

INNOVATIVE FOOD HOLDINGS INC
Form 10-K
April 16, 2019

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, 2018

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)

20-1167761

(I.R.S. Employer Identification No.)

28411 Race Track Rd.

Bonita Springs, Florida 34135

(Address of Principal Executive Offices)

(239) 596-0204

(Registrant's telephone number, including area code)

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

NONE

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

COMMON STOCK, \$0.0001 PAR VALUE PER SHARE

(Title of class)

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging Growth Company

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

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

The aggregate market value of the voting and non-voting stock held by non-affiliates was approximately \$22,515,644 as of June 30, 2018, based upon a closing price of \$0.76 per share for the registrant’s common stock on such date.

On April 12, 2019, a total of 36,427,354 shares of our common stock were outstanding.

INNOVATIVE FOOD HOLDINGS, INC.

INDEX TO ANNUAL REPORT ON FORM 10-K

PART I	PAGE
Item 1. <u>Business</u>	4
Item 1A. <u>Risk Factors</u>	9
Item 1B. <u>Unresolved Staff Comments</u>	N/A
Item 2. <u>Properties</u>	16
Item 3. <u>Legal Proceedings</u>	17
Item 4. <u>Mine Safety Disclosures</u>	17
PART II	
Item 5. <u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	18
Item 6. <u>Selected Financial Data</u>	20
Item 7. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	21
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	N/A
Item 8. <u>Financial Statements</u>	28
Item 9. <u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	60
Item 9A. <u>Controls and Procedures</u>	60
Item 9B. <u>Other Information</u>	61
PART III	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	62
Item 11. <u>Executive Compensation</u>	64
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	69
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	69
Item 14. <u>Principal Accountant Fees and Services</u>	70
PART IV	
Item 15. <u>Exhibits</u>	71
<u>Signatures</u>	75

Index

FORWARD LOOKING INFORMATION

MAY PROVE INACCURATE

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

Index

PART I

ITEM 1. Business

Our History

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

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

On November 2, 2012, the Company entered into an asset purchase agreement (the “Haley Acquisition”) with The Haley Group, LLC whereby we acquired all existing assets of The Haley Group, LLC and its customers. The Haley Acquisition was valued at a total cost of \$119,645.

On June 30, 2014, pursuant to a purchase agreement, the Company purchased 100% of the membership interest of Organic Food Brokers, LLC, a Colorado limited liability company (“OFB”), for \$300,000, 100,000 four year options at a price of \$1.46 per share, and up to an additional \$225,000 in earn-outs if certain milestones are met.

On August 15, 2014, pursuant to a merger agreement, the Company acquired The Fresh Diet, Inc. (“FD”). Effective February 23, 2016, the Company closed a transaction to sell 90% of its ownership in FD for consideration consisting primarily of a restructuring of our loans, which includes the ability to convert to additional amounts of FD under certain circumstances. There is no continuing cash inflows or outflows from or to the discontinued operations.

Pursuant to an Asset Purchase Agreement dated as of January 1, 2017 the Company's wholly-owned subsidiary, Oasis Sales Corp. ("Oasis"), purchased substantially all of the assets of Oasis Sales and Marketing, L.L.C. for \$300,000 cash; a \$200,000 structured equity instrument which can be paid in cash or shares of the Company stock at the Company's option, anytime under certain conditions, or is automatically payable via the issuance of 200,000 shares if the Company's shares close above \$1.00 for ten consecutive days; a \$100,000 note; and up to an additional \$400,000 in earn-outs over two years if certain milestones are met. The Agreement also contains claw-back provisions if certain revenue conditions are not met. The milestones have been met.

Effective January 24, 2018, pursuant to an asset acquisition agreement, our wholly-owned subsidiary, Innovative Gourmet LLC ("Innovative Gourmet"), acquired substantially all of the assets and certain liabilities of iGourmet LLC and iGourmet NY LLC, privately-held New York limited liability companies located in West Pittston, Pennsylvania (collectively, "Sellers") engaged in the sale, marketing, and distribution of specialty food and specialty food items through www.igourmet.com, online marketplaces, additional direct-to-consumer platforms, distribution to foodservice, retail stores and other wholesale accounts, pursuant to the terms of an Asset Purchase Agreement. The consideration for and in connection with the acquisition consisted of: (i) \$1,500,000, which satisfied or reduced secured, priority and administrative debt of Sellers; (ii) in connection with and prior to the acquisition, our wholly-owned subsidiary, Food Funding, LLC ("Food Funding"), funded advances of \$325,000 to Sellers on a secured basis, pursuant to certain loan documents and as bridge loans, which loans were reduced by the proceeds of the Asset Purchase Agreement; (iii) the purchase for \$200,000 of certain debt owed by Sellers, to be paid out of, if available, Innovative Gourmet's cash flow; (iv) potential contingent liability allocation for a percentage of Sellers' approximately \$2,300,000 of certain debt, not purchased or assumed by Innovative Gourmet, which under certain circumstances, Innovative Gourmet may determine to pay; and (v) additional purchase price consideration of (a) up to a maximum of \$1,500,000, if EBITDA of Innovative Gourmet reaches \$800,000 thousand in 2018, (b) up to a maximum of \$1,750,000, if EBITDA of Innovative Gourmet in 2019 exceeds its EBITDA in 2018 by at least 20% and if its EBITDA reaches \$5,000,000; and (c) up to a maximum of \$2,125,000, if EBITDA of Innovative Gourmet in 2020 exceeds its EBITDA in 2019 by at least 20% and if its EBITDA reaches \$8,000,000. The EBITDA based earnout shall be paid 37.5% in cash, 25% in IVFH shares valued at the time of the closing of this transaction and 37.5%, at Innovative Gourmet's option, in IVFH shares valued at the time of the payment of the earnout or in cash. In connection with the acquisition, our wholly-owned subsidiary, Food Funding, purchased Seller's senior secured note at a price of approximately \$1,187,000, pursuant to the terms of a Loan Sale Agreement with UPS Capital Business Credit. That note was reduced by the proceeds of the Asset Purchase Agreement. See Item (i) above.

