

INNOVATIVE FOOD HOLDINGS INC
Form 10-Q
August 20, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington D. C. 20549

FORM 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the Securities and Exchange Act of 1934
For the quarterly period ended June 30, 2012

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

Commission File Number: 0-9376

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

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

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

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

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

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

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

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

(Check One):

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

Indicate by check mark whether the registrant is a shell company (as defined in Regulation 12b-2 of the Exchange Act): YES NO

State the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 5,659,130 shares of common stock outstanding (post reverse-split) as of August 5, 2012.

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INNOVATIVE FOOD HOLDINGS, INC.

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PART I. FINANCIAL INFORMATION

ITEM 1 - CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Innovative Food Holdings, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets

| | June 30, 2012 (unaudited) | December 31, 2011 |
|---|---------------------------------|----------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 688,655 | \$ 862,464 |
| Accounts receivable net | 1,059,019 | 493,700 |
| Inventory | 404,734 | 42,312 |
| Other current assets | 13,753 | 5,420 |
| Total current assets | 2,166,161 | 1,403,896 |
| Property and equipment, net | 171,549 | 18,222 |
| Trade name | 217,000 | - |
| Non-compete | 244,000 | - |
| Customer relationships | 415,000 | - |
| Implied goodwill | 151,000 | - |
| Total assets | \$ 3,364,710 | \$ 1,422,118 |
| LIABILITIES AND (DEFICIENCY IN) STOCKHOLDERS' EQUITY | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | \$ 1,406,024 | \$ 925,790 |
| Accrued liabilities - related parties | 75,280 | 157,080 |
| Accrued interest, net | 678,935 | 663,691 |
| Accrued interest - related parties, net | 34,602 | 29,396 |
| Notes payable, current portion, net of discount | 336,012 | 978,982 |
| Notes payable - related parties, current portion | 130,500 | 130,500 |
| Warrant liability | 2,185,068 | 500,825 |
| Options liability | 419,832 | 161,884 |
| Conversion option liability | 1,957,383 | 1,245,761 |
| Contingent purchase price liability | 131,000 | - |
| Total current liabilities | 7,354,636 | 4,793,909 |
| Note payable - long term portion, net of discount | 904,913 | - |
| Total liabilities | 8,259,549 | 4,793,909 |
| (Deficiency in) stockholder's equity | | |
| Common stock, \$0.0001 par value; 500,000,000 shares authorized; 5,873,801 shares issued (post reverse-split) | 587 | 587 |

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| | | |
|--|--------------|--------------|
| and 5,659,130 shares outstanding (post reverse-split) at June 30, 2012 and December 31, 2011 | | |
| Additional paid-in capital | 3,838,196 | 3,774,287 |
| Common stock subscribed | 68,336 | 61,034 |
| Treasury stock, 304 and 304 shares outstanding (post reverse-split) | (99) | (99) |
| Accumulated deficit | (8,801,859) | (7,207,600) |
| Total (deficiency in) stockholder's equity | (4,894,839) | (3,371,791) |
| Total liabilities and (deficiency in) stockholders' equity | \$ 3,364,710 | \$ 1,422,118 |

See notes to these unaudited condensed consolidated financial statements.

