve months ended December 31, 2006, \$10,000 of principal and \$589 of accrued interest was converted into common stock. During the year ended December 31, 2009, the noteholder agreed to waive the default interest rate of 15%, and the note resumed accruing interest at the rate of 8% per annum. During the year ended December 31, 2009, the noteholder agreed to extend the maturity date until February 15, 2010. During the year ended December 31, 2010, the noteholder agreed to extend the maturity date of this note until April 15, 2011. On September 21, 2011, this note was sold to Alpha Capital Anstalt in the amount of \$22,609 of principal and accrued interest in the amount of \$7,778, to Osher Capital Patners LLC in the amount of \$10,145 in principal and \$3,490 of accrued interest, and to Assameka Capital, Inc. in the amount of \$7,246 in principal and \$2,493 of accrued interest.

Reference is made to the convertible note payable in the amount of \$50,000 to Whalehaven dated February 25, 2005. On September 21, 2011, a portion of that note was sold to Alpha in the amount of \$22,609 of principal and accrued interest in that amount of \$7,778. Interest in the amount of \$502 and \$0 was accrued on this note during the twelve months ended December 31, 2011 and 2010, respectively. This note is past due at December 31, 2011.

22,609

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|--|----------------------|----------------------|
| Reference is made to the convertible note payable in the amount of \$50,000 to Whalehaven dated February 25, 2005. On September 21, 2011, a portion of that note was sold to Osher Capital Partners LLC in the amount of \$10,145 of principal and accrued interest in that amount of \$3,490. Interest in the amount of \$225 and \$0 was accrued on this note during the twelve months ended December 31, 2011 and 2010, respectively. This note is past due at December 31, 2011. | 10,145 | - |
| Reference is made to the convertible note payable in the amount of \$50,000 to Whalehaven dated February 25, 2005. On September 21, 2011, a portion of that note was sold to Assameka Capital, Inc. in the amount of \$7,246 of principal and accrued interest in that amount of \$2,493. Interest in the amount of \$160 and \$0 was accrued on this note during the twelve months ended December 31, 2011 and 2010, respectively. This note is past due at December 31, 2011. | 7,246 | - |
| Convertible note payable in the amount of \$50,000 originally payable to Oppenheimer & Co., / Custodian for Joel Gold IRA, a related party, dated March 14, 2004. The note bears interest at the rate of 8% per annum, has no provisions for a default or past due rate and was due in full on October 12, 2006. The note is convertible into common stock of the Company at a conversion price of \$0.005 per share. A beneficial conversion feature in the amount of \$50,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2004, 2005, and 2006. Accrued interest is convertible into common stock of the Company at a price of \$0.005 per share. Interest in the amount of \$1,353 and \$4,003 was accrued on this note during the twelve months ended December 31 2011 and 2010, respectively. During the year ended December 31, 2011, the Company committed to issue 15,728,964 shares of common stock for the conversion of \$50,000 of principal and \$28,645 of accrued interest. There was no gain on loss on the settlement of this note. | - | 50,000 |
| Convertible note payable in the original amount of \$30,000 to Huo Hua dated May 9, 2005. The note bears interest at the rate of 8% per annum, has no provisions for a default or past due rate and was due in full on October 12, 2006. The note is convertible into common stock of the Company at a conversion price of \$0.005 per share. A beneficial conversion feature in the amount of \$30,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2005 and 2006. Accrued interest is convertible into common stock of the Company at a price of \$0.005 per share. Interest in the amount of \$1,593 and \$1,603 was accrued on this note during the twelve months ended December 31, 2011 and 2010, respectively. During the twelve months ended December 31, 2006, the note holder converted \$10,000 of principal into common stock. This note is past due at December 31, 2011 and 2010. | 20,000 | 20,000 |

Convertible note payable in the amount of \$25,000 originally payable to Joel Gold, a board member and related party, dated January 25, 2005. The note bears interest at the rate of 8% per annum, has no provisions for a default or past due rate and was due in full on January 25, 2007. The note is convertible into common stock of the Company at a conversion price of \$0.005 per share. A beneficial conversion feature in the amount of \$25,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2005, 2006, and 2007. Accrued interest is convertible into common stock of the Company at a price of \$0.005 per share. Interest in the amount of \$810 and \$1,999 was accrued on this note during the twelve months ended December 31, 2011 and 2010, respectively. During the year ended December 31, 2011, the Company committed to issue 502,136 shares of common stock for the conversion of \$25,000 of principal and \$12,673 of accrued interest. This resulted in a gain of \$120 on the conversion.

- 25,000

Convertible note payable in the amount of \$25,000 originally payable to The Jay & Kathleen Morren Trust dated January 25, 2005. The note bears interest at the rate of 6% per annum, has no provisions for a default or past due rate and was due in full on January 25, 2007. The note is convertible into common stock of the Company at a conversion price of \$0.005 per share. A beneficial conversion feature in the amount of \$25,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2005, 2006, and 2007. Accrued interest is convertible into common stock of the Company at a price of \$0.005 per share. Interest in the amount of \$529 and \$1,496 was accrued on this note during the twelve months ended December 31, 2011 and 2010, respectively. During the year ended December 31, 2011, the Company entered into an agreement with the note holder for the extinguishment of the debt. The Company made a cash payment of \$25,938, which represented a payment of \$21,250 of principal and \$4,716 of accrued interest. This transaction resulted in a gain on the extinguishment of debt in the amount of \$8,466.

- 25,000

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|--|----------------------|----------------------|
| Convertible note payable in the amount of \$10,000 originally payable to Lauren M. Ferrone, a relative of a board member and related party, dated October 12, 2004. The note bears interest at the rate of 8% per annum, has no provisions for a default or past due rate and was originally due in full on October 12, 2005. On February 25, 2005, an amendment to the convertible note was signed which extended the term, which resulted in a new maturity date of October 12, 2006. The note is convertible into common stock of the Company at a conversion of \$0.01 per share. A beneficial conversion feature in the amount of \$10,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2004, 2005, and 2006. Accrued interest is convertible into common stock of the Company at a price of \$0.01 per share. Interest in the amount of \$366 and \$799 was accrued on this note during the twelve months December 31, 2011 and 2010, respectively. During the year ended December 31, 2011, the Company committed to issue 1,525,916 shares of common stock for the conversion of \$10,000 of principal and \$5,349 of accrued interest. This resulted in a gain of \$90 on the conversion. | - | 10,000 |
| Convertible note payable in the amount of \$10,000 originally payable to Richard D. Ferrone, a relative of a board member and related party, dated October 12, 2004. The note bears interest at the rate of 8% per annum, has no provisions for a default or past due rate and was originally due in full on October 12, 2005. On February 25, 2005, an amendment to the convertible note was signed which extended the term, which resulted in a new maturity date of October 12, 2006. The note is convertible into common stock of the Company at a conversion of \$0.01 per share. A beneficial conversion feature in the amount of \$10,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2004, 2005, and 2006. Accrued interest is convertible into common stock of the Company at a price of \$0.01 per share. Interest in the amount of \$366 and \$799 was accrued on this note during the twelve months ended December 31, 2011 and 2010, respectively. During the year ended December 31, 2011, the Company committed to issue 1,525,916 shares of common stock for the conversion of \$10,000 of principal and \$5,349 of accrued interest. This resulted in a gain of \$90 on the conversion. | - | 10,000 |
| Convertible note payable in the amount of \$10,000 originally payable to Christian D. Ferrone, a relative of a board member and related party, dated October 12, 2004. The note bears interest at the rate of 8% per annum, has no provisions for a default or past due rate and was originally due in full on October 12, 2005. On February 25, 2005, an amendment to the convertible note was signed which extended the term, which resulted in a new maturity date of October 12, 2006. The note is convertible into common stock of the Company at a conversion of \$0.01 per share. A beneficial conversion feature in the amount of \$10,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2004, 2005, and 2006. Accrued interest is convertible into common stock of the Company at a price of \$0.01 per share. Interest in the amount of \$366 and 799 was | - | 10,000 |

accrued on this note during the twelve months ended December 31, 2011 and 2010, respectively. During the year ended December 31, 2011, the Company committed to issue 1,525,916 shares of common stock for the conversion of \$10,000 of principal and \$5,349 of accrued interest. This resulted in a gain of \$90 on the conversion.

Convertible note payable in the amount of \$10,000 originally payable to Andrew I. Ferrone, a relative of a board member and related party, dated October 12, 2004. The note bears interest at the rate of 8% per annum, has no provisions for a default or past due rate and was originally due in full on October 12, 2005. On February 25, 2005, an amendment to the convertible note was signed which extended the term, which resulted in a new maturity date of October 12, 2006. The note is convertible into common stock of the Company at a conversion of \$0.01 per share. A beneficial conversion feature in the amount of \$10,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2004, 2005, and 2006. Accrued interest is convertible into common stock of the Company at a price of \$0.01 per share. Interest in the amount of \$366 and \$799 was accrued on this note during the twelve months ended December 31, 2011 and 2010, respectively. During the year ended December 31, 2011, the Company committed to issue 1,525,916 shares of common stock for the conversion of \$10,000 of principal and \$5,349 of accrued interest. This resulted in a gain of \$90 on the conversion.

- 10,000

Convertible note payable in the amount of \$8,000 originally payable to Adrian Neilan dated March 11, 2004. The note bears interest at the rate of 8% per annum, has no provisions for a default or past due rate and is due in full on October 12, 2006. The note is convertible into common stock of the Company at a conversion of \$0.005 per share. A beneficial conversion feature in the amount of \$8,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2004, 2005, and 2006. Accrued interest is convertible into common stock of the Company at a price of \$0.005 per share. Interest in the amount of \$257 and \$639 was accrued on this note during the twelve months ended December 31, 2011 and 2010, respectively. During the year ended December 31, 2011, the Company entered into an agreement with the note holder for the extinguishment of the debt. The Company made a cash payment of \$9,099, which represented a payment of \$6,800 of principal and \$2,311 of accrued interest. This transaction resulted in a gain on the extinguishment of debt in the amount of \$3,511.

- 8,000

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|---|----------------------|----------------------|
| <p>Convertible note payable in the amount of \$5,000 originally payable to Matthias Mueller dated March 11, 2004. The note bears interest at the rate of 8% per annum, has no provisions for a default or past due rate and was due in full on October 12, 2006. The note is convertible into common stock of the Company at a conversion of \$0.005 per share. A beneficial conversion feature in the amount of \$5,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2004, 2005, and 2006. Accrued interest is convertible into common stock of the Company at a price of \$0.005 per share. Interest in the amount of \$174 and \$401 was accrued on this note during twelve months ended December 31, 2011 and 2010, respectively. During the year ended December 31, 2011, the Company entered into an agreement with the note holder for the extinguishment of the debt. The Company made a cash payment of \$5,692, which represented a payment of \$4,250 of principal and \$1,463 of accrued interest. This transaction resulted in a gain on the extinguishment of debt in the amount of \$2,213.</p> | - | 5,000 |
| <p>Convertible secured note payable in the amount of \$120,000 to Alpha Capital dated August 25, 2005. We did not meet certain of our obligations under the loan documents relating to this issuance. These lapses include not reserving the requisite number of treasury shares, selling subsequent securities without offering a right of first refusal, not complying with reporting obligations, not having our common shares quoted on the OTC:BB and not timely registering certain securities. This note was technical default as of November 13, 2005. The note originally carried interest at the rate of 8% per annum, and was due in full on August 25, 2007. Upon default, the note's interest rate increased to 15% per annum and the note became immediately due. This note contains a cross default provision. The note is convertible into common stock of the Company at a conversion price of \$0.005 per share. A beneficial conversion feature in the amount of \$120,000 was recorded as a discount to the note, and was amortized to interest expense when the note entered default status in November 2005. Accrued interest is convertible into common stock of the Company at a price of \$0.005 per share. Interest in the amount of \$7,999 and \$8,336 was accrued on this note during the twelve months ended December 31, 2011 and 2010, respectively. During the year ended December 31, 2010, the noteholder converted principal in the amount of \$20,000 into common stock. During the year ended December 31, 2009, the noteholder agreed to waive the default interest rate of 15%, and the note resumed accruing interest at the rate of 8% per annum. Also during the year ended December 31, 2009, the noteholder agreed to extend the maturity date of this note until January 1, 2010. During the year ended December 31, 2010, the noteholder agreed to extend the maturity date of this note until June 15, 2010. This note is past due at December 31, 2011 and 2010.</p> | 100,000 | 100,000 |
| <p>Convertible secured note payable in the amount of \$30,000 to Whalehaven Capital dated August 25, 2005. We did not meet certain of our obligations under the loan</p> | - | 27,047 |