Index

Effective July 6, 2018, pursuant to an asset purchase agreement between Mouth Foods, Inc. (“Mouth”) and our wholly-owned subsidiary M Innovations LLC (“M Innovations”) (the “MFI APA”), the Company acquired certain assets of Mouth from MFI (assignment for the benefit of creditors), LLC, in connection with a Delaware assignment proceeding. The MFI APA was accounted for as an acquisition of an ongoing business where the Company was treated as the acquirer and the acquired assets and assumed liabilities were recorded by the Company at their preliminary estimated fair values. Mouth, a privately held New York company operating out of Brooklyn, was an expert curator and online retailer of high quality specialty foods from small-batch makers in the US.

The consideration for and in connection with the acquisition consisted of (i) closing related cash payments of \$208,355; (ii) additional revenue-based contingent liabilities valued by management at \$100,000 related to certain future sales of purchased assets payable under the following terms: payment of 5% of certain revenues, with no payments on the first \$500,000 of revenues and no payments on revenues after June 30, 2020; (iii) additional revenue based contingent liabilities of up to \$185,000 associated with the purchase of certain debt of the seller; and (iv) additional contingent liability consideration valued by management at approximately \$20,000.

Our Operations

Our business is currently conducted by our wholly-owned subsidiaries, Artisan, FII, Food New Media Group, Inc. (“FNM”), OFB, Gourmet Foodservice Group, Inc. (“GFG”), Gourmet Foodservice Warehouse, Inc. (“GFW”), Gourmeting Inc. (“Gourmeting”), The Haley Group, Inc. (“Haley”), Oasis, 4 The Gourmet, Inc. (d/b/a For The Gourmet, Inc.), (“Gourmet”), Innovative Gourmet (sometimes referred to herein as “Igourmet.com” or “Igourmet”), M Innovations, (sometimes referred to herein as “Mouth” or “Mouth.com”) and Food Funding (collectively, IVFH and its subsidiaries, the “Company” or “IVFH”).

Overall, our business activities are focused around the creation and growth of a platform which provides distribution or the enabling of distribution of high quality, unique specialty food and food related products ranging from specialty foodservice products to Consumer-Packaged Goods (“CPG”) products through a variety of sales channels ranging from national partnership based and regionally based foodservice related sales channels to e-commerce sales channels offering products both direct to consumers (“D2C”) and direct to business (“B2B”). In our business model, we receive orders from our customers and then work closely with our suppliers and our warehouse facilities to have the orders fulfilled. In order to maintain freshness and quality, we carefully select our suppliers based upon, among other factors, their quality, uniqueness, reliability and access to overnight courier services.

FII, through its relationship with the producers, growers, and makers of thousands of unique specialty foodservice products and through its relationship with US Foods, Inc. (“U.S. Foods” or “USF”), has been in the business of providing premium restaurants, within 24 – 72 hours, with the freshest origin-specific perishable, and healthcare products shipped directly from our network of vendors and from our warehouses. Our customers include restaurants, hotels, country clubs, national chain accounts, casinos, hospitals and catering houses.

Gourmet has been in the business of providing specialty food via e-commerce through its own website at www.forethegourmet.com and through other ecommerce channels, with unique specialty gourmet food products shipped directly from our network of vendors and from our warehouses within 24 – 72 hours. GFG is focused on expanding the Company's program offerings to additional customers.

Artisan is a supplier of over 1,500 unique specialty foodservice products to over 500 customers such as chefs, restaurants, etc. in the Greater Chicago area and serves as a national fulfillment center for certain of the Company's other subsidiaries.

Haley is a dedicated foodservice consulting and advisory firm that works closely with companies to access private label and manufacturers' private label food service opportunities with the intent of helping them launch and commercialize new products in the broadline foodservice industry and assists in the enabling of the distribution of products via national broadline food distributors.

OFB and Oasis function as outsourced national sales and brand management teams for emerging organic and specialty food CPG companies of a variety of sizes and business stages and provides emerging and unique CPG specialty food brands with distribution and shelf placement access in all of the major metro markets in the food retail industry.

Igourmet has been in the business of providing DTC specialty food via e-commerce through its own website at www.igourmet.com and through other channels such as www.amazon.com, www.jet.com, and www.walmart.com. In addition, [Igourmet.com](http://www.igourmet.com) offers a line of B2B specialty foodservice items. Products are primarily shipped directly from [Igourmet.com](http://www.igourmet.com)'s 67,000 square feet warehouse in Pennsylvania via [Igourmet.com](http://www.igourmet.com) owned trucks and via third party carrier directly to thousands of customers nationwide.

Index

Mouth (www.mouth.com) is an online retailer of specialty foods, monthly subscription boxes and curated gift boxes to thousands of consumers and corporate customers nationwide . Mouth sources high quality specialty foods crafted in the US by independent and small batch makers, and expertly curates them into standout food gifts for both consumers and corporate customers. Mouth also has launched a private label brand, including several award-winning products.

Our Products

We distribute over 7,000 perishable and specialty food and food related products, including origin-specific seafood, domestic and imported meats, exotic game and poultry, artisanal cheeses, freshly prepared meals, caviar, wild and cultivated mushrooms, micro-greens, organic farmed and manufactured food products, estate-bottled olive oils and aged vinegars and expertly curated food gift baskets, gift boxes and a full of line of food subscription based offerings. Products are sold under the brand of the respective vendor and are also offered under a variety of Company owned brands. In addition, we offer a line of niche specialty healthcare related products. On a regular basis we add additional products including new products from small batch makers and other unique specialty food products. We offer our nationwide customers access to the best food products available from around the world, quickly, most direct, and cost-effectively.

Some of the items we sell include:

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

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

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

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

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

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

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

Customer Service and Logistics

Our foodservice focused, 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. Our consumer-focused multi-lingual, customer care specialists are available by live chat and telephone Monday through Thursday, from 9 a.m. to 7:00 pm (ET), and on Friday from 9:00 am to 5 pm (ET). Our team is available and can be contacted 7 days a week via email and on social media platforms. The customer service departments are made up of a team of chefs and culinary experts, including a team of culinary trained chefs, who are full-time employees of the Company, and who are experienced in all aspects of perishable and specialty products. By employing chefs and culinary experts to handle customer service, we are able to provide our customers with extensive information about our products, including:

Flavor profile and eating qualities

Recipe and usage ideas

Origin, seasonality, and availability

Cross utilization ideas and complementary uses of products

Our logistics team manages the shipping and delivery process of every package to ensure timely delivery of products to our customers. We have developed the web-based capability to allow customers to seamlessly receive and send personal orders and gifts according to their desired schedule. The logistics manager receives shipping information on all products ordered, and packages are monitored from origin to delivery. In the event that delivery service is interrupted, our logistics department begins the process of expediting the package to its destination or potentially reshipping the package with a goal of 100% customer satisfaction for our customers. Our logistics manager works directly with our suppliers on an ongoing basis, to ensure that the appropriate packaging and shipping specifications are in place at all times.