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

| | For the Three Months Ended June 30, 2012 | For the Three Months Ended June 30, 2011 | For the Six Months Ended June 30, 2012 | For the Six Months Ended June 30, 2011 |
|--|--|--|--|--|
| Revenue | \$ 4,352,871 | \$ 2,776,276 | \$ 7,638,178 | \$ 5,247,806 |
| Cost of goods sold | 3,160,614 | 2,038,708 | 5,772,596 | 3,930,850 |
| | 1,192,257 | 737,568 | 1,865,582 | 1,316,956 |
| Selling, general and administrative expenses | 1,122,172 | 473,157 | 1,781,809 | 928,719 |
| Total operating expenses | 1,122,172 | 473,157 | 1,781,809 | 928,719 |
| Operating income | 70,085 | 264,411 | 83,773 | 388,237 |
| Other (income) expense: | | | | |
| Interest expense | 52,682 | 209,996 | 98,751 | 386,099 |
| (Gain) from the extinguishment of debt | - | (165,325) | - | (165,325) |
| Cost of warrant extension | 842,100 | - | 842,100 | - |
| (Gain) loss from change in fair value of warrant liability | 75,356 | (154,789) | 269,177 | (299,468) |
| (Gain) loss from change in fair value of conversion option liability | 89,569 | (188,075) | 468,004 | (265,801) |
| Total other (income) expense | 1,059,707 | (298,193) | 1,678,032 | (344,495) |
| Income (Loss) before income taxes | (989,622) | 562,604 | (1,594,259) | 732,732 |
| Income tax expense | - | - | - | - |
| Net income (loss) | \$ (989,622) | \$ 562,604 | \$ (1,594,259) | \$ 732,732 |
| Net income (loss) per share - basic | \$ (0.168) | \$ 0.137 | \$ (0.271) | \$ 0.180 |
| Net income (loss) per share - diluted | \$ (0.168) | \$ 0.038 | \$ (0.271) | \$ 0.049 |
| Weighted average shares outstanding - basic | 5,873,801 | 4,107,435 | 5,873,801 | 4,077,733 |
| Weighted average shares outstanding - diluted | 5,873,801 | 14,854,285 | 5,873,801 | 14,854,285 |

See notes to these unaudited condensed consolidated financial statements.

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Innovative Food Holdings, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows
(UNAUDITED)

| | For the Six Months Ended June 30, 2012 | For the Six Months Ended June 30, 2011 |
|--|--|--|
| Cash flows from operating activities: | | |
| Net income (loss) | \$ (1,594,259) | \$ 732,732 |
| Adjustments to reconcile net income (loss) to net cash used in operating activities: | | |
| Depreciation and amortization | 14,584 | 7,852 |
| Amortization of intangible assets | | |
| Amortization of discount on notes payable | 1,308 | 234,615 |
| Amortization of discount on accrued interest | 43,863 | 82,800 |
| Value of shares issued in settlement | 7,302 | - |
| Value of options issued to officer and directors | 186,299 | - |
| Value of extension of term of warrants | 842,100 | - |
| Gain on the extinguishment of debt and accrued interest | - | (165,325) |
| Change in fair value of warrant liability | 269,177 | (299,468) |
| Change in fair value of option liability | 71,351 | (64,573) |
| Change in fair value of conversion option liability | 468,004 | (265,801) |
| Changes in assets and liabilities: | | |
| Accounts receivable, net | (103,078) | 26,356 |
| Inventory | (76,070) | - |
| Prepaid expenses and other current assets | - | 1,275 |
| Accounts payable and accrued expenses - related party | (76,594) | (28,068) |
| Accounts payable and accrued expenses | (81,190) | (37,000) |
| Net cash (used in) provided by operating activities | (27,203) | 225,395 |
| Cash flows from investing activities: | | |
| Payment to acquire Artisan Specialty Foods, net | (1,176,605) | - |
| Proceeds received on loan | - | 1,500 |
| Purchase of treasury stock | - | (99) |
| Acquisition of property and equipment | (29,717) | (8,126) |
| Net cash used in investing activities | (1,206,322) | (6,725) |
| Cash flows from financing activities: | | |
| Proceeds from issuance of notes payable | 1,080,000 | - |
| Principal payments on debt | (20,284) | - |
| Principal payments on notes payable | - | (151,472) |
| Principal payments on notes payable - related parties | - | (50,000) |
| Net cash (used in) provided by financing activities | 1,059,716 | (201,472) |
| (Decrease) increase in cash and cash equivalents | (173,809) | 17,198 |

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| | | |
|--|------------|------------|
| Cash and cash equivalents at beginning of period | 862,464 | 518,082 |
| Cash and cash equivalents at end of period | \$ 688,655 | \$ 535,280 |

See notes to these unaudited condensed consolidated financial statements.