documents relating to this issuance. These lapses include not reserving the requisite number of treasury shares, selling subsequent securities without offering a right of first refusal, not complying with reporting obligations, not having our common shares quoted on the OTC:BB and not timely registering certain securities. This note was in technical default as of November 13, 2005. The note originally carried interest at the rate of 8% per annum, and was due in full on August 25, 2007. Upon default, the note's interest rate increased to 15% per annum and the note became immediately due. This note contains a cross default provision. The note is convertible into common stock of the Company at a conversion price of \$0.005 per share. A beneficial conversion feature in the amount of \$30,000 was recorded as a discount to the note, and was amortized to interest expense when the note entered default status in November 2005. Accrued interest is convertible into common stock of the Company at a price of \$0.005 per share. Interest in the amount of \$1,566 and \$2,312 was accrued on this note during the twelve months ended December 31, 2011 and 2010, respectively. During the year ended December 31, 2009, the noteholder agreed to waive the default interest rate of 15%, and the note resumed accruing interest at the rate of 8% per annum. During the year ended December 31, 2010, the note holder converted principal in the amount of \$2,953 into common stock. During the year ended December 31, 2009, the noteholder agreed to extend the maturity date until February 15, 2010. During the year ended December 31, 2010, the noteholder agreed to extend the maturity date of this note until June 15, 2010. On September 21, 2011, this note was sold to Alpha Capital Anstalt in the amount of \$15,287 of principal and accrued interest in the amount of \$1,342, to Osher Capital Patners LLC in the amount of \$6,860 in principal and \$602 of accrued interest, and to Assameka Capital, Inc. in the amount of \$4,900 in principal and \$430 of accrued interest.

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|--|----------------------|----------------------|
| Reference is made to the convertible secured note payable in the amount of \$30,000 to Whalehaven Capital dated August 25, 2005. On September 21, 2011, a portion of this note was sold to Alpha in the amount of \$15,287 of principal and accrued interest in the amount of \$1,342. Interest in the amount of \$339 and \$0 was accrued on this note during the twelve months ended December 31, 2011 and 2010, respectively. This note is past due at December 31, 2011. | 15,287 | - |
| Reference is made to the convertible secured note payable in the amount of \$30,000 to Whalehaven Capital dated August 25, 2005. On September 21, 2011, a portion of this note was sold to Osher Capital Partners LLC in the amount of \$6,860 of principal and accrued interest in the amount of \$602. Interest in the amount of \$153 and \$0 was accrued on this note during the twelve months ended December 31, 2011 and 2010, respectively. This note is past due at December 31, 2011. | 6,860 | - |
| Reference is made to the convertible secured note payable in the amount of \$30,000 to Whalehaven Capital dated August 25, 2005. On September 21, 2011, a portion of this note was sold to Assameka Capital, Inc. in the amount of \$4,900 of principal and accrued interest in the amount of \$430. Interest in the amount of \$108 and \$0 was accrued on this note during the twelve months ended December 31, 2011 and 2010, respectively. This note is past due at December 31, 2011. | 4,900 | - |
| Convertible secured note payable in the original amount of \$25,000 to Asher Brand, dated August 25, 2005. We did not meet certain of our obligations under the loan documents relating to this issuance. These lapses include not reserving the requisite number of treasury shares, selling subsequent securities without offering a right of first refusal, not complying with reporting obligations, not having our common shares quoted on the OTC:BB and not timely registering certain securities. This note was in technical default as of November 13, 2005. The note originally carried interest at the rate of 8% per annum, and was due in full on August 25, 2007. Upon default, the note's interest rate increased to 15% per annum and the note became immediately due. This note contains a cross default provision. The note is convertible into common stock of the Company at a conversion price of \$0.005 per share. A beneficial conversion feature in the amount of \$25,000 was recorded as a discount to the note, and was amortized to interest expense when the note entered default status in November, 2005. Accrued interest is convertible into common stock of the Company at a price of \$0.005 per share. Interest in the amount of \$1,139 and \$1,249 was accrued on this note during the twelve months ended December 31, 2011 and 2010, respectively. During the twelve months ended December 31, 2006, the holder of the note converted \$2,000 of principal and \$3,667 of accrued interest into common stock, and during the twelve months ended December 31, 2008, the holder of the note converted an additional \$3,000 of principal into common stock. During the year ended December 31, 2009, the noteholder converted \$2,000 of principal and | 5,000 | 15,000 |

\$1,058 of accrued interest into common stock. During the year ended December 31, 2009, the noteholder agreed to waive the default interest rate of 15%, and the note resumed accruing interest at the rate of 8% per annum. Also, during the year ended December 31, 2009, the noteholder agreed to extend the maturity date of this note until January 1, 2010. During the year ended December 31, 2010 the noteholder converted \$3,000 of principal and \$1,043 of accrued interest into common stock. During the year ended December 31, 2011, the noteholder converted \$10,000 of principal and \$5,858 of accrued interest into common stock. Also, during the year ended December 31, 2010, the noteholder agreed to extend the maturity date of this note until April 15, 2011. This note is past due at December 31, 2011.

Convertible secured note payable in the original amount of \$25,000 to Momona Capital, dated August 25, 2005. We did not meet certain of our obligations under the loan documents relating to this issuance. These lapses include not reserving the requisite number of treasury shares, selling subsequent securities without offering a right of first refusal, not complying with reporting obligations, not having our common shares quoted on the OTC:BB and not timely registering certain securities. This note was in technical default at November 13, 2005. The note originally carried interest at the rate of 8% per annum, and was due in full on August 25, 2007. Upon default, the note's interest rate increased to 15% per annum and the note became immediately due. This note contains a cross default provision. The note is convertible into common stock of the Company at a conversion of \$0.005 per share. A beneficial conversion feature in the amount of \$25,000 was recorded as a discount to the note, and was amortized to interest expense when the note entered default status in November 2005. Accrued interest is convertible into common stock of the Company at a price of \$0.005 per share. Interest in the amount of \$594 and \$971 was accrued on this note during the twelve months ended December 31, 2011 and 2010, respectively. During the twelve months ended December 31, 2006, the holder of the note converted \$2,000 of principal and \$3,667 of accrued interest into common stock, and during the twelve months ended December 31, 2008, the holder of the note converted an additional \$5,000 principal into common stock. During the year ended December 31, 2009, the noteholder agreed to waive the default interest rate of 15%, and the note resumed accruing interest at the rate of 8% per annum. Also, during the year ended December 31, 2009, the noteholder agreed to extend the maturity date of this note until January 1, 2010. During the year ended December 31, 2010, the noteholder converted \$10,000 of principal into common stock. During the year ended December 31, 2011, the noteholder converted \$8,000 of principal and \$4,692 of accrued interest into 2,538,400 shares of common stock.

- 8,000

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| | December 31, 2011 | December 31, 2010 |
|--|----------------------|----------------------|
| <p>Convertible secured note payable in the amount of \$10,000 to Lane Ventures dated August 25, 2005. We did not meet certain of our obligations under the loan documents relating to this issuance. These lapses include not reserving the requisite number of treasury shares, selling subsequent securities without offering a right of first refusal, not complying with reporting obligations, not having our common shares quoted on the OTC:BB and not timely registering certain securities. This note was in technical default at November 13, 2005. The note originally carried interest at the rate of 8% per annum, and was due in full on August 25, 2007. Upon default, the note's interest rate increased to 15% per annum and the note became immediately due. This note contains a cross default provision. The note is convertible into common stock of the Company at a conversion price of \$0.005 per share. A beneficial conversion feature in the amount of \$10,000 was recorded as a discount to the note, and was amortized to interest expense when the note entered default status in November, 2005. Accrued interest is convertible into common stock of the Company at a price of \$0.005 per share. Interest in the amount of \$480 was accrued on this note during the twelve months ended December 31, 2011 and 2010. During the twelve months ended December 31, 2006, the holder of the note converted \$4,000 of principal and \$1,467 of accrued interest into common stock. In April 2009, the noteholder agreed to waive the default interest rate of 15%, and the note resumed accruing interest at the rate of 8% per annum. Also in April 2009, the noteholder agreed to extend the maturity date of this note until January 1, 2010. During the year ended December 31, 2010, the noteholder agreed to extend the maturity date of this note until April 15, 2011. This note is past due at December 31, 2011.</p> | 6,000 | 6,000 |
| <p>Secured note payable in the amount of \$120,000 to Alpha Capital, dated February 7, 2006. The note originally carried interest at the rate of 15% per annum, and was originally due in full on February 7, 2007. The Company was not in compliance with various terms of this note, including making timely payments of interest, and this note was in technical default at May 8, 2006. At this time, the interest rate increased to 20% and the note became immediately due and payable. During the three months ended September 30, 2007, the Company extended the due date of the note one year, to October 31, 2007; at the same time, the Company added a convertibility feature, allowing the noteholder to convert the notes and accrued interest into common stock of the Company at a rate of \$0.005 per share. This note entered technical default on October 31, 2007. The Company recorded a discount to this note for the fair value of the conversion feature in the amount of \$95,588 and amortized this discount to interest expense when the note entered default status in October 2007. On March 12, 2008, the Company extended this note to March 4, 2009. As consideration for the extension of this notes, the Company issued five-year warrants as follows: warrants to purchase 24,000,000 shares of common stock at \$0.0115 per share; 6,000,000 shares of common stock at \$0.011 per share; and 2,400,000 shares of common stock at \$0.005 per share. These warrants were valued via the Black-Scholes valuation</p> | 120,000 | 120,000 |

method at an aggregate amount of \$126,465. This transaction was accounted for as an extinguishment of debt, and a loss of \$126,465 was charged to operations during the twelve months ended December 31, 2008. Interest in the amount of \$18,000 was accrued on this note during each of the twelve months ended December 31, 2011 and 2010. In January 2009, the noteholder agreed to extend the maturity date of this note to April 16, 2009. In April 2009, the noteholder agreed to waive the default interest rate of 20%, and the note resumed accruing interest at the rate of 8% per annum. Also in April 2009, the noteholder agreed to extend the maturity date of this note until April 16, 2009. This note is past due at December 31, 2009. This note contains a cross default provision. During the year ended December 31, 2010, the noteholder agreed to extend the maturity date of this note until April 15, 2011. This note is past due as of December 31, 2011.

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| | December 31, 2011 | December 31, 2010 |
|--|----------------------|----------------------|
| <p>Secured note payable in the amount of \$30,000 to Whalehaven dated February 7, 2006. The note originally carried interest at the rate of 15% per annum, and was due in full on February 7, 2007. The Company was not in compliance with various terms of this note, including making timely payments of interest, and this note was in technical default at May 8, 2006. At this time, the interest rate increased to 20% and the note became immediately due and payable. During the three months ended September 30, 2007, the Company extended the due date of the note one year, to October 31, 2007; at the same time, the Company added a convertibility feature, allowing the noteholder to convert the note and accrued interest into common stock of the Company at a rate of \$0.005 per share. This note entered technical default on October 31, 2007. The Company recorded a discount to this note for the fair value of the conversion feature in the amount of \$23,897 and amortized this discount to interest expense when the note entered default status in October 2007. On March 12, 2008, the Company extended this note to March 4, 2009. As consideration for the extension of this note, the Company issued five-year warrants as follows: warrants to purchase 6,000,000 shares of common stock at \$0.0115 per share; 1,500,000 shares of common stock at \$0.011 per share; and 600,000 shares of common stock at \$0.005 per share. These warrants were valued via the Black-Scholes valuation method at an aggregate amount of \$31,616. This transaction was accounted for as an extinguishment of debt, and a loss of \$31,616 was charged to operations during the twelve months ended December 31, 2008. Interest in the amount of \$3,254 and \$4,524 was accrued on this note during the twelve months ended December 31, 2011 and 2010, respectively. During the year ended December 31, 2009, the noteholder agreed to waive the default interest rate of 20%, and the note resumed accruing interest at the rate of 15% per annum. Also, during the year ended December 31, 2009 the noteholder agreed to extend the maturity date until February 15, 2010. During the year ended December 31, 2010, the noteholder agreed to extend the maturity date of this note until April 15, 2011. This note contains a cross default provision. On September 21, 2011, this note was sold to Alpha Capital Anstalt in the amount of \$16,957 of principal and accrued interest in the amount of \$15,070, to Osher Capital Patners LLC in the amount of \$7,609 in principal and \$6,762 of accrued interest, and to Assameka Capital, Inc. in the amount of \$5,435 in principal and \$4,830 of accrued interest. The warrants issued as consideration for the note extension have been sold to the Alpha Capital Anstalt, Osher Capital Partners LLC and Assameka Capital, Inc. as follows: warrants to purchase 3,391,304 shares of common stock at \$0.0115 per share; 847,826 shares of common stock at \$0.011 per share; and 339,130 shares of common stock at \$0.005 per share to Alpha; warrants to purchase 1,521,739 shares of common stock at \$0.0115 per share; 380,435 shares of common stock at \$0.011 per share; and 152,174 shares of common stock at \$0.005 per share to Osher Capital Partners LLC; and warrants to purchase 1,086,957 shares of common stock at \$0.0115 per share; 271,739 shares of common stock at \$0.011 per share; and 108,696 shares of common stock at \$0.005 per share to Assameka Capital, Inc.</p> | - | 30,000 |

Reference is made to the secured note payable in the amount of \$30,000 to Whalehaven dated February 7, 2006. On September 21, 2011, a portion of that note was sold to Alpha in the amount of \$16,957 of principal and accrued interest in that amount of \$15,070. Interest in the amount of \$704 and \$0 was accrued on this note during the twelve months ended December 31, 2011 and 2010, respectively. The portion sold to Alpha Capital Anstalt of the note included warrants to purchase 3,391,304 shares of common stock at \$0.0115 per share; 847,826 shares of common stock at \$0.011 per share; and 339,130 shares of common stock at \$0.005 per share. This note is past due at December 31, 2011.