Index

Relationship with U.S. Foods

We have historically sold the majority of our products, \$30,386,189 and \$29,854,522 for the years ended December 31, 2018 and 2017, respectively 57% of total sales in the year ended December 31, 2018 and 72% of total sales in the year ended December 31, 2017), through a distributor relationship between FII, one of our wholly-owned subsidiaries, and subsidiaries of U.S. Foods, a leading broadline distributor. On January 26, 2015 we executed a contract directly between FII and U.S. Foods (the “U.S. Foods Agreement”). The term of the U.S. Foods Agreement was from January 1, 2015 through December 31, 2016 and provided for a limited number of automatic annual renewals thereafter if no party gives the other 30 days’ notice of its intent not to renew. Based on the terms, the U.S. Foods Agreement was extended through December 31, 2018. Effective January 1, 2018 the U.S. Foods Agreement was further amended to remove the cap on renewals, and provide for an unlimited number of additional 12-month terms unless either party notifies the other in writing, 30 days prior to the end date, of its intent not to renew.

Growth Strategy

While the U.S. economic recovery remains uncertain there appears to be much opportunity for the specialty food industry . Amidst efforts to increase overall efficiency and success, the specialty food industry has experienced general growth in sales through manufacture, retail, and distribution. According to the State of the Specialty Food Industry report completed by the Specialty Food Association and Mintel in 2018, specialty food sales hit \$140 billion in the U.S. in 2017. In addition, specialty food sales growth on the retail level was 12.9% vs 1.4% traditional food sales growth. Moreover, product innovation and wider availability of specialty food continued to pay a part in the growth of the space.

Furthermore, smaller genuine brands or specialty brands continue to resonate with consumer and according to a recent Credit Suisse report, the combined market share of the 20 largest packaged food companies fell to 42.4% in 2018 from 46.8% in 2011. That same report indicated that 70% of the top 20 selling foods on Amazon.com were created by startups which is a further demonstration of the continuing shift towards unique higher quality specialty food items.

In addition, according to Mintel, online specialty food sales grew by 20.9% from 2015 to 2017 as consumers continue to shift their food buying patterns towards ecommerce as offerings continue to expand. We anticipate the opportunity to capitalize on those shifts in consumer purchasing and our ecommerce efforts will continue to focus on the niche, specialty and premium areas of the food ecommerce market as opposed to the everyday grocery needs.

For our continued growth within the specialty food space, we will continue to offer unique and premium quality products as well as new product introduction and innovation to our customers and potential customers. In addition, we plan on continuing to value and strive for a high level of personalized customer service.

We anticipate attempting to grow our business through:

- Increased ecommerce conversion rates by improving the shopping experience on our website.
- Growth in the number of unique visitors to our various ecommerce sites.
- Maximize sales of current product catalog to our existing customers and potential new customers.
- Introduction of new products to both our ecommerce and foodservice customers.
- Expansion of availability of branded products and new brands which are consistent with the changing demands of customers in the U.S.
- Leveraging Igourmet.com toward further expansion of our sales and distribution channels either organically or through acquisition.
- Leveraging our platform to partner with both foodservice and other consumer oriented entities such as stores and celebrity brands, to offer unique product offerings related to specialty food and specialty food gifting.

Index

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

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

Competition

While we face intense competition in the marketing of our products and services, it is our belief that there are few companies, that offers such a broad range of customer service oriented, quality, chef driven products and specialty gourmet products, for delivery from same day to 72 hours. Our primary competition is from local purveyors that supply a limited local market and have a limited range of products and from the other specialty gourmet distributors and specialty food retail stores or ecommerce stores, and from the national, regional or local expansion of specialty and non-specialty food distributors and food stores and food focused ecommerce sites. In addition, many purveyors are well established, have reputations for success in the development and marketing of these types of products and services and have significantly greater financial, marketing, distribution, personnel and other resources. These financial and other capabilities permit such companies to implement extensive advertising and promotional campaigns, both generally and in response to efforts by additional competitors such as us, to enter into new markets and introduce new products and services.

Insurance

We maintain a general liability insurance policy with a per occurrence limit of \$1,000,000 and aggregate policy covering \$2,000,000 of liability for all entities except Innovative Gourmet, which carries a general liability insurance policy with a per occurrence limit of \$2,000,000 and aggregate policy covering \$4,000,000 of liability. All entities carry non-owned automobile bodily injury and property damage coverage with a limit of \$1,000,000. The Company also carries an Umbrella policy of up to \$10,000,000 which covers all entities except Artisan and Innovative Gourmet; Artisan carries a separate Umbrella policy of up to \$5,000,000; Innovative Gourmet carries a separate Umbrella policy

of up to \$4,000,000; and Innovative Gourmet carries a separate Cyber policy of up to \$2,000,000. Such insurance may not be sufficient to cover all potential claims against us and additional insurance may not be available in the future at a reasonable price

Government Regulation

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

Employees

We currently employ 112 full-time employees, including 8 chefs and 1 executive officer. We believe that our relations with our employees are satisfactory. None of our employees are represented by a union.

Transactions with Major Customers

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

Index

How to Contact Us

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

ITEM 1A. Risk Factors

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

As of December 31, 2018, we had an accumulated deficit of \$24,957,536. We cannot assure you that we can achieve profitability on a quarterly or annual basis in the future. If revenues grow more slowly than we anticipate, or if operating expenses exceed our expectations or cannot be adjusted accordingly, or other extraordinary events occur, we will incur losses. Our possible success is dependent upon the successful development and marketing of our services and products, as well as continued expansion of our products and customers, as to which we can give no assurance. Any future success that we might enjoy will depend upon many factors, including factors out of our control or which cannot be predicted at this time. These factors may include changes in or increased levels of competition, including the entry of additional competitors and increased success by existing competitors, changes in general economic conditions, increases in operating costs, including costs of supplies, personnel, marketing and promotions, reduced margins caused by competitive pressures and other economic and non-economic factors. These conditions may have a materially adverse effect upon us or may force us to curtail operations. In addition, we could require additional funds to sustain and expand our sales and marketing activities, particularly if a well-financed competitor emerges. We can give no assurance that financing will be available in amounts or on terms acceptable to us, if at all. Our inability in such instance to obtain sufficient funds from our operations or external sources could require us to curtail operations.