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

| | For the Six Months Ended June 30, 2012 | For the Six Months Ended June 30, 2011 |
|---|--|--|
| Supplemental disclosure of cash flow information: | | |
| Cash paid during the period for: | | |
| Interest | \$ 33,118 | \$ 31,304 |
| Taxes | \$ - | \$ - |
| Conversion of notes payable and accrued interest to common stock | \$ - | \$ 32,355 |
| Conversion of notes payable and accrued interest to common stock subscribed | \$ - | \$ 210,494 |
| Commitment to issue shares charged to common stock subscribed | \$ 7,302 | \$ - |

See notes to these unaudited condensed consolidated financial statements.

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INNOVATIVE FOOD HOLDINGS, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2012
(Unaudited)

1. BASIS OF PRESENTATION

Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements of Innovative Food Holdings, Inc., and its wholly owned subsidiaries, Artisan Specialty Foods, Inc. (“Artisan”), Food Innovations, Inc. (“FII”), Food New Media Group, Inc. (“FNM”), Gourmet Foodservice Group, Inc. (“GFG”), and 4 The Gourmet, Inc (d/b/a For The Gourmet, Inc.) (“Gourmet”) (collectively, the “Company, or “IVFH”), have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. FNM currently holds the Company’s intellectual property rights related to its private label brand. All material intercompany transactions have been eliminated upon consolidation of these entities.

The accompanying unaudited interim condensed consolidated financial statements have been prepared by the Company, in accordance with generally accepted accounting principles pursuant to Regulation S-X of the Securities and Exchange Commission and with the instructions to Form 10-Q. Certain information and footnote disclosures normally included in audited consolidated financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. Accordingly, these interim financial statements should be read in conjunction with the Company’s financial statements and related notes as contained in Form 10-K for the year ended December 31, 2011. In the opinion of management, the interim unaudited condensed consolidated financial statements reflect all adjustments, including normal recurring adjustments, necessary for fair presentation of the interim periods presented. The results of the operations for the three and six months ended June 30, 2012 are not necessarily indicative of the results of operations to be expected for the full year.

2. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Business Activity

FII is in the business of providing premium white tablecloth restaurants with the freshest origin-specific perishables and specialty food products direct from its network of vendors to the end users (restaurants, hotels, country clubs, national chain accounts, casinos, and catering houses) within 24 - 72 hours.

For The Gourmet Inc., through its website www.forthegourmet.com, and through additional sales channels, provides the highest quality gourmet food products to the retail consumer market under the For The Gourmet line. We currently sell the majority of our products through a distributor relationship between FII and Next Day Gourmet, L.P., a subsidiary of U.S. Foods (“USF”), a \$20 Billion broad line distributor. 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”), Artisan was previously a supplier to the Company. Artisan Specialty Foods is a supplier of over 1,500 niche gourmet products to over 500 customers in the Chicago area.

Use of Estimates

The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. These estimates include certain assumptions related to doubtful accounts receivable, stock-based services, valuation of

financial instruments, and income taxes. On an on-going basis, we evaluate these estimates, including those related to revenue recognition and concentration of credit risk. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We believe our estimates have not been materially inaccurate in past years, and our assumptions are not likely to change in the foreseeable future.

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

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INNOVATIVE FOOD HOLDINGS, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2012

(Unaudited)

Going Concern

The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Company as a going concern. The Company's current liabilities exceeded its current assets by \$5,188,475 as of June 30, 2012. In addition, the Company has reported a net loss for the three and six months ended June 30, 2012, due primarily to non-cash items related to the revaluation of warrant liability and conversion option liability.

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

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

Significant Recent Accounting Pronouncements

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

3. ACQUISITION OF ARTISAN SPECIALTY FOODS, INC.

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. The purchase price was primarily financed via a loan from Alpha Capital Aktiengesellschaft (see note 10) in the principal amount of \$1,200,000. Prior to the acquisition, Artisan was a vendor and had sold products to the Company.