16,957 -

Reference is made the secured note payable in the amount of \$30,000 to Whalehaven dated February 7, 2006. On September 21, 2011, a portion of that note was sold to Osher Capital Partners LLC in the amount of \$7,609 of principal and accrued interest in that amount of \$6,762. Interest in the amount of \$316 and \$0 was accrued on this note during the twelve months ended December 31, 2011 and 2010, respectively. The portion sold to Osher Capital Partners LLC of the note included warrants to purchase 1,521,739 shares of common stock at \$0.0115 per share; 380,435 shares of common stock at \$0.011 per share. This note is past due at December 31, 2011.

7,609 -

Reference is made to the secured note payable in the amount of \$30,000 to Whalehaven dated February 7, 2006. On September 21, 2011, a portion of that note was sold to Assameka Capital, Inc. in the amount of \$5,435 of principal and accrued interest in that amount of \$4,830. Interest in the amount of \$225 and \$0 was accrued on this note during the twelve months ended December 31, 2011 and 2010, respectively. The portion sold to Assameka Capital, Inc. of the note included 152,174 shares of common stock at \$0.005 per share, and warrants to purchase 1,086,957 shares of common stock at \$0.0115 per share; 271,739 shares of common stock at \$0.011 per share; and 108,696 shares of common stock at \$0.005 per share. This note is past due at December 31, 2011.

5,435 -

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| | December 31, 2011 | December 31, 2010 |
|--|----------------------|----------------------|
| Note payable in the amount of \$75,000 originally payable to Michael Ferrone, dated August 2, 2004. The note bears interest at the rate of 8% per annum, and was due in full on February 2, 2005. On September 30, 2008, this note was extended to December 31, 2009 in exchange for adding a convertibility feature to the note. This feature allows for conversion to common stock at a price of \$0.005 per share. The Company valued this beneficial conversion feature at the amount of \$89,945 using the Black-Scholes valuation model. \$75,000 of this amount was charged to discount on the note. Interest in the amount of \$2,865 and \$6,001 was accrued on this note during the year ended December 31, 2011 and 2010, respectively. During the year ended December 31, 2011, the Company entered into an agreement with the note holder for the extinguishment of the debt. The Company made a cash payment of \$25,000, which represented a payment of principal, the Company also agreed to make a cash payment in the amount of \$12,500 in February 2012, which has been classified as a liability on the Company's balance sheet. The noteholder forgave the accrued interest on this note in the amount of \$41,371. This transaction resulted in a gain on the extinguishment of debt in the amount of \$78,871. | - | 75,000 |
| Twenty-nine convertible notes payable in the amount of \$4,500 each to Sam Klepfish, the Company's CEO and a related party, dated the first of the month beginning on November 1, 2006, issued pursuant to the Company's then employment agreement with Mr. Klepfish, which provided that the amount of \$4,500 in salary is accrued each month to a note payable. These notes bear interest at the rate of 8% per annum and have no due date. These notes and accrued interest are convertible into common stock of the Company at a rate of \$0.005 per share. Beneficial conversion features in the aggregate amount of \$9,000 for the year ended December 31, 2006, \$39,190 for the year ended December 31, 2007, and \$58,464 for the year ended December 31, 2008 was calculated using the Black-Scholes valuation model. Since these notes are payable on demand, the value of these discounts were charged immediately to interest expense. During the year ended December 31, 2011, the noteholder converted \$12,000 of accrued interest into 2,400,000 shares of common stock. Interest in the aggregate amount of \$10,442 was accrued on these notes during the twelve months ended December 31, 2011 and 2010, respectively. | 130,500 | 130,500 |
| Secured note payable in the amount of \$10,000 to Alpha Capital, dated May 19, 2006. The note originally carried interest at the rate of 15% per annum, and was originally due in full on November 19, 2006. The Company is not in compliance with various terms of this note, including making timely payments of interest, and this note was in technical default at February 20, 2006. At that time, the interest rate increased to 20% and the note became immediately due and payable. During the three months ended September 30, 2007, the Company extended the due date of the note one year, to October 31, 2007; at the same time, the Company added a convertibility feature, allowing the noteholder to convert the notes and accrued interest into common stock of the Company at a rate of \$0.005 per share. This note | 10,000 | 10,000 |

entered technical default on October 31, 2007. The Company recorded a discount to this note for the fair value of the conversion feature in the amount of \$7,966 and amortized this discount to interest expense when the note entered default status in October 2007. On March 12, 2008, the Company extended this note to March 4, 2009. As consideration for the extension of this notes, the Company issued five-year warrants as follows: warrants to purchase 2,000,000 shares of common stock at \$0.0115 per share; 500,000 shares of common stock at \$0.011 per share; and 200,000 shares of common stock at \$0.005 per share. These warrants were valued via the Black-Scholes valuation method at an aggregate amount of \$10,539. This transaction was accounted for as an extinguishment of debt, and a loss of \$10,539 was charged to operations during the twelve months ended December 31, 2008. Interest in the amount of \$1,496 was accrued on this note during the twelve months ended December 31, 2011 and 2010. During the year ended December 31, 2009, the noteholder agreed to waive the default interest rate of 20%, and the note resumed accruing interest at the rate of 15% per annum. Also, during the year ended December 31, 2009, the noteholder agreed to extend the maturity date until January 1, 2010. During the year ended December 31, 2010, the noteholder agreed to extend the maturity date of this note until April 15, 2011. This note contains a cross default provision. This note is past due at December 31, 2011.

Note payable in the original amount of \$25,787 to Microsoft Corporation dated May 3, 2006. The note bears interest at the rate of 9.7% per annum, and is payable in 60 monthly payments of \$557 beginning October 1, 2006. Interest in the amount of \$197 and \$782 was capitalized to this note during the twelve months ended December 31, 2011 and 2010, respectively. Principal and interest in the amounts of \$5,013 and \$6,690 were paid on this note during the twelve months ended December 31, 2011 and 2010, respectively.

- 4,815

Convertible secured note payable in the amount of \$200,000 to Alpha Capital, dated December 31, 2008. This note bears interest at the rate of 8% per annum, and is due in full on July 31, 2011. Principal and accrued interest is convertible into common stock of the Company at the rate of \$0.005 per share. Also issued with this note are warrants to purchase 40,000,000 shares of the Company's common stock at a price of \$0.005 per share. The Company calculated a discount to the note in the amount of \$200,000, and recorded \$77,623 and \$101,591 amortization for the year ended December 31, 2011 and 2010, respectively. Interest in the aggregate amount of \$4,889 and \$12,357 was accrued on this note during the years ended December 31, 2011 and 2010, respectively. During the years ended December 31, 2011, 2010, and 2009, the Company made principal payments on this note in the amount of \$88,000, \$80,000 and \$16,000, respectively. This note contains a cross default provision. This note is past due at December 31, 2011.

16,000 104,000

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| | December 31, 2011 | December 31, 2010 |
|---|----------------------|----------------------|
| <p>Convertible secured note payable for the settlement of the amount owed for the penalty for the late registration of shares in the amount of \$230,000 to Alpha Capital, dated January 1, 2009. This note bears interest at the rate of 8% per annum, and is due in full on July 31, 2011. Principal and accrued interest are convertible into shares of common stock of the Company at a rate of \$0.005 per share. The Company calculated a discount to the note in the amount of \$230,000, and recorded \$150,367 and \$68,206 amortization for this discount during the years ended December 31, 2011 and 2010, respectively. Interest in the aggregate amount of \$18,401 was accrued on this note during the years ended December 31, 2011 and 2010. This note contains a cross default provision. This note is past due as of December 31, 2011. This note is past due at December 31, 2011.</p> | 230,000 | 230,000 |
| <p>Convertible secured note payable for the settlement of the amount owed for the penalty for the late registration of shares in the amount of \$38,000 to Whalehaven Capital, dated January 1, 2009. This note bears interest at the rate of 8% per annum, and is due in full on July 31, 2011. Principal and accrued interest is convertible into shares of common stock of the Company at a rate of \$0.005 per share. The Company calculated a discount to the note in the amount of \$38,000, and recorded \$24,843 and \$11,269 amortization for this discount during the years ended December 31, 2011 and 2010, respectively. Interest in the aggregate amount of \$2,198 and \$5,697 was accrued on this note during the years ended December 31, 2011 and 2010, respectively. This note contains a cross default provision. On September 21, 2011, this note was sold to Alpha Capital Anstalt in the amount of \$21,478 of principal and accrued interest in the amount of \$7,674, to Osher Capital Patners LLC in the amount of \$9,638 in principal and \$3,443 of accrued interest, and to Assameka Capital, Inc. in the amount of \$6,884 in principal and \$2,460 of accrued interest.</p> | - | 38,000 |
| <p>Reference is made to the convertible secured note payable for the settlement of the amount owed for the penalty for the late registration of shares in the amount of \$38,000 to Whalehaven Capital, dated January 1, 2009. On September 21, 2011, a portion of that note was sold to Alpha in the amount of \$21,478 of principal and accrued interest in the amount of \$7,674. Interest in the aggregate amount of \$475 and \$0 was accrued on this note during the years ended December 31, 2011 and 2010, respectively. This note is past due at December 31, 2011.</p> | 21,478 | - |
| <p>Reference is made to the convertible secured note payable for the settlement of the amount owed for the penalty for the late registration of shares in the amount of \$38,000 to Whalehaven Capital, dated January 1, 2009. On September 21, 2011, a portion of that note was sold to Osher Capital Partners LLC in the amount of \$9,638 of principal and accrued interest in the amount of \$3,443. Interest in the aggregate amount of \$212 and \$0 was accrued on this note during the years ended December 31, 2011 and 2010, respectively. This note is past due at December 31, 2011.</p> | 9,638 | - |

Reference is made to the convertible secured note payable for the settlement of the amount owed for the penalty for the late registration of shares in the amount of \$38,000 to Whalehaven Capital, dated January 1, 2009. On September 21, 2011, a portion of that note was sold to Assameka Capital, Inc. in the amount of \$6,884 of principal and accrued interest in the amount of \$2,460. Interest in the aggregate amount of \$153 and \$0 was accrued on this note during the years ended December 31, 2011 and 2010, respectively. This note is past due at December 31, 2011.

6,884 -

Convertible secured note payable for the settlement of the amount owed for the penalty for the late registration of shares in the amount of \$25,310 to Asher Brand, dated January 1, 2009. This note bears interest at the rate of 8% per annum, and is due in full on July 31, 2011. This note contains a cross default provision. Principal and accrued interest is convertible into shares of common stock of the Company at a rate of \$0.005 per share. The Company calculated a discount to the note in the amount of \$25,310, and recorded \$16,547 and \$7,506 amortization for this discount during the years ended December 31, 2011 and 2010, respectively. Interest in the aggregate amount of \$1,851 and \$2,023 was accrued on this note during the years ended December 31, 2011 and 2010, respectively. During the year ended December 31, 2011, the note holder converted \$25,310 of principal and \$5,984 of accrued interest into 6,258,882 shares of common stock.