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

In 2003, Next Day Gourmet initially contracted with our subsidiary, Food Innovations, to handle the distribution of over 3,000 perishable and specialty food products to customers of USF. Effective January 1, 2018, we executed a contract amendment between Food Innovations, Inc., our wholly-owned subsidiary, and U.S. Foods which provides for no limit on automatic annual renewals thereafter if no party gives the other 30 days' notice of its intent not to renew. Our sales through USF's sales force generated gross revenues for us of \$30,386,189 in the year ended December 31, 2018, and \$29,854,522 in the year ended December 31, 2017. Those amounts contributed 57% of our total sales for 2018 and 72% of total sales in 2017. Our sales efforts within specialty foodservice 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 significantly curtail our operations.

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

Our quarterly results have fluctuated in the past and may fluctuate in the future, depending upon a variety of factors, including changes in economic conditions and shifts in the timing of holiday related purchases. While our annual sales have always had a significant seasonal aspect, this has increased with our acquisition of substantially all of the assets of iGourmet LLC and Mouth Foods, Inc, as further described below. As a result of the seasonal nature of our business, we would be significantly and adversely affected, in a manner disproportionate to the impact on a company with sales spread more evenly throughout the year, by unforeseen events such as a terrorist attack or economic shock that harm the retail environment or consumer buying patterns during our key selling season, or by events such as strikes or weather related delays that interfere with the shipment of goods, during the critical period of the holiday season.

Index

The Recent Acquisition of Substantially All of the Assets of iGourmet LLC and Mouth Foods, Inc Could Create Additional Risks to Our Business.

On January 23, 2018, our subsidiary Innovative Gourmet acquired substantially all of the assets of iGourmet, LLC. On July 6, 2018 M Innovations LLC acquired substantially all of assets of Mouth Foods, Inc. This business is very seasonal in nature, which generates certain operational considerations and could exacerbate the seasonality of our business. To wit, if Innovative Gourmet or Mouth does not have a strong holiday season, it likely will not be successful. In addition, while our subsidiary acquired only certain discrete liabilities of iGourmet LLC, creditors of iGourmet or Mouth may seek to impose liability on us or our subsidiaries, the payment of which, if required, could impair our cash flow and even if there may be no actual liability or responsibility to pay such claims, our challenge to such claims could involve significant legal fees and be a distraction to our management. The business model of the assets acquired from iGourmet LLC and Mouth differ from our current businesses and operations, and therefore the success of its operations and its business model may create unforeseen complications requiring the use of our limited resources to resolve.

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

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

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

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

If our systems are damaged or fail to function properly or reliably, we may incur substantial repair or replacement costs, experience data loss or theft and impediments to our ability to conduct our operations. Any material disruptions

in our e-commerce presence or information technology systems could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

Index

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

If potential or existing customers do not find our websites including www.igourmet.com, www.mouth.com or any of the company's other websites, a convenient place to shop, we may not attract or retain customers and our sales may suffer. To encourage the use of our website, we must continuously improve its accessibility, mobile capabilities, content and ease of use. In addition, customer traffic and our business would be adversely affected if competitors' websites are perceived as easier to use or better able to satisfy customer needs. Furthermore, e-commerce conversion rates could be adversely affected by a variety of website related factors.

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

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

The growing use of online ad-blocking software, including on mobile devices, may also impact the success of our marketing efforts because we may reach a smaller audience and fail to bring more visitors to our websites. In addition, ongoing privacy regulatory changes may impact the scope and effectiveness of marketing and advertising services generally, including those used related to our websites. We also seek to obtain website visitors through email. If we are unable to successfully deliver emails to potential customers or customers do not open our emails, whether by choice or because those emails are marked as low priority or spam, or for other reasons, our business could be adversely affected. Social networking websites, such as Facebook and others are another source of visits to our websites. As ecommerce and social networking evolve, we must continue to evolve our marketing tactics accordingly and, if we are unable to do so, our business could be adversely affected.

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

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

obsolescence. If we underestimate customer demand, it may disappoint customers who may turn to our competitors.

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

The U.S. Congress has enacted legislation that significantly reforms the Internal Revenue Code of 1986, as amended. The new legislation, among other things, includes changes to U.S. federal tax rates, imposes significant additional limitations on the deductibility of interest and net operating losses, and allows for the expensing of certain capital expenditures. Our net deferred tax assets and liabilities will be revalued at the newly enacted U.S. corporate rate, and the impact will be recognized in our tax expense in the year of enactment. We have adjusted our deferred tax assets and liabilities at December 31, 2018, using the new corporate rate of 21 percent; however, we base our estimates on historical experience and on various other assumptions that are believed to be reasonable in 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. It is possible that the application of these new rules may have a material and adverse impact on our operating results, cash flows and financial condition. Furthermore, the recent Supreme Court Ruling in *South Dakota V. Wayfair, Inc.*, in which the Court upheld South Dakota's economic nexus law, which requires companies to collect sales tax when their sales or the number of transactions with the state exceed certain thresholds, could have an adverse impact on our business. In addition, any other changes to applicable tax laws, whether on a federal or state level, could also decrease our ability to compete with traditional retailers, and otherwise harm our business.

Index

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

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

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

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

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

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

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

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

Index

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

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

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

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

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

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

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

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

We seek to expand by acquiring complementary businesses or assets in our current or ancillary markets. We cannot accurately predict the timing, size and success of our acquisition efforts and the associated capital commitments that might be required. We expect to face competition for acquisition candidates, which may limit the number of acquisition opportunities available to us and may lead to higher acquisition prices. There can be no assurance that we

will be able to identify, acquire or profitably manage additional businesses or successfully integrate acquired businesses, if any, without substantial costs, delays or other operational or financial difficulties. In addition, acquisitions involve a number of other risks, including:

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

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

Index

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

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

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

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

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

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

our business.