The total purchase price was allocated to Artisan's net tangible assets, with the residual allocated to intangible assets:

| | | |
|---------------------------|----|-----------|
| Closing cash payment | \$ | 1,200,000 |
| Contingent purchase price | | 131,000 |
| Total purchase price | \$ | 1,331,000 |

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| | | |
|--------------------------|----|------------|
| Tangible assets acquired | \$ | 918,515 |
| Liabilities assumed | | 614,515(*) |
| Net tangible assets | | 304,000 |
| Trade name | | 217,000 |
| Non-compete agreement | | 244,000 |
| Customer relationships | | 415,000 |
| Implied goodwill | | 151,000 |
| Total purchase price | \$ | 1,331,000 |

(*) excluding the Line of Credit paid off with closing cash payment

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INNOVATIVE FOOD HOLDINGS, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2012

(Unaudited)

Pro forma results

The following tables set forth the unaudited pro forma results of the Company as if the acquisition of Artisan had taken place on the first day of the periods presented. These combined results are not necessarily indicative of the results that may have been achieved had the companies always been combined.

| | Three months ended June 30, | |
|---|-----------------------------|--------------|
| | 2012 | 2011 |
| Total revenues | \$ 4,981,147 | \$ 3,725,164 |
| Net income attributable to Innovative Food Holdings, Inc. | (1,073,088) | (727,022) |
| Basic net income (loss)per common share | \$ (0.183) | \$ (0.177) |
| Diluted net income (loss)per common share | \$ (0.183) | \$ (0.049) |
| Weighted average shares - basic | 5,873,801 | 4,107,435 |
| Weighted average shares - diluted | 5,873,801 | 14,854,285 |

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| | Six months ended June 30, | |
|---|---------------------------|--------------|
| | 2012 | 2011 |
| Total revenues | \$ 9,340,340 | \$ 6,924,343 |
| Net income attributable to Innovative Food Holdings, Inc. | (1,400,695) | (500,357) |
| Basic net income (loss)per common share | \$ (0.238) | \$ (0.123) |
| Diluted net income (loss)per common share | \$ (0.238) | \$ (0.034) |
| Weighted average shares - basic | 5,873,801 | 4,077,733 |
| Weighted average shares - diluted | 5,873,801 | 14,854,285 |

4. ACCOUNTS RECEIVABLE

At June 30, 2012 and December 31, 2011, accounts receivable consists of:

| | June 30, 2012 | December 31, 2011 |
|------------------------------------|------------------|----------------------|
| Accounts receivable from customers | \$ 1,146,934 | \$ 504,744 |
| Allowance for doubtful accounts | (87,915) | (11,044) |
| Accounts receivable, net | \$ 1,059,019 | \$ 493,700 |

5. INVENTORY

Inventory consists of specialty products which are warehoused in Naples, Florida and Lyons, Illinois, and prepaid meat products held by Company's meat vendors. At June 30, 2012 and December 31, 2011, finished goods inventory is as follows:

| June 30, | December 31, |
|----------|--------------|
|----------|--------------|

| | 2012 | 2011 |
|--------------------------|------------|-----------|
| Finished goods inventory | \$ 404,734 | \$ 42,312 |

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INNOVATIVE FOOD HOLDINGS, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2012
(Unaudited)

6. PROPERTY AND EQUIPMENT

A summary of property and equipment at June 30, 2012 and December 31, 2011, is as follows:

| | June 30, 2012 | December 31, 2011 |
|---|---------------|----------------------|
| Computer Equipment | \$ 414,222 | \$ 321,716 |
| Warehouse Equipment | 7,733 | - |
| Furniture and Fixtures | 109,184 | 74,850 |
| Vehicles | 33,238 | - |
| | 564,377 | 396,566 |
| Less accumulated depreciation and amortization | (392,828) | (378,344) |
| Total | \$ 171,549 | \$ 18,222 |

Depreciation and amortization expense for property and equipment amounted to \$11,707 and \$4,362 for the three months ended June 30, 2012 and, 2011, respectively. Depreciation and amortization expense amounted to \$14,584 and \$7,852 for the six months ended June 30, 2012 and, 2011, respectively.