- 25,310

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| | December 31, 2011 | December 31, 2010 |
|--|----------------------|----------------------|
| Convertible secured note payable for the settlement of the amount owed for the penalty for the late registration of shares in the amount of \$25,310 to Momona Capital, dated January 1, 2009. This note bears interest at the rate of 8% per annum, and is due in full on July 31, 2011. Principal and accrued interest is convertible into shares of common stock of the Company at a rate of \$0.005 per share. The Company calculated a discount to the note in the amount of \$25,310, and \$16,547 and \$7,506 amortization for this discount during the years ended December 31, 2011 and 2010, respectively. Interest in the aggregate amount of \$2,023 was accrued on this note during the years ended December 31, 2011 and 2010. This note contains a cross default provision. This note is past due as of December 31, 2011. | 25,310 | 25,310 |
| Convertible secured note payable for the settlement of the amount owed for the penalty for the late registration of shares in the amount of \$10,124 to Lane Ventures, dated January 1, 2009. This note bears interest at the rate of 8% per annum, and is due in full on July 31, 2011. Principal and accrued interest is convertible into shares of common stock of the Company at a rate of \$0.005 per share. The Company calculated a discount to the note in the amount of \$10,124, and recorded \$6,619 and \$3,003 amortization for this discount during the years ended December 31, 2011 and 2010, respectively. Interest in the aggregate amount of \$813 was accrued on this note during the years ended December 31, 2011 and 2010. This note contains a cross default provision. This note is past due as of December 31, 2011. | 10,124 | 10,124 |
| | \$ 1,109,482 | \$ 1,660,106 |

| | Note Amount | Unamortized Discounts | Net of Discount |
|--|----------------|--------------------------|--------------------|
| December 31, 2011: | | | |
| Notes payable - current portion | \$ 978,982 | \$ - | \$ 978,982 |
| Notes payable - related parties, current portion | 130,500 | - | 130,500 |
| Notes payable | - | - | - |
| Total | \$ 1,109,482 | \$ - | \$ 1,109,482 |

| | Note Amount | Unamortized Discounts | Net of Discount |
|--|----------------|--------------------------|--------------------|
| December 31, 2010: | | | |
| Notes payable - current portion | \$ 1,314,606 | \$ (292,545) | \$ 1,022,061 |
| Notes payable - related parties, current portion | 345,500 | - | 345,500 |
| Notes payable | - | - | - |
| Total | \$ 1,660,106 | \$ (292,545) | \$ 1,367,561 |

| | Twelve months ended December 31, | |
|---|-------------------------------------|------------|
| | 2011 | 2010 |
| Discount on Notes Payable amortized to interest expense: | \$ 292,545 | \$ 197,297 |

Gain from the Extinguishment of Debt

During the year ended December 31, 2011, the Company entered into agreements (the “Notes Settlement Agreements”) with convertible note holders regarding thirteen convertible notes in the aggregate amount of \$333,000 in principal and \$236,924 in accrued interest. Pursuant to the Note Settlement Agreements, the Company made cash payments in the aggregate amount of \$181,604 and agreed to pay an additional \$12,500 by February 15, 2012. The Company also committed to issue a total of 33,986,996 shares of its common stock to the note holders. The Notes Settlement Agreements resulted in an aggregate gain on the extinguishment of debt in the amount of \$165,326. As of December 31, 2011, 27,949,964 shares of common stock have been issued pursuant to the terms of the Notes Settlement Agreements.

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Loss on Settlement of Debt

During the year ended December 31, 2011, the Company entered into an agreement (the “Morren Settlement Agreement”) with an investor. Pursuant to the settlement terms of Morren Settlement Agreement, the Company issued 9,000,000 shares of common stock. The fair value of these shares in the amount of \$63,000 was recorded as a loss on the settlement of debt.

Conversion Options Embedded in Convertible Notes

The Company accounts for conversion options embedded in convertible notes in accordance with FASB ASC 815-10-05. ASC 815-10-05 generally requires companies to bifurcate conversion options embedded in convertible notes from their host instruments and to account for them as free standing derivative financial instruments in accordance with ASC 815-40-05.

At December 31, 2011 and 2010, the Company had outstanding \$1,109,482 and \$1,660,106 in principal, respectively, of various convertible notes with embedded conversion options accounted for as free standing derivative financial instruments in accordance with ASC 815-10-05 and ASC 815-40-05. The fair value of these embedded conversion options was \$1,245,761 and \$2,465,565 at December 31, 2011 and 2010, respectively. The fair value of these embedded conversion options were estimated at December 31, 2011 using the Black-Scholes option pricing model with the following assumptions: risk free interest rate of 0.06%; expected dividend yield of 0%; expected option life of 10; and volatility 114.30%. The fair value of these embedded conversion options were estimated at December 31, 2010 using the Black-Scholes option pricing model with the following assumptions: risk free interest rate of 0.20%; expected dividend yield of 0%; expected option life of 10; and volatility of 119.60%. The expected term of 10 years was used for all notes in both periods because several of the notes are currently or have been in default, and accordingly the term of the note is deemed not relevant as a variable for the Black-Scholes calculation. The Company revalues the conversion options at each reporting period, and charges any change in value to operations. During the years ended December 31, 2011 and 2010, the Company recorded a gain of \$595,967 and a loss of \$1,244,239 respectively, due to the change in value of the conversion option liability.

When convertible notes payable are satisfied by payment or by conversion to equity, the Company revalues the related conversion option liability at the time of the payment or conversion. The conversion option liability is then relieved by this amount, which is charged to additional paid-in capital. During the years ended December 31, 2011 and 2010, conversion option liabilities in the amounts of \$623,837 and \$163,666 were transferred from liability to equity due to the conversion or payment of the related convertible notes payable.

Discounts on notes payable

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

Extension of notes payable

The Company accounts for modifications of its notes payable according to the guidance in FASB ASC 470-50-40. Pursuant to ASC 470-50-40, changes to an existing note should be accounted for as an extinguishment of the note with resultant gain or loss if the present value of the cash flows from the new note vary by more than 10% from the present value of the cash flows from the original note. ASC 470-50-40 provides an exception to this rule for the addition of conversion options accounted for as a derivative liability.

During the year ended December 31, 2009, the Company negotiated the extension of its notes payable in the aggregate amount of \$587,000. The Company extended the maturity date of these notes until January 1, 2010. These notes, along with two additional notes payable in the aggregate amount of \$150,000, contained certain provisions for a default interest rate. The Company negotiated an agreement with the noteholders and the noteholders agreed to reinstate the original interest rate of 8% per annum.

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During the year ended December 31, 2009, the Company negotiated the extension of certain of its notes payable in the aggregate amount of \$138,000. The Company extended the maturity date of these notes until February 15, 2010. During the year ended December 31, 2010, as described below the Company negotiated the extension of these notes payable, and the maturity dates of these notes to either June 15, 2010 or April 15, 2011. The notes are past due as of December 31, 2011.

During the year ended December 31, 2010, the Company negotiated the extension of nine of its notes payable in the aggregate amount of \$617,000, to April 15, 2011. The Company also negotiated the extension of two of its notes payable in the aggregate amount of \$130,000 until June 15, 2010. The notes are past due as of December 31, 2011.

Embedded conversion features of notes payable:

The Company values embedded conversion features utilizing the Black-Scholes valuation model. Conversion options are valued upon issuance, and re-valued at each financial statement reporting date. Any change in value is charged to income or expense during the period. The following table illustrates certain key information regarding our conversion option valuation assumptions at December 31, 2011 and 2010:

| | December 31, | |
|--|-------------------|-----------------|
| | 2011 | 2010 |
| Number of conversion options outstanding | 221,896,400 | 323,058,200 |
| Value at December 31 | \$ 1,245,761 | \$ 2,465,565 |
| Number of options issued during the year | - | - |
| Value of options issued during the year | \$ - | \$ - |
| Number of options exercised or underlying notes paid during the year | 102,662,000 | 23,190,600 |
| Value of options exercised or underlying notes paid during the year | \$ 623,837 | \$ 163,666 |
| Revaluation gain (loss) during the year | \$ 595,967 | \$ (1,244,239) |
| Black-Scholes model variables: | | |
| Volatility | 92.52% to 114.30% | 119.60% to 336% |
| Dividends | 0 | 0 |
| Risk-free interest rates | 0.06 to 0.17% | 0.20% |
| Term (years) | 10.00 | 10.00 |

9. RELATED PARTY TRANSACTIONS

For the year ended December 31, 2011:

Pursuant to the terms of an employment agreement, the Company has accrued a bonus payable to the Company's Chief Executive Officer in the amount of \$34,650. This bonus is recorded on the Company's balance sheet as a liability to related parties as of December 31, 2011. In September 2011, our board of directors modified the compensation arrangements for Mr. Klepfish such that his bonuses due and payable then may, at the option of Mr. Klepfish, be paid

in any combination of cash or stock Mr. Klepfish desires with such decision to be made within five business days of being advised of the size of the bonus, if any, he is entitled to receive, it being agreed that a determination for one year shall not be binding upon any future year. During the first quarter of 2012, the Company, at the election of Mr. Klepfish, made a cash payment of \$34,650.

Pursuant to the terms of an employment agreement, the Company has accrued a bonus payable to the Company's President in the amount of \$34,650. This bonus is recorded on the Company's balance sheet as a liability to related parties as of December 31, 2011. In September 2011, our board of directors modified the compensation arrangements for Mr. Wiernasz such that his bonuses due and payable then may, at the option of Mr. Wiernasz, be paid in any combination of cash or stock Mr. Wiernasz desires with such decision to be made within five business days of being advised of the size of the bonus, if any, he is entitled to receive, it being agreed that a determination for one year shall not be binding upon any future year. During the first quarter of 2012, the Company, at the election of Mr. Wiernasz, has made a cash payment of \$34,650.

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The Company issued 2,400,000 shares of common stock to the Company's Chief Executive Officer for the conversion of accrued interest in the amount of \$12,000 on a note payable.

The Company committed to issue 13,120,214 shares of common stock to a director and the Director's relatives the Company for the settlement of notes payable and accrued interest in the amount of \$40,000 in principal and \$56,119 in accrued interest. As of December 31, 2011, 7,016,550 of the shares of common stock were issued, which were issued represented the settlement of \$35,083 of accrued interest. The remaining shares to be issued in the amount of 6,103,664, which represent the settlement of \$40,000 of principal and \$21,036 of interest is recorded on the Company's balance sheet as common stock subscribed as of December 31, 2011.

The Company issued 20,933,143 shares of common stock to a director of the Company for the settlement of notes payable and accrued interest in the amount of \$50,000 in principal and \$64,616 in accrued interest.

The Company issued 1,679,557 shares of common stock to each of its two non-employee directors, for a total issuance of 3,359,114 shares of common stock, which were accrued in previous years.

The Company issued 250,000 shares of common stock to a director for services. These shares were accrued during the year ended December 31, 2010.

For the year ended December 31, 2010:

In December 2009, the Company agreed to issue 8,000,000 options with five year terms to purchase additional shares of the Company's common stock to each of the two non-employee directors for services related to the year ending December 31, 2010. These options vest at the rate of 25% each quarter beginning March 31, 2010 and have exercise prices equal to the closing price of the Company's common stock on the vesting date plus a 20% premium, but no lower than a price of \$0.005 per share. During the year ended December 31, 2010, 8,000,000 options have vested to each of the non-employee directors under this agreement, with 2,000,000 options exercisable at \$0.0076 per share, 2,000,000 options exercisable at \$0.0095 per share, 2,000,000 options exercisable at \$0.0090 per share, and 2,000,000 options exercisable at \$0.0096 per share.

In January 2010, the Company issued 8,000,000 options with a five year term to purchase additional shares of common stock to an officer. These options vest 2,000,000 per quarter beginning with the quarter ended March 31, 2010 and have exercise prices equal to the closing price of the Company's common stock on the vesting date plus a 20% premium, but no lower than \$0.005 per share. During the year ended December 31, 2010, 8,000,000 options have vested with 2,000,000 options exercisable at \$0.0076 per share, 2,000,000 options exercisable at \$0.0095 per share, 2,000,000 options exercisable at \$0.0090 per share, and 2,000,000 options exercisable at \$0.0096 per share.