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

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

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

Index

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

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

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

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

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

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

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

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

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

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

Index

We will remain a smaller reporting company until the beginning of a year in which we had a public float of \$250 million held by non-affiliates or revenues below \$100 million and a public float below \$750 million, in each case as of the last business day of the second quarter of the prior year.

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

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

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

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

that a broker or dealer approve a person’s account for transactions in penny stocks; and

the broker or dealer receives from the investor a written agreement to the transaction, setting forth the identity and quantity of the penny stock to be purchased.

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

obtain financial information and investment experience objectives of the person; and

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

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

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

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

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

ITEM 2. Properties

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

Index

On May 14, 2015, we purchased a building and property located at 2528 S. 27th Avenue, Broadview, Illinois 60155. The property consists of approximately 1.33 acres of land and approximately 28,711 square feet of combined office and warehouse space. The purchase price of \$914,350 was initially financed primarily by a draw-down of \$900,000 on the Company's credit facility with Fifth Third Bank. On May 29, 2015, a permanent financing facility was provided by Fifth Third Bank in the form of a loan in the amount of \$980,000. \$900,000 of this amount was used to pay the balance of the credit facility; the additional \$80,000 was used for refrigeration and other improvements at the property. The interest on the loan is at the LIBOR rate plus 3.0%. The building is used for office and warehouse space primarily for the Company's Artisan subsidiary. We have also recently completed an additional property improvement and upgrade buildout at the Artisan building which include a fully functional commercial test kitchen and training center and conference room. The test kitchen and training room will be used by Artisan and other subsidiaries of the Company for the purposes of new product testing and development and approval, Quality Assurance and Quality Control as well as sales presentations and customer demonstrations. In addition, we recently added a packaging room to the Artisan building, which is built to FDA, FSMA and SQF food safety standards and purchased new, technologically advanced semi-automated fillers for the packaging room. The packaging room addition will allow for expansion of proprietary private label product lines as well as packing of organic, non GMO, diet specific and other specialty foods. The test kitchen, packaging room and additional improvements were financed by a loan from Fifth Third Bank.

ITEM 3. Legal Proceedings

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

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

On July 7, 2017, Scher Zalman Duchman and Deborah L. Duchman (collectively, "Duchmans") filed an amended complaint in the United States District Court for the Southern District of Florida seeking approximately \$1 million in damages against Innovative Food Holdings, Inc., FD Acquisition Corp., and Sam Klepfish, IVFH's CEO. The Duchmans, amongst other things, allege that defendants owed a fiduciary duty to the Duchmans to minimize the Duchmans' own personal guarantees and personal obligations related to loans and other obligations incurred by a former subsidiary of the Company and that the Defendants did not fulfill that alleged fiduciary obligation. By Order dated March 22, 2018, the following causes of action were dismissed without prejudice: Count I, Breach of Fiduciary Duty; Count III, Unjust Enrichment; Count IV, Unjust Enrichment; and Count IX, Fraud in the Inducement. The Court

further ordered Count XI, Punitive Damages, stricken from the Complaint and that all claims against Third Party Defendant FD Acquisition Corp. dismissed with prejudice. Discovery is ongoing, and IVFH will soon be filing a motion for summary judgment. The parties have scheduled required mediation. The court has provided a scheduled trial date. IVFH believes that this lawsuit is without merit and is an attempt by the Duchmans to drag IVFH into the Duchmans' personal financial matters which are unrelated to IVFH. While IVFH intends to vigorously defend against this lawsuit, the outcome of this lawsuit cannot ultimately be predicted. On May 9, 2018, the parties reached a confidential settlement agreement and dismissal of all counts on terms favorable to IVFH. The court accepted the parties' notice of settlement, dismissed the claims, retained jurisdiction to enforce the settlement, and closed the case as applied to IVFH.

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

On March 26, 2018, YS Catering Holdings, Inc., et al., filed suit against Innovative Food Holdings, Inc. YS alleges claims against IVFH that are almost identical to ones pending in the PNC Bank vs. Fresh Diet, et al. federal court litigation (Case No. 17-cv-21027-KMM) in what we believe is an improper attempt at forum shopping. In addition, YS seeks injunctive relief with respect to the removal of certain trading restrictions and other restrictions on its restricted shares. IVFH intends to move to stay the case pending the outcome of the almost identical PNC federal court litigation involving YS's principal Zalmi Duchman. Discovery in the case is ongoing. While IVFH intends to vigorously defend against this lawsuit, the outcome of this lawsuit cannot ultimately be predicted. On May 9, 2018, the parties reached a confidential settlement agreement and dismissal of all counts on terms favorable to IVFH. The parties have filed a notice of settlement and stipulation of dismissal. This case has been settled and all claims dismissed.

ITEM 4. Mine Safety Disclosure

Not Applicable.

Index**PART II****ITEM 5. Market For Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities****Market Information**

Prices for our common stock are quoted on the OTCQB. Since March 2004, our common stock has traded under the symbol “IVFH”. Prior thereto, our common stock traded under the symbol “FBSN”. 36,427,354 shares of our common stock were outstanding as of April 12, 2019. 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, 2018	HIGH	LOW
First Quarter	\$ 1.23	\$ 1.01
Second Quarter	1.05	0.75
Third Quarter	0.77	0.53
Fourth Quarter	0.67	0.45

Fiscal Year Ending December 31, 2017	HIGH	LOW
First Quarter	\$ 0.65	\$ 0.40
Second Quarter	0.56	0.38
Third Quarter	0.52	0.39
Fourth Quarter	0.54	0.40

The quotations listed above reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions. On April 12, 2019, the closing price of our common stock as reported by the OTC Market was \$0.47.

Security Holders

On April 12, 2019, there were approximately 53 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, 2018, the Company had the following previously unreported transactions:

On March 18, 2019, the Company issued 131,136 shares of common stock to employees for accrued bonuses earned in prior periods. The shares were awarded in the gross amount of 182,581 and issued in the net amount of 131,136; the difference of 51,445 shares were withheld for income taxes.