7. INTANGIBLE ASSETS

The Company acquired the following intangible assets pursuant to the acquisition of Artisan Specialty Foods (see note 3):

| | June 30, 2012 |
|------------------------|------------------|
| Trade name | \$ 217,000 |
| Non-compete agreement | 244,000 |
| Customer relationships | 415,000 |
| Implied goodwill | 151,000 |
| | \$ 1,027,000 |

Amortization expense for intangible assets amounted to \$0 and \$0 for the three and six months ended June 30, 2012 and, 2011, The Company will commence amortization of these assets effective July 1, 2012.

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INNOVATIVE FOOD HOLDINGS, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2012
(Unaudited)

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2012 and December 31, 2011 are as follows:

| | June 30, 2012 | December 31, 2011 |
|--|------------------|----------------------|
| Trade payables | \$ 1,402,308 | \$ 891,785 |
| Accrued payroll and commissions | 3,716 | 34,005 |
| Total accounts payable and accrued liabilities - non-related parties | \$ 1,406,024 | \$ 925,790 |

At June 30, 2012 and December 31, 2011, accrued liabilities to related parties consisted of accrued payroll and payroll related benefits.

9. ACCRUED INTEREST

Accrued interest on the Company's convertible notes payable is convertible at the option of the note holders into the Company's common stock at \$0.25 (post reverse-split). There is a beneficial conversion feature embedded in the convertible accrued interest, which can be exercised at any time by the note holders. The Company is amortizing this beneficial conversion feature over the life of the related notes payable. Certain of the notes payable have exceeded their stated terms, and are still outstanding; in those instances, the Company expenses the value of the beneficial conversion feature on the accrued interest immediately.

Certain of the accrued interest are convertible in to shares of the Company's common stock at \$0.25 per share (post reverse-split). At June 30, 2012, convertible accrued interest was \$709,036 which is convertible into 2,836,144 shares (post reverse-split) of common stock; at December 31, 2011, convertible accrued interest was \$693,087 which was convertible into 2,772,348 shares (post reverse-split) of common stock.

10. NOTES PAYABLE AND NOTES PAYABLE TO RELATED PARTIES

| | June 30, 2012 | December 31, 2011 |
|--|------------------|----------------------|
| Convertible secured note payable in the original amount of \$350,000 originally payable to Alpha Capital Anstalt (f/k/a/ Alpha Capital Aktiengesellschaft) ("Alpha Capital"), dated February 25, 2005. This note consists of \$100,000 outstanding under a previous note payable which was cancelled on February 25, 2005, and \$250,000 of new borrowings. We did not meet certain of our obligations under the loan documents relating to this issuance. These lapses include not reserving the requisite number of treasury shares, selling subsequent securities without offering a right of first refusal, not complying with reporting obligations, not having our common shares quoted on the OTC:BB and not timely registering certain securities. This note entered technical default status on May 16, 2005. The note originally carried interest at the rate of 8% per annum, and was due in full on February 24, 2007. Upon default, the note's interest rate increased to 15% per | \$ 263,500 | \$ 263,500 |

annum, and the note became immediately due. This note contains a cross default provision. The note is convertible into common stock of the Company at a conversion price of \$0.25 (post reverse-split) per share. A beneficial conversion feature in the amount of \$250,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2005. Accrued interest is convertible into common stock of the Company at a conversion price of \$.025 (post reverse-split) per share. Interest in the amount of \$5,256 and \$6,659 was accrued on this note during the three months ended June 30, 2012 and 2011, respectively. Interest in the amount of \$10,511 and \$13,464 was accrued on this note during the six months ended June 30, 2012 and 2011, respectively. During the twelve months ended December 31, 2006 the note holder converted \$5,000 into shares of common stock. During the twelve months ended December 31, 2006 the holder of the note converted \$27,865 of accrued interest into common stock. In April 2009, the noteholder agreed to waive the default interest rate of 15%, and the note resumed accruing interest at the rate of 8% per annum. During the year ended December 31, 2011, the note holder converted \$81,500 of principal and \$46,793 of accrued interest into 513,172 (post reverse-split) shares of common stock. This note was initially past due at December 31, 2008. This note was previously extended until January 1, 2010. During the three months ended June 30, 2010, the note holder agreed to further extend the maturity date of this note until April 15, 2011. During the three months ended June 30, 2012, the note holder agreed to further extend the maturity date of this note until October 3, 2013.