In January 2010, the Company issued 2,500,000 options with a five year term to purchase additional shares of common stock to an officer. These options vest 625,000 per quarter beginning with the quarter ended March 31, 2010 and have exercise prices equal to the closing price of the Company's closing stock on the vest date plus a 20% premium, but no lower than \$0.005 per share. During the year ended December 31, 2010, 2,500,000 options have vested with 625,000 options exercisable at \$0.0076 per share, 625,000 options exercisable at \$0.0095 per share, 625,000 options exercisable at \$0.0090 per share, and 625,000 options exercisable at \$0.0096 per share.

The Company committed to issuing 679,557 shares of common stock to each of its two non-employee directors, for a total issuance of 1,359,114 shares of common stock. The fair value of these shares in the amount of \$12,000 was charged to operations during the year ended December 31, 2010. As of December 31, 2010, these shares have not been issued and are shown in accrued liabilities due to related parties on the Company's balance sheet.

The Company committed to issuing 250,000 shares of common stock to three new directors, for a total issuance of 750,000 shares of common stock. The fair value of these shares in the amount of \$6,000 was charged to operations during the year ended December 31, 2010. As of December 31, 2010, these shares have not been issued and are shown in accrued liabilities dues to related parties on the Company's balance sheet.

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Pursuant to the terms of an employment agreement, the Company is committed to make a cash payment of \$21,140 and issue 2,856,757 shares of common stock to the Company's President. The fair value of these shares in the amount of \$21,140 was charged to operations during the year ended December 31, 2010. The total value of the bonus of \$42,280 is recorded on the Company's balance sheet as a liability to related parties as of December 31, 2010.

Pursuant to the terms of an employment agreement, the Company is committed to make a cash payment of \$21,140 and issue 2,856,757 shares of common stock to the Company's Chief Executive Officer. The fair value of these shares in the amount of \$21,140 was charged to operations during the year ended December 31, 2010. The total value of the bonus of \$42,280 is recorded on the Company's balance sheet as a liability to related parties as of December 31, 2010.

10. INCOME TAXES

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

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. Included in deferred tax assets are Federal and State net operating loss carryforwards of approximately \$3.7 million, which will expire beginning in 2025 through 2029. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Due to significant changes in the Company's ownership, the Company's future use of its existing net operating losses may be limited.

The provision (benefit) for income taxes for the years ended December 31, 2011 and 2010 consist of the following:

| | 2011 | 2010 |
|----------|------|------|
| Current | \$ - | \$ - |
| Deferred | - | - |
| Total | \$ - | \$ - |

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The provision (benefit) for income taxes differs from the amount of income tax determined by applying the applicable statutory income tax rate of 39.6% for the December 31, 2011 and 2010 to the loss before taxes as a result of the following differences:

| | 2011 | 2010 |
|--|--------------|----------------|
| Income (loss) before income taxes | \$ 1,490,117 | \$ (2,109,874) |
| Statutory tax rate | 39.6% | 39.6% |
| Total tax at statutory rate | 590,086 | (835,510) |
| Permanent difference – meals and entertainment | 12,000 | 19,000 |
| Permanent differences- derivatives and discount amortization | (404,133) | 906,137 |
| Total | 197,953 | 89,627 |
| Changes in valuation allowance | (197,953) | (89,627) |
| Income tax expense | \$ - | \$ - |

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

Deferred tax assets and (liabilities) at December 31, 2011 and 2010 are comprised of the following (in thousands):

Deferred income taxes include the net tax effects of net operating loss (NOL) carryforwards and the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. As of December 31, 2011 and 2010, significant components of the Company's deferred tax assets are as follows:

| | 2011 | 2010 |
|------------------------------------|--------------|--------------|
| Deferred Tax Assets (Liabilities): | | |
| Net operating loss carryforwards | \$ 1,471,824 | \$ 1,664,314 |
| Allowance for doubtful accounts | 4,373 | 8,736 |
| Accumulated depreciation | 4,214 | 5,314 |
| Net deferred tax assets | 1,480,411 | 1,678,364 |
| Valuation allowance | (1,480,411) | (1,678,364) |
| Net deferred tax assets | \$ - | \$ - |

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11. EQUITY

Common Stock

During the year ended December 31, 2011, the Company had the following transactions:

The Company issued 40,027,565 shares of common stock for the conversion of notes payable and accrued interest in the aggregate amount of \$200,138.

The Company issued 9,000,000 share of common stock for the settlement of debt in the amount of \$63,000. The Company recorded a loss on the settlement of debt in the amount of \$63,000 to operations during the year ended December 31, 2011.

The Company issued 3,609,114 shares of common stock to directors for services. The value of these shares in the amount of \$22,000 was previously accrued.

The Company issued 27,949,964 shares of common stock in satisfaction of notes payable and accrued interest in the aggregate amount of \$210,826. A gain in the amount of \$165,326 was recorded on this transactions during the twelve months ended December 31, 2011. An additional 6,103,664 shares of common stock with a value of \$61,036 are due to be issued under these transactions as of December 31, 2011. This amount is shown as Common Stock Subscribed on the Company's balance sheet at December 31, 2011.

The Company issued 720,443 shares of common stock in error. The Company will return these shares for cancellation.

The Company cancelled 4,000,000 shares of common stock, which were issued in error by the transfer agent.

During the year ended December 31, 2010, the Company had the following transactions:

The Company issued 16,996,465 shares of common stock for the conversion of notes payable in the amount of \$35,953 and accrued interest in the amount of \$49,029.

The Company issued 750,000 shares of common stock to a consultant for services provided. The fair value of these shares in the amount of \$6,000 was charged to operations during the year ended December 31, 2010.

The Company issued 4,000,000 shares of common stock in error due to an error by the transfer agent which resulted in the duplication of shares of common stock issued to a note holder for conversion. The Company will return these shares for cancellation.

Treasury Stock

During the year ended December 31, 2011, the Company purchased 15,200 shares of the Company's outstanding common stock. The purchase price was \$99 and the Company recorded the transaction at cost to Treasury Stock.

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Warrants

The following table summarizes the significant terms of warrants outstanding at December 31, 2011. These warrants may be settled in cash or via cashless conversion into shares of the Company's common stock at the request of the warrant holder. These warrants were granted as part of a financing agreement:

| Range of exercise prices | Number of warrants outstanding | Weighted average remaining contractual life (years) | Weighted average exercise price of outstanding warrants | Number of warrants exercisable | Weighted average exercise price of exercisable warrants |
|--------------------------|--------------------------------|---|---|--------------------------------|---|
| \$ 0.0050 | 179,700,000 | 0.66 | \$ 0.0050 | 179,700,000 | \$ 0.0050 |
| \$ 0.0110 | 18,500,000 | 0.29 | \$ 0.0110 | 18,500,000 | \$ 0.0110 |
| \$ 0.0120 | 1,000,000 | 1.71 | \$ 0.0120 | 1,000,000 | \$ 0.012 |
| \$ 0.0115 | 74,000,000 | 0.67 | \$ 0.0115 | 74,000,000 | \$ 0.0115 |
| | 273,200,000 | 0.64 | \$ 0.0072 | 273,200,000 | \$ 0.0072 |

Transactions involving warrants are summarized as follows:

| | Number of Shares | Weighted Average Exercise Price |
|---|------------------|---------------------------------|
| Warrants outstanding at January 1, 2009 | 273,200,000 | \$ 0.007 |
| Granted | - | - |
| Exercised | - | - |
| Cancelled / Expired | - | - |
| Warrants outstanding at December 31, 2010 | 273,200,000 | \$ 0.007 |
| Granted | - | - |
| Exercised | - | - |
| Cancelled / Expired | - | - |
| Warrants outstanding at December 31, 2011 | 273,200,000 | \$ 0.007 |

Options

In December 2006, the Company agreed to issue 5,000,000 options with five year terms to purchase additional shares of common stock to each of the Company's three directors, pursuant to a board resolution for services performed in

2006 (a total of 15,000,000 options). These options have no alternative settlement provisions. The options were issued in April 2007. Compensation cost was recognized via the straight-line attribution method.

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

In December 2009, the Company agreed to issue 1,000,000 options with five year terms to purchase additional shares of the Company's common stock to each of the Company's two non-employee directors pursuant to a board resolution for services performed during the year ended December 31, 2009. The fair value of these shares in the amount of 7,993 was charged to operations during the year ended December 31, 2009.

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Also in December 2009, the Company agreed to issue 8,000,000 options with five year terms to purchase additional shares of common stock to each of the two non-employee directors for services related to the year ending December 31, 2010. These options vest at the rate of 25% each quarter beginning March 31, 2010 and have exercise prices equal to the closing price of the Company's common stock on the vesting date plus a 20% premium, but no lower than a price of \$0.005 per share. During the year ended December 31, 2010, 8,000,000 options have vested to each of the non-employee directors under this agreement, with 2,000,000 options exercisable at \$0.0076 per share, 2,000,000 options exercisable at \$0.0095 per share, 2,000,000 options exercisable at \$0.0090 per share, and 2,000,000 options exercisable at \$0.0096 per share.

In January 2010, the Company issued 8,000,000 options with a five year term to purchase additional shares of common stock to an officer. These options vest 2,000,000 per quarter beginning with the quarter ended March 31, 2010 and have exercise prices equal to the closing price of the Company's common stock on the vesting date plus a 20% premium, but no lower than \$0.005 per share. During the year ended December 31, 2010, 8,000,000 options have vested with 2,000,000 options exercisable at \$0.0076 per share, 2,000,000 options exercisable at \$0.0095 per share, 2,000,000 options exercisable at \$0.0090 per share, and 2,000,000 options exercisable at \$0.0096 per share.

In January 2010, the Company issued 2,500,000 options with a five year term to purchase additional shares of common stock to an officer. These options vest 625,000 per quarter beginning with the quarter ended March 31, 2010 and have exercise prices equal to the closing price of the Company's closing stock on the vesting date plus a 20% premium, but no lower than \$0.005 per share. During the year ended December 31, 2010, 2,500,000 options have vested with 625,000 options exercisable at \$0.0076 per share, 625,000 options exercisable at \$0.0095 per share, 625,000 options exercisable at \$0.0090 per share, and 625,000 options exercisable at \$0.0096 per share.

The following table summarizes the changes outstanding and the related prices for the Company's stock options:

| 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 |
|--------------------------|-------------------------------|---|--|-------------------------------|--|
| \$ 0.0070 | 22,000,000 | 1.41 | \$ 0.0070 | 22,000,000 | \$ 0.007 |
| \$ 0.0076 | 6,625,000 | 3.25 | \$ 0.0076 | 6,625,000 | \$ 0.0076 |
| \$ 0.0090 | 6,625,000 | 3.75 | \$ 0.0090 | 6,625,000 | \$ 0.0090 |
| \$ 0.0095 | 6,625,000 | 3.50 | \$ 0.0095 | 6,625,000 | \$ 0.0095 |
| \$ 0.0096 | 6,625,000 | 4.00 | \$ 0.0096 | 6,625,000 | \$ 0.0096 |
| | 48,500,000 | 2.65 | | 48,500,000 | \$ 0.008 |

Options not vested are not exercisable.

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Transactions involving stock options issued to employees are summarized as follows:

| | Options | Weighted Average Exercise Price |
|----------------------------------|--------------|---------------------------------------|
| Outstanding at December 31, 2009 | 53,000,000 | \$ 0.007 |
| Issued | 10,500,000 | 0.009 |
| Exercised | - | - |
| Forfeited or expired | - | - |
| Outstanding as December 31, 2010 | 63,500,000 | \$ 0.007 |
| Issued | - | - |
| Exercised | - | - |
| Forfeited or expired | (15,000,000) | 0.005 |
| Outstanding at December 31, 2011 | 48,500,000 | \$ 0.008 |

Aggregate intrinsic value of options outstanding and exercisable at December 31, 2011 and 2010 was \$0 and \$64,930, 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 \$0.006 and \$0.008 as of December 31, 2011 and 2010, respectively, and the exercise price multiplied by the number of options outstanding. As of December 31, 2011 and 2010, total unrecognized stock-based compensation expense related to stock options was \$0. During the years ended December 31, 2011 and 2010, the Company charged \$0 and \$168,409, respectively, to operations related to recognized stock-based compensation expense for employee stock options.