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

Index**Dilutive Securities**December 31, 2018

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

Exercise Price	Number of Options	Weighted Average Remaining Contractual Life (years)
\$ 0.75	50,000	3.00
\$ 0.95	50,000	3.00
\$ 1.10	75,000	2.37
\$ 1.31	100,000	0.01
\$ 1.38	100,000	0.92
\$ 1.50	125,000	3.00
\$ 1.90	175,000	0.48
\$ 2.00	125,000	3.00
\$ 2.50	125,000	3.00
\$ 3.00	125,000	3.00
\$ 2.05	1,050,000	2.05

December 31, 2017

The following table summarizes the options outstanding and the related prices for the options to purchase shares of the Company's common stock issued by the Company at December 31, 2017:

Exercise Price	Number of Options	Weighted Average Remaining Contractual Life (years)
\$ 0.57	25,000	0.02

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

Index**Securities Authorized for Issuance Under Equity Compensation Plans**

As of December 31, 2018, the following shares are issuable pursuant to outstanding stock options, warrants, and rights issued under the 2011 Stock Option Plan:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants, and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	1,050,000	\$ 1.80	95,205,000
Equity compensation plans not approved by shareholders	-	\$ N/A	\$ N/A

ITEM 6. Selected Financial Data

Not Applicable.

Index

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

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

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

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

Our ability to implement our business plan,

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

Our dependence on one major customer,

Our ability to employ and retain qualified management and employees,

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

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

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

The degree and nature of our competition,

The lack of diversification of our business plan,

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

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

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

Index

Critical Accounting Policy and Estimates

Use of Estimates in the Preparation of Financial Statements

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

(a) Warrants:

There were no warrants outstanding at December 31, 2018 and 2017.

(b) Embedded conversion features of notes payable:

There were no outstanding convertible notes outstanding at December 31, 2018 and 2017:

(c) Stock options:

The Company accounts for options in accordance with FASB ASC 718-40. Options are valued upon issuance utilizing the Black-Scholes valuation model. Option expense is recognized over the requisite service period of the related option award. The following table illustrates certain key information regarding our options and option assumptions at December 31, 2018 and 2017:

	December 31,	
	2018	2017
Number of options outstanding	1,050,000	1,510,000
Value at December 31	N/A	N/A
Number of options issued during the year	675,000	950,000
Value of options issued during the year	\$32,700	\$78,483
Number of options recognized during the year	75,000	0
Number of options exercised or expired during the year	1,135,000	1,885,000
Value of options recognized during the year	\$8,096	\$38,847
Revaluation (gain) during the period	\$N/A	\$N/A

Black-Scholes model variables:

Volatility	43.05-48.14 %	47.3-56.9 %
Dividends	0	0
Risk-free interest rates	2.67-2.91 %	0.87-2.0 %
Term (years)	3.00-3.13	0.8-2.5

Doubtful Accounts Receivable

The Company maintained an allowance in the amount of \$155,176 for doubtful accounts receivable at December 31, 2018, and \$63,267 at December 31, 2017. 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.

Index

Fair Value of Financial Instruments

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

Income Taxes

The Company has a history of losses, and as such has recorded no liability for income taxes. Until such time as the Company begins to provide evidence that a continued profit is a reasonable expectation, management will not determine that there is a basis for accruing an income tax liability. These estimates have been accurate in the past. At December 31, 2018, the Company has a net operating loss carryforward of approximately \$1.4 million.

Background

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

On November 2, 2012, the Company entered into an asset purchase agreement (the "Haley Acquisition") with The Haley Group, LLC whereby we acquired all existing assets of The Haley Group, LLC and its customers. The Haley Acquisition was valued at a total cost of \$119,645. On June 30, 2014, pursuant to a purchase agreement, the Company purchased 100% of the membership interest of Organic Food Brokers, LLC, a Colorado limited liability company ("OFB"), for \$300,000, 100,000 four year options at a price of \$1.46 per share, and up to an additional \$225,000 in earn-outs if certain milestones are met. Pursuant to an Asset Purchase Agreement dated as of January 1, 2017 the Company's wholly-owned subsidiary, Oasis Sales Corp. ("Oasis"), purchased substantially all of the assets of Oasis Sales and Marketing, L.L.C. for \$300,000 cash; a \$200,000 structured equity instrument which can be paid in cash or shares of the Company stock at the Company's option, anytime under certain conditions, or is automatically payable via the issuance of 200,000 shares if the Company's shares close above \$1.00 for ten consecutive days; a

\$100,000 note; and up to an additional \$400,000 in earn-outs over two years if certain milestones are met. The Agreement also contains claw-back provisions if certain revenue conditions are not met.

On August 15, 2014, pursuant to a merger agreement, the Company acquired The Fresh Diet, Inc. ("FD"). Effective February 23, 2016, the Company closed a transaction to sell 90% of our ownership in FD for consideration consisting primarily of a restructuring of our loans, which includes the ability to convert to additional amounts of FD under certain circumstances. There is no continuing cash inflows or outflows from or to the discontinued operations.

Index

Effective January 24, 2018, pursuant to an asset acquisition agreement (the “iGourmet Asset Acquisition Agreement”), our wholly-owned subsidiary, Innovative Gourmet, LLC acquired substantially all of the assets and certain liabilities of iGourmet LLC and iGourmet NY LLC, privately-held New York limited liability companies located in West Pittston, Pennsylvania and engaged in the sale, marketing, and distribution of specialty food and specialty food items through www.igourmet.com, online marketplaces, additional direct-to-consumer platforms, distribution to foodservice, retail stores and other wholesale accounts, pursuant to the terms of an Asset Purchase Agreement. The consideration for and in connection with the acquisition consisted of: (i) \$1,500,000, which satisfied or reduced secured, priority and administrative debt of Sellers; (ii) in connection with and prior to the acquisition, our wholly-owned subsidiary, Food Funding, LLC (“Food Funding”), funded advances of \$325,000 to Sellers on a secured basis, pursuant to certain loan documents and as bridge loans, which loans were reduced by the proceeds of the Asset Purchase Agreement; (iii) the purchase for \$200,000 of certain debt owed by Sellers, to be paid out of, if available, Innovative Gourmet’s cash flow; (iv) potential contingent liability allocation for a percentage of Sellers’ approximately \$2,300,000 of certain debt, not purchased or assumed by Innovative Gourmet, which under certain circumstances, Innovative Gourmet may determine to pay; and (v) additional purchase price consideration of (a) up to a maximum of \$1,500,000, if EBITDA of Innovative Gourmet reaches \$800,00 in 2018, (b) up to a maximum of \$1,750,000, if EBITDA of Innovative Gourmet in 2019 exceeds its EBITDA in 2018 by at least 20% and if its EBITDA reaches \$5,000,000; and (c) up to a maximum of \$2,125,000, if EBITDA of Innovative Gourmet in 2020 exceeds its EBITDA in 2019 by at least 20% and if its EBITDA reaches \$8,000,000. The EBITDA based earnout shall be paid 37.5% in cash, 25% in IVFH shares valued at the time of the closing of this transaction and 37.5%, at Innovative Gourmet’s option, in IVFH shares valued at the time of the payment of the earnout or in cash. The 2018 earnout milestone was not met. In connection with the acquisition, our wholly-owned subsidiary, Food Funding, purchased Seller’s senior secured note at a price of approximately \$1,187,000, pursuant to the terms of a Loan Sale Agreement with UPS Capital Business Credit. That note was reduced by the proceeds of the Asset Purchase Agreement. See Item (i) above.