Reference is made to the convertible note in the amount of \$38,000 originally payable to Whalehaven Capital Fund, Ltd. ("Whalehaven"), dated December 21, 2006, disclosed in prior reports. On September 21, 2011, a portion of that note was sold to Alpha Capital in the amount of \$21,478 of principal and accrued interest in the amount of \$13,938. Interest in the amount of \$428 and \$0 was accrued on this note during the three months ended June 30, 2012 and 2011, respectively. Interest in the amount of \$857 and \$0 was accrued on this note during the six months ended June 30, 2012 and 2011, respectively. During the three months ended June 30, 2012, the note holder agreed to further extend the maturity date of this note until October 3, 2013.

| | |
|--------|--------|
| 21,478 | 21,478 |
|--------|--------|

Reference is made to the convertible note in the amount of \$38,000 originally payable to Whalehaven, dated December 21, 2006, disclosed in prior reports. On September 21, 2011, a portion of that note was sold to Osher Capital Partners LLC in the amount of \$9,638 of principal and accrued interest in the amount of \$6,254. Interest in the amount of \$191 and \$0 was accrued on this note during the three months ended June 30, 2012 and 2011, respectively. Interest in the amount of \$382 and \$0 was accrued on this note during the six months ended June 30, 2012 and 2011, respectively. During the three months ended June 30, 2012, the note holder agreed to further extend the maturity date of this note until October 3, 2013.

| | |
|-------|-------|
| 9,638 | 9,638 |
|-------|-------|

Reference is made to the convertible note in the amount of \$38,000 originally payable to Whalehaven, dated December 21, 2006, disclosed in prior reports. On September 21, 2011, a portion of that note was sold to Assameka Capital Inc. in the amount of \$6,884 of principal and accrued interest in the amount of \$4,467. Interest in the amount of \$137 and \$0 was accrued on this note during the three months ended June 30, 2012 and 2011, respectively. Interest in the amount of \$275 and

| | |
|-------|-------|
| 6,884 | 6,884 |
|-------|-------|

\$0 was accrued on this note during the six months ended June 30, 2012 and 2011, respectively. During the three months ended June 30, 2012, the note holder agreed to further extend the maturity date of this note until October 3, 2013.

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(Unaudited)

| | June 30, 2012 | December 31, 2011 |
|--|------------------|----------------------|
| Reference is made to the convertible note payable in the amount of \$50,000 to Whalehaven dated February 25, 2005, disclosed in prior reports. On September 21, 2011, a portion of that note was sold to Alpha Capital in the amount of \$22,609 of principal and accrued interest in the amount of \$7,778. Interest in the amount of \$452 and \$0 was accrued on this note during the three months ended June 30, 2012 and 2011, respectively. Interest in the amount of \$904 and \$0 was accrued on this note during the six months ended June 30, 2012 and 2011, respectively. During the three months ended June 30, 2012, the note holder agreed to further extend the maturity date of this note until October 3, 2013. | 22,609 | 22,609 |
| Reference is made to the convertible note payable in the amount of \$50,000 to Whalehaven dated February 25, 2005, disclosed in prior reports. On September 21, 2011, a portion of that note was sold to Osher Capital Partners LLC in the amount of \$10,145 of principal and accrued interest in the amount of \$3,490. Interest in the amount of \$203 and \$0 was accrued on this note during the three months ended June 30, 2012 and 2011, respectively. Interest in the amount of \$405 and \$0 was accrued on this note during the six months ended June 30, 2012 and 2011, respectively. During the three months ended June 30, 2012, the note holder agreed to further extend the maturity date of this note until October 3, 2013. | 10,145 | 10,145 |
| Reference is made to the convertible note payable in the amount of \$50,000 to Whalehaven dated February 25, 2005, disclosed in prior reports. On September 21, 2011, a portion of that note was sold to Assameka Capital, Inc. in the amount of \$7,246 of principal and accrued interest in the amount of \$2,493. Interest in the amount of \$145 and \$0 was accrued on this note during the three months ended June 30, 2012 and 2011, respectively. Interest in the amount of \$289 and \$0 was accrued on this note during the six months ended June 30, 2012 and 2011, respectively. During the three months ended June 30, 2012, the note holder agreed to further extend the maturity date of this note until October 3, 2013. | 7,246 | 7,246 |
| Convertible note payable in the original amount of \$30,000 to Huo Hua dated May 9, 2005. The note bears interest at the rate of 8% per annum, has no provisions for a default or past due rate and was due in full on October 12, 2006. The note is convertible into common stock of the Company at a conversion price of \$0.25 (post reverse-split) per share. A beneficial conversion feature in the amount of \$30,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2005 and 2006. Accrued interest is convertible into common stock of the Company at a price of \$0.25 (post reverse-split) per share. Interest in the amount of \$400 and \$390 was accrued on this note during the three months ended June 30, 2012 and 2011, respectively. Interest in the amount of \$808 and \$785 was accrued on this note during the six months ended June 30, 2012 and 2011, respectively. During the twelve months ended December | 20,000 | 20,000 |