Accounting for warrants and stock options

The Company accounts for the issuance of common stock purchase warrants, stock options, and other freestanding derivative financial instruments in accordance with the provisions of FASB ASC 815-40-15. Based on the provisions of ASC 815-40-05, the Company classifies, as equity, any contracts that (i) require physical settlement or net-share settlement or (ii) gives the Company a choice of net-cash settlement or settlement in its own shares (physical settlement or net-share settlement). The Company classifies as assets or liabilities any contract that (i) require net-cash settlement or (ii) give the counterparty a choice of net-cash settlement in shares (physical or net-share settlement). At December 31, 2011 and 2010, the Company has no freestanding derivative financial instruments that require net cash settlement or give the counterparty a choice of net cash settlement or settlement in shares.

The fair value of these warrants and stock options is determined utilizing the Black-Scholes valuation model. Through August 2005, these warrants were accounted for by the equity method, whereby the fair value of the warrants was charged to additional paid-in capital. During September, 2005, the number of shares of the Company's common stock issued and issuable exceeded the number of shares of common stock the Company had authorized. As the Company no longer had sufficient shares authorized to settle all of our outstanding contracts, this triggered a change in the manner in which the Company accounts for the warrants and stock options. The Company began to account for these warrants and stock options utilizing the liability method. Pursuant to ASC 815-40-15, "If a contract is reclassified from permanent or temporary equity to an asset or a liability, the change in fair value of the contract during the period the contract was classified as equity should be accounted for as an adjustment to stockholders' equity." Accordingly,

during the year ended December 31, 2005, the Company charged the amount of \$10,374,536 to stockholders' equity. At the same time, the Company changed the way in which it accounts for the beneficial conversion feature of convertible notes payable (see note 8).

The accounting guidance shows that the warrants and stock options which are a derivative liability should be revalued each reporting period. The recorded value of such warrants and stock options can fluctuate significantly based on fluctuations in the market value of the underlying securities of the issuer of the warrants and stock options, as well as in the volatility of the stock price during the term used for observation and the term remaining for warrants. During the twelve months ended December 31, 2011 and 2010, the Company recognized a gain of \$682,350 and \$396,718, respectively, for the change in the fair value of the warrant liability and recorded the change in operations during the twelve months ended December 31, 2011 and 2010. During the twelve months ended December 31, 2011 and 2010, the Company recognized a gain of \$174,835 and a loss of \$23,683, respectively, for the change in the fair value of the stock option liability and recorded these amounts in operations during the twelve months ended December 31, 2011 and 2010.

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

| | December 31, | |
|--------------------------|---------------------|-------------------|
| | 2011 | 2010 |
| Volatility | 92.52% - 114.30% | 119.60% - 336% |
| Dividends | \$ 0 | \$ 0 |
| Risk-free interest rates | 0.06% - 0.17% | 0.19%-0.20% |
| Term (years) | 0.01 - 5.00 | 0.15-5.00 |

Insufficient Authorized but Unissued Shares of Common Stock

The Company has a potential obligation to issue 700,486,949 and 838,510,748 shares of common stock upon the conversion of convertible notes and accrued interest, warrants and penalty shares issuable at December 31, 2011 and 2010, respectively. The Company had 282,956,546 and 202,385,103 shares of common stock outstanding at December 31, 2011 and 2010, respectively, and 500,000,000 shares of common stock authorized at December 31, 2011 and 2010. The Company's potential obligation to issue shares has exceeded its shares authorized by 483,443,495 and 540,895,851 shares at December 31, 2011 and 2010, respectively.

12. EMPLOYMENT AGREEMENTS

SAM KLEPFISH

In 2008, the Company and its Chief Executive Officer, Sam Klepfish, were parties to an oral agreement which provided, among other things:

Mr. Klepfish is to receive a monthly salary in the amount of \$10,833

Mr. Klepfish received an additional monthly salary of \$4,500 which is not paid in cash, but is recorded on a monthly basis as a convertible note payable. These notes payable are convertible into common stock of the Company at a rate of \$0.005 per share.

On December 31, 2008, we entered into one year employment agreements with Sam Klepfish. The agreement provided for, among other things, (i) average annual salary of \$130,000; (ii) bonuses (payable one-half in cash and one-half in stock) in the range of 7%-50% of salary based upon the registrant meeting certain revenue and gross margin milestones; (iii) four month severance upon termination, and (iv) restrictions on confidentiality, competition and solicitation.

On January 6, 2010 (with an effective date of January 1, 2010), we entered into a three year employment agreement with Sam Klepfish. The agreement provides for, among other things, (i) average annual salary of \$151,000 from January 1, 2010 through December 31, 2010, of which \$6,500 shall be accrued until June 20, 2010, and then payable in equal weekly installments until said \$6,500 is paid in full by December 31, 2010; (ii) \$165,000 per annum from

January 1, 2011 through December 31, 2011, provided, however that the increase of \$14,000 shall only take effect if the Company's gross annual sales for 2010 are at least \$7.5 million; and (iii) the lesser of a 10% increase in salary above the salary in 2011 or \$181,000 per annum from January 1, 2012 through December 31, 2012, provided, however, the increase in 2012 shall only take effect if the Company's gross annual sales for 2011 are at least \$7.5 million.

Mr. Klepfish is also entitled to receive an annual bonus based upon the consolidated aggregate incremental revenues of the Company (payable one-half in cash and one-half in stock) in the range of 7%-50% of salary based upon the registrant meeting certain revenue and gross margin milestones. In September 2011, our board of directors modified the compensation arrangements for Mr. Klepfish such that his bonuses due and payable then may, at the option of Mr. Klepfish, be paid in any combination of cash or stock Mr. Klepfish desires with such decision to be made within five business days of being advised of the size of the bonus, if any, he is entitled to receive, it being agreed that a determination for one year shall not be binding upon any future year. The board also provided that in the event the Corporation sells a subsidiary, or substantially all of the assets of a subsidiary, Mr. Klepfish shall be entitled to a cash bonus equal to 2%, of the purchase price, provided he is then an employee of the Company or one of its subsidiaries.

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JUSTIN WIERNASZ

In 2008, Mr. Wiernasz was employed under an employment agreement dated May 18, 2007 that expired on September 13, 2008 pursuant to which he was compensated at an annual rate of \$120,000. The agreement also provided for the earning of a bonus of 10% of his salary, up to 50%, for each \$100,000 of incremental profits we make over the previous year.

On January 22, 2008, our Board approved the grant of an aggregate of 3 million restricted shares and 5 million options exercisable for five years at an exercise price of \$0.007 per share to Mr. Wiernasz, upon his appointment as President of Innovative Food Holdings, all of which vested on December 31, 2008.

On December 31, 2008, we entered into one year employment agreements with Justin Wiernasz. The agreement provided for, among other things, (i) average annual salary of \$130,000; (ii) bonuses (payable one-half in cash and one-half in stock) in the range of 7%-50% of salary based upon the registrant meeting certain revenue and gross margin milestones; (iii) four month severance upon termination; and (iv) restrictions on confidentiality, competition and solicitation.

On January 6, 2010 (with an effective date of January 1, 2010) we entered into a three year employment agreement with Mr. Wiernasz. The agreement provides for, among other things, (i) average annual salary of \$151,000 from January 1, 2010 through December 31, 2010, of which \$6,500 shall be accrued until June 20, 2010, and then payable in equal weekly installments until the \$6,500 is paid in full by December 31, 2010; (ii) \$165,000 per annum from January 1, 2011 through December 31, 2011, provided, however that the increase of \$14,000 shall only take affect if the Company's gross annual sales for 2010 are at least \$7.5 million; and (iii) the lesser of a 10% increase in salary above the salary in 2011 or \$181,000 per annum from January 1, 2012 through December 31, 2012, provided, however, the increase in 2012 shall only take effect if the Company's gross annual sales for 2011 are at least \$7.5 million.

Mr. Wiernasz is also entitled to receive an annual bonus based upon the consolidated aggregate incremental revenues of the Company (payable one-half in cash and one-half in stock) in the range of 7%-50% of salary based upon the registrant meeting certain revenue and gross margin milestones. In September 2011, our board of directors modified the compensation arrangements for Mr. Wiernasz such that his bonuses due and payable then may, at the option of Mr. Wiernasz, be paid in any combination of cash or stock Mr. Wiernasz desires with such decision to be made within five business days of being advised of the size of the bonus, if any, he is entitled to receive, it being agreed that a determination for one year shall not be binding upon any future year. The board also provided that in the event the Corporation sells a subsidiary, or substantially all of the assets of a subsidiary, Mr. Wiernasz shall be entitled to a cash bonus equal to 3%, of the purchase price, provided he is then an employee of the Company or one of its subsidiaries.

13. COMMITMENTS AND CONTINGENCIES

On October 17, 2008, we entered into a three-year lease with Grand Cypress Communities, Inc. for new premises consisting of 4,000 square feet at 3845 Beck Blvd., Naples, Florida. The commencement date of the lease is January 1, 2009. On November 11, 2011, the Company extended the lease with Grand Cypress Communities, Inc. for 3 years, commencing on January 1, 2012. The annual rent and fees under the lease is approximately \$54,000. The lease provides for a buyout option at the end of the lease with credit towards the purchase price received for the rental payments made during the term of the lease.

At December 31, 2011, commitments for minimum rental payments were as follows:

For the twelve months ended:

| | | |
|-------------------|----|---------|
| December 31, 2012 | \$ | 54,000 |
| December 31, 2013 | | 54,000 |
| December 31, 2014 | | 54,000 |
| Thereafter | | - |
| Total | \$ | 162,000 |

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INNOVATIVE FOOD HOLDINGS, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

14. MAJOR CUSTOMER

The Company's largest customer, US Foodservice, Inc. and its affiliates, accounted for approximately 93% and 92% of total sales in the years ended December 31, 2011 and 2010, respectively. A contract between our subsidiary, Food Innovations, and USF expires in December 2012. We believe that although a significant portion of our sales occur through USF and its affiliates, the success of the program is less contingent on a contract than on the actual performance and quality of our products.

15. FAIR VALUE MEASUREMENTS

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

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

- Level 1 — Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date;
- Level 2 — Inputs other than Level 1 inputs that are either directly or indirectly observable; and
- Level 3 — Unobservable inputs, for which little or no market data exist, therefore requiring an entity to develop its own assumptions.

The following table summarizes the financial liabilities measured at fair value on a recurring basis as of December 31, 2011, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

| | Level 1 | Level 2 | Level 3 | Liabilities at fair value |
|--------------------------------|---------|---------|--------------|------------------------------|
| Warrant liability | \$ - | \$ - | \$ 500,825 | \$ 500,825 |
| Option liability | \$ - | \$ - | \$ 161,884 | \$ 161,884 |
| Conversion option liability | \$ - | \$ - | \$ 1,245,761 | \$ 1,245,761 |

16. SUBSEQUENT EVENTS

On January 25, 2012, the registrant held an annual meeting for its shareholders. The following is a brief description of the matters presented to the shareholders and the voting results:

1. Joel Gold, Michael Ferrone, Sam Klepfish, Solomon Mayer and Hank Cohn were duly elected directors of the Company.
2. The proposal to amend the Company's Certificate of Incorporation to increase its authorized capital to 3,000,000,000 shares of common stock, par value of \$0.0001 per share, was rendered moot by the approval of Item 4.
3. The proposal to amend the Company's Certificate of Incorporation to convert its authorized preferred stock to be blank check preferred stock, par value of \$0.0001 per share, was not approved.
4. The proposal to authorize the Company's Board of Directors to implement a reverse split of the Company's outstanding Common Stock, at its discretion, in a ratio ranging from 40:1 to 60:1, was approved.
5. The proposal to change the Company's domicile from Florida to Delaware was approved.
6. The proposal to ratify and approve the adoption of the Company's 2011 Stock Option Plan, and the awards previously issued thereunder was approved.
7. The proposal to ratify the appointment by the Board of Directors of RBSM LLP, as independent public accountants for the Company for the current fiscal year was approved.

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

None.