Effective July 6, 2018, pursuant to an asset purchase agreement between Mouth Foods, Inc. (“Mouth”) and our wholly-owned subsidiary M Innovations LLC (“M Innovations”)(the “MFI APA”), the Company acquired certain assets of Mouth from MFI (assignment for the benefit of creditors), LLC, in connection with a Delaware assignment proceeding. The MFI APA was accounted for as an acquisition of an ongoing business where the Company was treated as the acquirer and the acquired assets and assumed liabilities were recorded by the Company at their preliminary estimated fair values. Mouth, a privately held New York company operating out of Brooklyn, was an expert curator and online retailer of high quality specialty foods from small-batch makers in the US.

The consideration for and in connection with the acquisition consisted of (i) closing related cash payments of \$208,355; (ii) additional revenue-based contingent liabilities valued by management at \$100,000 related to certain future sales of purchased assets payable under the following terms: payment of 5% of certain revenues, with no payments on the first \$500,000 of revenues and no payments on revenues after June 30, 2020; (iii) additional revenue based contingent liabilities of up to \$185,000 associated with the purchase of certain debt of the seller; and (iv) additional contingent liability consideration valued by management at approximately \$20,000.

Transactions With a Major Customer

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

RESULTS OF OPERATIONS

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, 2018 Compared to Year Ended December 31, 2017

Revenue

Revenue increased by \$11,680,809 or approximately 28.3% to \$52,925,526 for the year ended December 31, 2018 from \$41,244,717 in the prior year.

Index

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

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

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

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

Cost of goods sold

Our cost of goods sold for the twelve months ended December 31, 2018 was \$36,841,530 an increase of \$9,222,504 or approximately 33.4% compared to cost of goods sold of \$27,619,026 for the twelve months ended December 31, 2017. Cost of goods sold is made up of the following expenses for the twelve months ended December 31, 2018: cost of goods of specialty, meat, game, cheese, seafood, poultry and other sales categories in the amount of \$25,910,840; and shipping, delivery, handling, and purchase allowance expenses in the amount of \$10,930,690. Total gross margin was approximately 30.4% of sales in 2018 compared to approximately 33.0% of sales in 2017. The increase in cost of goods sold is primary attributable to an increase in sales. The decrease in gross margins from 2017 are primarily attributable to variation in product and revenue mix across our various selling channels.

In 2018, we continued to price our products in order to gain market share and increase the number of our end users and ecommerce customers. We were successful in both increasing sales and increasing market share. We currently expect, if market conditions and our product revenue mix remain constant, that our cost of goods sold may increase.

Selling, general, and administrative expenses

Selling, general, and administrative expenses increased by \$5,191,953 or approximately 58.1% to \$14,128,662 during the twelve months ended December 31, 2018 compared to \$8,936,709 for the twelve months ended December 31, 2017. The increase in selling, general, and administrative expenses was primarily due to an increase in payroll and related costs of approximately \$2,552,314 (net of a decrease in non-cash compensation in the amount of \$364,618), an increase in depreciation and amortization of \$548,754, an increase in facilities costs of \$583,440, and an increase in advertising and marketing of \$437,744, increase in professional fees of \$356,072 and increases in technology related costs of \$197,763. The increases were due primarily to the acquisition of certain assets of iGourmet LLC and Mouth in 2018, the expansion of facilities capabilities to support the anticipated launch of proprietary branded products professional expenses related the acquisition of certain assets of iGourmet LLC and Mouth Foods Inc., and in addition, to other legal, litigation, professional and accounting related expenses in 2018.

Interest expense, net

Interest expense, net of interest income, decreased by \$44,485 or approximately 27.7% to \$115,435 during the twelve months ended December 31, 2018, compared to \$159,720 during the twelve months ended December 31, 2017. The decrease was due primarily to a decrease in amortization of the discount on notes payable, which was \$0 for the twelve months ended December 31, 2018, compared to \$185,018 during the twelve months ended December 31, 2017. Interest accrued or paid on the Company's commercial loans and notes payable increased by \$46,130 to \$122,765 during the current period, compared to \$76,635 during the prior year, and interest income decreased by \$8,514 to \$7,330 during the current period compared to \$15,844 during the prior year. The Company also had a reduction of interest in the prior year as a result of negotiations with certain noteholders which resulted in a reduction of accrued interest in the amount of \$86,089; there was no such transaction during the current year.

Index

Income Tax Expense

Income tax expense for the year ended December 31, 2018 was \$155,000 compared to \$0 in the prior period.

Net income

For the reasons above, the Company had net income for the twelve months ended December 31, 2018 of \$1,695,899 which is a decrease of approximately \$2,833,363 or 62.6% compared to a net income of \$4,529,262 during the twelve months ended December 31, 2017. The income for the year ended December 31, 2018 includes a total of \$1,149,628 in non-cash charges, including amortization of intangible assets in the amount of \$885,001, depreciation expense of \$197,222, and charges for non-cash compensation in the amount of \$67,405. The income for the year ended December 31, 2017 includes a total of \$1,158,265 in non-cash charges, including amortization of intangible assets in the amount of \$370,768, depreciation expense of \$162,705, charges for non-cash compensation in the amount of \$439,774, and amortization of the discount on notes payable in the amount of \$185,018.