31, 2006, the note holder converted \$10,000 of principal into common stock.

Convertible secured note payable in the amount of \$120,000 to Alpha Capital dated August 25, 2005. We did not meet certain of our obligations under the loan documents relating to this issuance. These lapses include not reserving the requisite number of treasury shares, selling subsequent securities without offering a right of first refusal, not complying with reporting obligations, not having our common shares quoted on the OTC:BB and not timely registering certain securities. This note was in technical default as of November 13, 2005. The note originally carried interest at the rate of 8% per annum, and was due in full on August 25, 2007. Upon default, the note's interest rate increased to 15% per annum and the note became immediately due. This note contains a cross default provision. The note is convertible into common stock of the Company at a conversion price of \$0.25 (post reverse-split) per share. A beneficial conversion feature in the amount of \$120,000 was recorded as a discount to the note, and was amortized to interest expense when the note entered default status in November 2005. Accrued interest is convertible into common stock of the Company at a price of \$0.25 (post reverse-split) per share. Interest in the amount of \$1,995 and \$1,995 was accrued on this note during the three months ended June 30, 2012 and 2011, respectively. Interest in the amount of \$3,716 and \$3,967 was accrued on this note during the six months ended June 30, 2012 and 2011, respectively. During the year ended December 31, 2010, the noteholder converted principal in the amount of \$20,000 into common stock. During the year ended December 31, 2009, the noteholder agreed to waive the default interest rate of 15%, and the note resumed accruing interest at the rate of 8% per annum. Also during the year ended December 31, 2009, the noteholder agreed to extend the maturity date of this note until January 1, 2010. During the year ended December 31, 2010, the noteholder agreed to extend the maturity date of this note until June 15, 2010. During the three months ended June 30, 2012, the note holder agreed to further extend the maturity date of this note until October 3, 2013.