ITEM 9A. Controls and Procedures

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Under the supervision and with the participation of our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act). Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions as appropriate to allow timely decisions regarding required disclosure. We concluded that our disclosure controls and procedures as defined in Rule 13a-15(e) under the Exchange Act were effective as of December 31, 2011 to ensure that information required to be disclosed in reports we file or submit under the Exchange Act is recorded, processed, and summarized and reported within the time periods specified in SEC rules and forms and our disclosure controls and procedures are also effective to ensure that the information required to be disclosed in reports that we file under the Exchange Act is accumulate and communicated to our principal executive and financial officers to allow timely decisions regarding required disclosures.

Management's Annual Report on Internal Control over Financial Reporting

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

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

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2011. In making this assessment, management used the criteria set forth in Internal Control Over Financial Reporting — Guidance for Smaller Public Companies issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Subject to the inherent limitations described in the following paragraph, our management has concluded that our internal control over financial reporting was effective at December 31, 2011 at the reasonable assurance level.

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Inherent Limitations Over Internal Controls

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

Changes in Internal Control over Financial Reporting

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

Attestation Report of the Registered Public Accounting Firm

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

ITEM 9B. Other Information

None.

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PART III

ITEM 10. Directors, Executive Officers and Corporate Governance

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

| Name | Age | Position |
|-----------------|-----|--------------------------------------|
| Sam Klepfish | 41 | Chief Executive Officer and Director |
| Justin Wiernesz | 46 | President |
| Michael Ferrone | 65 | Director |
| Joel Gold | 71 | Director |
| Solomon Mayer | 54 | Director |
| Hank Cohn | 42 | Director |

Directors

Sam Klepfish

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

Joel Gold, Director

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

Michael Ferrone, Director

Michael Ferrone was Executive Producer and Producer, Bob Vila TV Productions, Inc. from its founding in 1989 to 2000. Michael co-created and developed the T.V. show, "Bob Vila's Home Again". As Executive Producer, Michael

managed all aspects of creation, production, and distribution of the Show. By integrating brand extension and sponsor relations, Michael managed the interrelationships between Bob Vila and business partners including senior executives at Sears, NBC, CBS, A&E, HGTV, General Motors, and Hearst Publications. In 2002 he co-founded Building Media, Inc., (BMI) a multimedia education, marketing and production company committed to promoting best building practices through better understanding of building science principles. As of 2005, BMI operates as an independently managed, wholly owned subsidiary of DuPont™.

Solomon Mayer, Director

Mr. Solomon Mayer has held various executive level positions, and has successfully overseen several businesses from conceptions to profitability. Mr. Mayer is currently on the board of directors of the following private Companies: Mooney Airplane Corporation, Premier Store Fixtures and Supreme Construction and Development, a real estate development and investment firm.

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Hank Cohn, Director

Hank Cohn is currently CEO of P1 Billing, LLC, a revenue cycle management services provider to ambulatory medical clinics. P1 Billing is a spinoff of PracticeOne Inc., (formerly PractieXpert, Inc., an OTCBB traded company), an integrated PMS and EMR software and services company for physicians. Mr. Cohn served as President and Chief Executive Officer of PracticeOne from December 2009 until December 2009, at which time he sold the company to Francison Partners, one of the largest, global technology focused, private equity firms in Silicon Valley. Prior to that, Mr. Cohn worked with a number of public companies. A partial list of his past and present board memberships include: Analytical Surveys, Inc., Kaching Kaching, Inc., and International Food and Wine, Inc., currently Evolution Resources Inc. Mr. Cohn also served as the executive vice president of Galaxy Ventures, LLC a closely-held investment fund concentrating in the areas of bond trading and early stage technology investments, where he acted as portfolio manager for investments.

Executive Officer

Justin Wiernasz, President

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

Key Employee

John McDonald

Mr. McDonald, age 50, has been the Chief Information Officer of IVFH since November 2007 and our principal accounting officer since November 2007. From 2004 through 2007, Mr. McDonald worked as a consultant with Softrim Corporation of Estero, Florida where he created custom applications for a variety of different industries and assisted in building interfaces to accounting applications. Since 1999 he has also been President of McDonald Consulting Group, Inc. which provide consulting on accounts receivable, systems and accounting services.

Qualification of Directors

We believe that all of our directors are qualified for their positions and each brings a benefit to the board. Mr. Kelpfish, as our CEO, is uniquely qualified to bring management's perspective to the board's deliberations. Mr. Gold, with his lengthy career working for broker/dealers, brings "wall Street's" perspective. Mr. Ferrone, with his background, brings marketing experience to the board. Dr. Brown, with his history of investments, is able to bring an investor perspective to the board. Mr. Mayer, with his experience as an executive in start-up companies, brings that knowledge and insight to the board. Mr. Cohn, with his prior history of being an executive and his experience as a director of other companies, brings a well-rounded background and wealth of experience to our board.

Committees

The Board of Directors does not currently have an Audit Committee, a Compensation Committee, a Nominating Committee or a Governance Committee. The usual functions of such committees are performed by the entire Board of Directors. We are currently having difficulties attracting additional qualified directors, specifically to act as the audit committee financial expert, inasmuch as we have only limited resources to purchase D & O insurance. However, we believe that at least a majority of our directors are familiar with the contents of financial statements.

Attendance at Meetings

During 2011 the Board of Directors met formally two times and all Directors attended the meetings and the Board also acted by written consent three times.

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Code of Ethics

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

Section 16(a) Beneficial Ownership Reporting Compliance

During 2010, Mr. Klepfish did not file one Form 4 and each of Messrs. Gold and Mr. Ferrone did not file two Forms 4.

ITEM 11. Executive Compensation

The following table sets forth information concerning the compensation for services in all capacities rendered to us for the year ended December 31, 2011, of our Chief Executive Officer and our other executive officers whose annual compensation exceeded \$100,000 in the fiscal year ended December 31, 2011, if any. We refer to the Chief Executive Officer and these other officers as the named executive officers.

SUMMARY COMPENSATION TABLE

| Name and Principal Position | Year | Salary (\$) | Bonus (\$) | Stock Awards (\$) | Option Awards (\$) | Non-Equity Incentive Compensation | | All Other Compensation (\$) | Total (\$) |
|---|------|----------------|---------------|-------------------------|--------------------------|-----------------------------------|-------------------------------|-----------------------------------|---------------|
| | | | | | | Planned Compensation (\$) | Deferred Compensation (\$) | | |
| Sam Klepfish CEO | 2011 | \$ 165,000 | \$ 34,650(a) | \$ - | \$ - | \$ - | \$ - | \$ 14,441(b) | \$ 214,091 |
| | 2010 | \$ 151,000(c) | \$ 42,280(d) | \$ - | \$ - | \$ - | \$ - | \$ 15,713(b) | \$ 208,993 |
| | 2009 | \$ 143,500 | \$ 9,100(e) | \$ - | \$ - | \$ - | \$ - | \$ 8,642(b) | \$ 161,242 |
| Justin Wiernesz President | 2011 | \$ 165,000 | \$ 34,650(a) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 199,650 |
| | 2010 | \$ 135,038 | \$ 42,280(d) | \$ - | \$ 54,620(f) | \$ - | \$ - | \$ - | \$ 231,938 |
| | 2009 | \$ 135,000 | \$ 9,660(g) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 144,660 |
| John McDonald Chief Information and Principal Accounting Officer | 2011 | \$ 116,933 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 116,933 |
| | 2010 | \$ 118,124 | \$ - | \$ - | \$ 17,046(h) | \$ - | \$ - | \$ - | \$ 135,170 |
| | 2009 | \$ 94,320 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 94,320 |

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- (a) Consists of a bonus of \$34,650, payable in cash or shares, at the discretion of the officer.
- (b) Consists of cash payments for health care benefits.
Consists of \$130,000 cash salary paid and an additional \$13,500 salary accrued, which is convertible into shares of common stock at the election of Mr. Klepfish at a rate of \$0.005 per share.
- (c) share.
Consists of a cash portion of \$21,140 and 2,856,757 shares of common stock values at \$0.0074 per share.
- (d) share.
Consist of a cash portion of \$4,550 and 910,000 shares of common stock valued at a price of \$0.005 per share, for a value of \$4,550.
- (e) \$0.005 per share, for a value of \$4,550.
Consists of 2,000,000 options to purchase shares of common stock at a price of \$0.0076 per shares, 2,000,000 options to purchase shares of common stock as a price of \$0.0095 per shares, 2,000,000 options to purchase shares of common stock as a price of \$0.0090 per share, and 2,000,000 options to purchase shares of common stock at a price of \$0.0096 per share.
- (f) to purchase shares of common stock at a price of \$0.0096 per share.
Consist of a cash portion of \$4,830 and 966,000 shares of common stock valued at a price of \$0.005 per share, for a value of \$4,830.
- (g) \$0.005 per share, for a value of \$4,830.
Consists of 625,000 options to purchase shares of common stock at a price of \$0.0076, 625,000 options to purchase shares of common stock at a price of \$0.0095, 625,000 options to purchase shares of common stock at a price of \$0.0090 per share, and 625,000 options to purchase shares of common stock at a price of \$0.0096 per share.
- (h) common stock at a price of \$0.0096 per share.

Outstanding Equity Awards at Fiscal Year-End as of December 31, 2011

| Name | Option Awards | | | | Stock Awards | | | | Equity Incentive Plan Awards: |
|-----------------|---|---|---|----------------------------|------------------------|---|---|--|---|
| | Number of Securities Underlying Unexercised Options (#) Exercisable | Number of Securities Underlying Unexercised Options (#) Unexercisable | Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#) | Option Exercise Price (\$) | Option Expiration Date | Number of Shares or Units of Stock That Have Not Vested (#) | Value of Shares or Units of Stock That Have Not Vested (\$) | Market Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$) | Equity Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$) |
| Justin Wiernesz | 8,000,000 (a) | - | - | \$ - | (b) | - | - | - | - |
| Justin Wiernesz | 5,000,000 | - | - | \$ 0.007 | 03/31/2013 | - | - | - | - |
| Sam Klepfish | 5,000,000 | - | - | \$ 0.007 | 03/31/2013 | - | - | - | - |

- (a) Options vest at the rate of 25% each quarter beginning March 31, 2010
- (b) Exercise price is a 20% premium to the closing price of the Company's common stock on the date of vesting, but no lower than a price of \$0.005 per share.
- (c) Option term is 5 years from the date of vesting.

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Director Compensation

| Name | Fees Earned or Paid in Cash (\$) | Stock Awards (\$) | Option Awards (\$) | Non-Equity Incentive Plan Compensation (\$) | Nonqualified Deferred Compensation Earnings (\$) | All Other Compensation (\$) | Total (\$) |
|--------------------|---|-------------------------|--------------------------|---|--|-----------------------------------|---------------|
| Joel Gold | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Michael Ferrone | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Sam Klepfish | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Solomon Mayer | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Hank Cohn | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |

The Board has not established its compensation for 2011, but it plans to pay compensation for Board service in 2011.

Employment Agreements

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

SAM KLEPFISH

In 2008, the Company and its Chief Executive Officer, Sam Klepfish, were parties to an oral agreement which provided, among other things:

Mr. Klepfish is to receive a monthly salary in the amount of \$10,028

Mr. Klepfish received an additional monthly salary of \$4,500 which is not paid in cash, but is recorded on a monthly basis as a convertible note payable. These notes payable are convertible into common stock of the Company at a rate of \$0.005 per share.

On December 31, 2008, we entered into one year employment agreements with Sam Klepfish. The agreement provided for, among other things, (i) average annual salary of \$130,000; (ii) bonuses (payable one-half in cash and one-half in stock) in the range of 7%-50% of salary based upon the registrant meeting certain revenue and gross margin milestones; (iii) four month severance upon termination, and (iv) restrictions on confidentiality, competition and solicitation.

On January 6, 2010 (with an effective date of January 1, 2010), we entered into a three year employment agreement with Sam Klepfish. The agreement provides for, among other things, (i) average annual salary of \$151,000 from January 1, 2010 through December 31, 2010, of which \$6,500 shall be accrued until June 20, 2010, and then payable in equal weekly installments until said \$6,500 is paid in full by December 31, 2010; (ii) \$165,000 per annum from January 1, 2011 through December 31, 2011, provided, however that the increase of \$14,000 shall only take effect if the Company's gross annual sales for 2010 are at least \$7.5 million; and (iii) the lesser of a 10% increase in salary above the salary in 2011 or \$181,000 per annum from January 1, 2012 through December 31, 2012, provided, however, the increase in 2012 shall only take effect if the Company's gross annual sales for 2011 are at least \$7.5 million.