Liquidity and Capital Resources at December 31, 2018

As of December 31, 2018, the Company had current assets of \$10,245,251, consisting of cash and cash equivalents of \$4,759,817; trade accounts receivable of \$3,039,756; inventory of \$2,301,377; and other current assets of \$144,301. Also at December 31, 2018, the Company had current liabilities of \$5,667,318, consisting of trade payables and accrued liabilities of \$3,689,868; accrued interest of \$16,402; deferred revenue of \$559,315; current portion of notes payable and capital leases of \$928,857; and current portion of contingent liability of \$472,876.

During the year ended December 31, 2018, the Company had cash provided by operating activities of \$2,560,779. Cash flow from operations consisted of the Company's consolidated net income of \$1,695,899 plus non-cash compensation in the amount of \$67,405; depreciation and amortization of \$1,082,224; and provision for doubtful accounts of \$5,099. These amounts were partially offset by a gain on settlement of a contingent liability in the amount of \$11,000. The Company's cash position decreased by \$278,848 as a result of changes in the components of current assets and current liabilities.

The Company had cash used in investing activities of \$3,321,902 for the year ended December 31, 2018, which consisted of cash paid in the acquisitions of iGourmet LLC and Mouth Food Inc. in the aggregate amount of \$2,703,320, cash paid for the acquisition of property and equipment in the amount of \$480,582; and paid for

investments in food related companies in the amount of \$138,000.

The Company had cash provided by financing activities of \$387,505 for the year ended December 31, 2018, which consisted of borrowings on loans and notes payable in the amount of \$1,891,558; principal payments made on notes payable of \$1,147,533; principal payments on capital leases of \$11,463, payments made for the purchase of treasury stock of \$24,057; and payments made for the purchase of options from officers, directors, and employees of \$167,000. The Company also received cash of \$35,000 from the exercise of stock options, and paid cash of \$189,000 in the settlement of a contingent liability related to the Oasis acquisition.

The Company had net working capital of \$4,577,933 as of December 31, 2018. The Company had cash provided by operations during the year ended December 31, 2018 in the amount of \$2,560,779. This compares to cash generated from operating activities of \$3,419,402 during the year ended December 31, 2017. The Company intends to continue to focus on increasing market share and cash flow from operations by focusing its sales activities on specific market segments and new product lines. Currently, we do not have any material long-term obligations other than those described in Note 12 to the financial statements included in this report. As we seek to increase our sales of new items and enter new markets, acquire new businesses as well as identify new and other consumer and food service oriented products and services, we may use existing cash reserves, long-term financing, or other means to finance such diversification.

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

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

Index

2019 Plans

During 2019, in addition to our efforts to increase sales in our existing foodservice operations we plan to attempt to expand our business by expanding our focus to additional specialty foods markets in both the consumer and foodservice sector, exploring potential acquisition and partnership opportunities and continuing to extend our focus in the specialty food market through the growth of the Company's existing sales channels and through a variety of additional sales channel relationships which are currently being explored. In addition, we are currently exploring the introduction of a variety of new product categories and new product lines, including private label products and proprietary branded products to leverage our existing foodservice and consumer customer base.

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

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

Off-Balance Sheet Arrangements

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

Inflation

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

Transactions with Major Customers

The Company's largest customer, U.S. Foods, Inc. and its affiliates, accounted for approximately 57% of total sales in the year ended December 31, 2018 and 72% of sales in the year ended December 31, 2017; and approximately 46% of total sales in the fourth quarter of 2018 compared to 73% of total sales in the fourth quarter of 2017. A contract between our subsidiary, Food Innovations, and USF entered an optional renewal period in December 2012 but was automatically extended for an additional 12 months in each of January 1, 2013 and 2014. On January 26, 2015 we executed a contract directly between Food Innovations, Inc., our wholly-owned subsidiary, and U.S. Foods, Inc. The term of the Agreement was from January 1, 2015 through December 31, 2016 and provided for a limited number of automatic annual renewals thereafter if no party gives the other 30 days' notice of its intent not to renew. Based on the terms, the Agreement was extended through 2018. Effective January 1, 2018 the Agreement was further amended to remove the cap on renewals, and provide for an unlimited number of additional 12-month terms unless either party notifies the other in writing, 30 days prior to the end date, of its intent not to renew.

Index

ITEM 8. Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of

Innovative Food Holdings, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Innovative Food Holdings, Inc., and subsidiaries (the “Company”) as of December 31, 2018 and 2017, the related consolidated statements of operations, stockholders’ equity, and cash flows for the years then ended, and the related notes (collectively referred to as the “financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

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

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

/s/ Liggett & Webb, P.A.

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

New York, NY

April 16, 2019

Index**Innovative Food Holdings, Inc.****Consolidated Balance Sheets**

	December 31, 2018	December 31, 2017
ASSETS		
Current assets		
Cash and cash equivalents	\$4,759,817	\$5,133,435
Accounts receivable, net	3,039,756	2,042,505
Inventory	2,301,377	937,962
Notes receivable	-	325,500
Other current assets	144,301	86,730
Total current assets	10,245,251	8,526,132
Property and equipment, net		
Investments	2,456,610	1,955,250
Other amortizable intangible assets, net	339,525	201,525
Goodwill and other unamortizable intangible assets	1,282,855	968,916
Total assets	3,058,708	368,000
	\$17,382,949	\$12,019,823
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$3,689,868	\$1,836,559
Accrued interest	16,402	15,860
Deferred revenue	559,315	-
Notes payable - current portion	928,857	346,855
Contingent liability - current portion	472,876	200,000
Total current liabilities	5,667,318	2,399,274
Contingent liability - long-term		
Note payable - long term portion	357,600	200,000
Total liabilities	1,196,245	866,010
Stockholders' equity	7,221,163	3,465,284
Common stock: \$0.0001 par value; 500,000,000 shares authorized; 36,296,218 and 36,080,519 shares issued, and 33,708,638 and 33,509,407 shares outstanding at December 31, 2018 and 2017, respectively		
	3,627	3,605
Additional paid-in capital		
Treasury stock: 2,373,171 and 2,276,703 shares outstanding at December 31, 2018 and 2017, respectively	36,132,065	36,196,682
	(1,016,370)	(992,313)
Accumulated deficit	(24,957,536)	(26,653,435)
Total stockholders' equity	10,161,786	8,554,539
Total liabilities and stockholders' equity	\$17,382,949	\$12,019,823

See notes to consolidated financial sta