Mr. Klepfish is also entitled to receive an annual bonus based upon the consolidated aggregate incremental revenues of the Company (payable one-half in cash and one-half in stock) in the range of 7%-50% of salary based upon the registrant meeting certain revenue and gross margin milestones. In September 2011, our board of directors modified the compensation arrangements for Mr. Klepfish such that his bonuses due and payable then may, at the option of Mr. Klepfish, be paid in any combination of cash or stock Mr. Klepfish desires with such decision to be made within five business days of being advised of the size of the bonus, if any, he is entitled to receive, it being agreed that a determination for one year shall not be binding upon any future year. The board also provided that in the event the Corporation sells a subsidiary, or substantially all of the assets of a subsidiary, Mr. Klepfish shall be entitled to a cash bonus equal to 2% of the purchase price, provided that he is then an employee of the Company or one of its subsidiaries.

JUSTIN WIERNASZ

In 2008, Mr. Wiernasz was employed under an employment agreement dated May 18, 2007 that expired on September 13, 2008 pursuant to which he was compensated at an annual rate of \$120,000. The agreement also provided for the earning of a bonus of 10% of his salary, up to 50%, for each \$100,000 of incremental profits we make over the previous year.

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On January 22, 2008, our Board approved the grant of an aggregate of 3 restricted million shares and 5 million in options exercisable for five years at an exercise price of \$0.007 per share to Mr. Wiernasz, upon his appointment as President of Innovative Food Holdings, all of which vested on December 31, 2008.

On December 31, 2008, we entered into one year employment agreements with Justin Wiernasz. The agreement provide for, among other things, (i) average annual salary of \$130,000; (ii) bonuses (payable one-half in cash and one-half in stock) in the range of 7%-50% of salary based upon the registrant meeting certain revenue and gross margin milestones; (iii) four month severance upon termination; and (iv) restrictions on confidentiality, competition and solicitation.

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

The following table sets forth certain information as of February 20, 2012 with respect to the beneficial ownership of our common stock by (1) each person known by us to own beneficially more than 5% of the outstanding shares of our common stock, (2) each of our directors, (3) each Named Officer, and (4) all our directors and executive officers as a group. Unless otherwise stated, each person listed below uses the Company's address. Pursuant to SEC rules, includes shares that the person has the right to receive within 60 days from February 20, 2012.

| Name and Address of Beneficial Owners | | Number of Shares Beneficially Owned | Percent of Class |
|---------------------------------------|-----|-------------------------------------|------------------|
| Sam Klepfish | (1) | 40,020,948 | 12.5% |
| Michael Ferrone | (2) | 66,296,108 | 22.3% |
| Joel Gold | (3) | 38,532,700 | 13.0% |
| Solomon Mayer | (4) | - | 0.0% |
| Hank Cohn | (5) | - | 0.0% |
| Justin Wiernasz | (6) | 13,000,000 | 4.4% |

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| | | | |
|---|-----|-------------|-------|
| Joseph DiMaggio Jr. | | 14,800,000 | 5.2% |
| Christopher Brown | (7) | 24,610,000 | 8.7% |
| Alpha Capital Anstalt | (8) | 29,228,615 | 7.1% |
| All officers and directors as a whole (6 persons) | (9) | 157,849,756 | 43.7% |

- (1) Includes 3,750,000 shares of common stock held by Mr. Klepfish; options to purchase 5,000,000 shares of the Company's common stock, 26,100,000 shares issuable upon the conversion of notes payable; 6,170,948 shares issuable upon the conversion of accrued interest. Does not include 910,000 shares issuable as of December 31, 2009 as compensation for services performed in 2009, and 2,856,757 shares issuable as compensation for services performed in 2010. Upon the issuance of these shares, Mr. Klepfish will beneficially own 13.5% of the outstanding shares.
- (2) Includes 52,296,108 shares of common stock held by Mr. Ferrone; and options to purchase 14,000,000 shares of the Company's common stock held by Mr. Ferrone.

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- (3) Includes 24,532,700 shares of common stock held by Mr. Gold; options to purchase 14,000,000 shares of common stock. Also includes 920,000 shares of common stock held by Mr. Gold's spouse.
- (4) Does not include 250,000 shares issuable for services as a board member for 2010, but not yet issued. Upon issuance of these shares, Mr. Mayer will beneficially own 0.1% of the shares outstanding.
- (5) Does not include 250,000 shares issuable for services as a board member for 2010, but not yet issued. Upon issuance of these shares, Mr. Cohn will beneficially own 0.1% of the shares outstanding.
- (6) Includes options to purchase 13,000,000 shares of common stock. Does not include 3,000,000 shares to be issued for services performed in 2008, 966,000 shares to be issued for services performed in 2009, and 2,856,757 shares to be issued for services performed in 2010. Upon the issuance of these shares, Mr. Wiernasz will beneficially own 6.5% of the outstanding shares.
- (7) Mr. Brown resigned as a member of our Board of Directors on May 23, 2011. The most recent address we have on file is 16902 Harbor Master CV, Cornelius, NC 28031.
- (8) Consists of 20,218,271 shares of common stock held by Alpha Capital. Excludes shares underlying warrants and convertible notes which are subject to a 9.99% blocker provision. The address of its principal business is Pradafant 7, Furstentums 9490, Vaduzm Liechtenstein. Information gathered from a Schedule 13G filed with the Securities and Exchange Commission on February 15, 2012.
- (9) Includes 77,979,200 shares underlying options, convertible notes or shares issuable as accrued interest upon outstanding notes. Does not include an aggregate of an additional 21,875,610 shares committed by the Company to be issued. Upon issuance of such shares the group will beneficially own 46.9% of the outstanding shares.

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

We are not currently subject to the requirements of any stock exchange with respect to having a majority of "independent directors" although we believe that we meet that standard inasmuch as Messrs. Gold, Ferrone, Mayer, and Cohn, are "independent" and only Mr. Klepfish, by virtue of being our Chief Executive Officer, is not independent.

ITEM 14. Principal Accountant Fees and Services

Audit Fees

The aggregate fees billed for each of the last two fiscal years for professional services rendered by RBSM LLP for the audit of our annual consolidated financial statements included in our Forms 10-K: 2011: \$36,500; and 2010: \$36,500.

Audit-Related Fees

The aggregate fees billed in each of the last two fiscal years for assurance and related services by RBSM LLP that are reasonably related to the performance of the audit or review of our consolidated financial statements including our

quarterly interim reviews on Form 10-Q and are not reported under Audit Fees above: 2011: \$22,500 and 2010: \$0.

Tax Fees

The aggregate fees billed in each of the last two fiscal years for professional services rendered by RBSM LLP are: 2011: \$3,500 and 2010: \$0.

All Other Fees

The aggregate fees billed in each of the last two fiscal years for services provided by RBSM LLP, other than the services reported above: \$0.

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PART IV

ITEM 15. Exhibits

EXHIBIT
NUMBER

- 3.1 Articles of Incorporation (incorporated by reference to exhibit 3.1 of the Company's annual report on Form 10-KSB for the year ended December 31, 2004 filed with the Securities and Exchange Commission on September 28, 2005).
- 3.2 Amended Bylaws of the Company (incorporated by reference to exhibit 3.2 of the Company's annual report Form 10-K for the year ended December 31, 2010 filed with the Securities and Exchange Commission on March 16, 2011).
- 4.1 Form of Convertible Note (incorporated by reference to exhibit 4.1 of the Company's annual report on Form 10-KSB for the year ended December 31, 2004 filed with the Securities and Exchange Commission on September 28, 2005).
- 4.2 Form of Convertible Note (incorporated by reference to exhibit 4.2 of the Company's annual report on Form 10-KSB for the year ended December 31, 2004 filed with the Securities and Exchange Commission on September 28, 2005).
- 4.3 Form of Warrant - Class A (incorporated by reference to exhibit 4.3 of the Company's annual report on Form 10-KSB for the year ended December 31, 2004 filed with the Securities and Exchange Commission on September 28, 2005).
- 4.4 Form of Warrant - Class B (incorporated by reference to exhibit 4.4 of the Company's annual report on Form 10-KSB for the year ended December 31, 2004 filed with the Securities and Exchange Commission on September 28, 2005).
- 4.5 Form of Warrant - Class C (incorporated by reference to exhibit 4.5 of the Company's annual report on Form 10-KSB for the year ended December 31, 2004 filed with the Securities and Exchange Commission on September 28, 2005).
- 4.6 Secured Convertible Promissory Note dated December 31, 2008 in favor of Alpha Capital Anstalt (incorporated by reference to exhibit 10.1 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 7, 2009).
- 4.7 Class B Common Stock Purchase Warrant dated December 31, 2008 in favor of Alpha Capital Anstalt (incorporated by reference to exhibit 10.2 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 7, 2009).
- 4.8 Subscription Agreement between the Registrant and Alpha Capital Anstalt dated December 31, 2008 (incorporated by reference to exhibit 10.3 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 7, 2009).
- 4.9 Amendment, Waiver, and Consent Agreement effective January 1, 2009 between the Registrant and Alpha Capital Anstalt (incorporated by reference to exhibit 10.4 of the Company's Current Report on Form 8-K

filed with the Securities and Exchange Commission on January 7, 2009).

- 10.1 Lease of the Company's offices at Naples, Florida (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 October 23, 2008).
- 10.2 Security and Pledge Agreement – IVFH (incorporated by reference to exhibit 10.2 of the Company's annual report on Form 10-KSB for the year ended December 31, 2004 filed with the Securities and Exchange Commission on September 28, 2005).
- 10.3 Security and Pledge Agreement – FII (incorporated by reference to exhibit 10.3 of the Company's annual report on Form 10-KSB for the year ended December 31, 2004 filed with the Securities and Exchange Commission on September 28, 2005).
- 10.4 Supply Agreement with Next Day Gourmet, L.P. with Next Day Gourmet, L.P. (incorporated by reference to exhibit 10.4 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).
- 10.5 Subscription Agreement (incorporated by reference to exhibit 10.5 of the Company's annual report on Form 10-KSB for the year ended December 31, 2004 filed with the Securities and Exchange Commission on September 28, 2005).
- 10.6 Agreement and Plan of Reorganization between IVFH and FII. (incorporated by reference to exhibit 10.6 of the Company's annual report on Form 10-KSB for the year ended December 31, 2004 filed with the Securities and Exchange Commission on September 28, 2005).

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| 10.7 | Employment Agreement with Sam Klepfish dated as of December 31, 2008 (incorporated by reference to exhibit 10.5 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 7, 2009). |
| 10.8 | Employment Agreement with Justin Wiernasz dated as of December 31, 2008 (incorporated by reference to exhibit 10.6 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 7, 2009). |
| 10.9 | Employment Agreement with Sam Klepfish dated as of January 6, 2010 (incorporated by reference to exhibit 10.5 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 7, 2010). |
| 10.10 | Employment Agreement with Justin Wiernasz dated as of January 6, 2010 (incorporated by reference to exhibit 10.5 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 7, 2010). |
| 14 | Code of Ethics (incorporated by reference to exhibit 14 of the Company's Form 10-KSB/A for the year ended December 31, 2006, filed with the Securities and Exchange Commission on July 31, 2008). |
| 21 | Subsidiaries of the Company |
| 31.1 | <u>Rule 13a-14(a) Certification of Chief Executive Officer</u> |
| 31.2 | <u>Rule 13a-14(a) Certification of Principal Accounting Officer</u> |
| 32.1 | <u>Rule 1350 Certification of Chief Executive Officer</u> |
| 32.2 | <u>Rule 1350 Certification of Principal Accounting Officer</u> |
| 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 |

* Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability.

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SIGNATURES

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

INNOVATIVE FOOD HOLDINGS, INC.

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

Dated: March 30, 2012

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

| Name | Title | Date |
|--|---|----------------|
| /s/ Sam Klepfish Sam Klepfish | CEO and Director (Chief Executive Officer) | March 30, 2012 |
| /s/ John McDonald John McDonald | Principal Accounting Officer (Principal Financial Officer) | March 30, 2012 |
| /s/ Joel Gold Joel Gold | Director | March 30, 2012 |
| /s/ Michael Ferrone Michael Ferrone | Director | March 30, 2012 |
| /s/ Solomon Mayer Solomon Mayer | Director | March 30, 2012 |
| /s/ Hank Cohn Hank Cohn | Director | March 30, 2012 |

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