100,000

100,000

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| | June 30, 2012 | December 31, 2011 |
|---|------------------|----------------------|
| Reference is made to the convertible secured note payable originally in the amount of \$30,000 to Whalehaven dated August 25, 2005, disclosed in prior reports. On September 21, 2011, a portion of this note was sold to Alpha in the amount of \$15,287 of principal and accrued interest in the amount of \$1,342. Interest in the amount of \$306 and \$0 was accrued on this note during the three months ended June 30, 2012 and 2011, respectively. Interest in the amount of \$611 and \$0 was accrued on this note during the six months ended June 30, 2012 and 2011, respectively. During the three months ended June 30, 2012, the note holder agreed to further extend the maturity date of this note until October 3, 2013. | 15,287 | 15,287 |
| Reference is made to the convertible secured note payable in the amount of \$30,000 to Whalehaven dated August 25, 2005, disclosed in prior reports. On September 21, 2011, a portion of this note was sold to Osher Capital Partners LLC in the amount of \$6,860 of principal and accrued interest in the amount of \$602. Interest in the amount of \$137 and \$0 was accrued on this note during the three months ended June 30, 2012 and 2011, respectively. Interest in the amount of \$275 and \$0 was accrued on this note during the six months ended June 30, 2012 and 2011, respectively. During the three months ended June 30, 2012, the note holder agreed to further extend the maturity date of this note until October 3, 2013. | 6,860 | 6,860 |
| Reference is made to the convertible secured note payable in the amount of \$30,000 to Whalehaven dated August 25, 2005, disclosed in prior reports. On September 21, 2011, a portion of this note was sold to Assameka Capital, Inc. in the amount of \$4,900 of principal and accrued interest in the amount of \$430. Interest in the amount of \$97 and \$0 was accrued on this note during the three months ended June 30, 2012 and 2011, respectively. Interest in the amount of \$194 and \$0 was accrued on this note during the six months ended June 30, 2012 and 2011, respectively. During the three months ended June 30, 2012, the note holder agreed to further extend the maturity date of this note until October 3, 2013. | 4,900 | 4,900 |
| Convertible secured note payable in the original amount of \$25,000 to Asher Brand, dated August 25, 2005. We did not meet certain of our obligations under the loan documents relating to this issuance. These lapses include not reserving the requisite number of treasury shares, selling subsequent securities without offering a right of first refusal, not complying with reporting obligations, not having our common shares quoted on the OTC:BB and not timely registering certain securities. This note was in technical default as of November 13, 2005. The note originally carried interest at the rate of 8% per annum, and was due in full on August 25, 2007. Upon default, the note's interest rate increased to 15% per annum and the note became immediately due. This note contains a cross default provision. The note is convertible into common stock of the Company at a conversion price of \$0.25 (post reverse-split) per share. A beneficial conversion feature in the amount of \$25,000 | 5,000 | 5,000 |

was recorded as a discount to the note, and was amortized to interest expense when the note entered default status in November, 2005. Accrued interest is convertible into common stock of the Company at a price of \$0.25 (post reverse-split) per share.

Interest in the amount of \$100 and \$300 was accrued on this note during the three months ended June 30, 2012 and 2011, respectively. Interest in the amount of \$200 and \$596 was accrued on this note during the six months ended June 30, 2012 and 2011, respectively. During the twelve months ended December 31, 2006, the holder of the note converted \$2,000 of principal and \$3,667 of accrued interest into common stock, and during the twelve months ended December 31, 2008, the holder of the note converted an additional \$3,000 of principal into common stock. During the year ended December 31, 2009, the noteholder converted \$2,000 of principal and \$1,058 of accrued interest into common stock. During the year ended December 31, 2009, the noteholder agreed to waive the default interest rate of 15%, and the note resumed accruing interest at the rate of 8% per annum. Also, during the year ended December 31, 2009, the noteholder agreed to extend the maturity date of this note until January 1, 2010. During the year ended December 31, 2010 the noteholder converted \$3,000 of principal and \$1,043 of accrued interest into common stock. During the year ended December 31, 2011, the noteholder converted \$10,000 of principal and \$5,858 of accrued interest into common stock. Also, during the year ended December 31, 2010, the noteholder agreed to extend the maturity date of this note until April 15, 2011. During the three months ended June 30, 2012, the note holder agreed to further extend the maturity date of this note until October 3, 2013.

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| | June 30, 2012 | December 31, 2011 |
|--|------------------|----------------------|
| <p>Convertible secured note payable in the amount of \$10,000 to Lane Ventures dated August 25, 2005. We did not meet certain of our obligations under the loan documents relating to this issuance. These lapses include not reserving the requisite number of treasury shares, selling subsequent securities without offering a right of first refusal, not complying with reporting obligations, not having our common shares quoted on the OTC:BB and not timely registering certain securities. This note was in technical default at November 13, 2005. The note originally carried interest at the rate of 8% per annum, and was due in full on August 25, 2007. Upon default, the note's interest rate increased to 15% per annum and the note became immediately due. This note contains a cross default provision. The note is convertible into common stock of the Company at a conversion price of \$0.25 (post reverse-split) per share. A beneficial conversion feature in the amount of \$10,000 was recorded as a discount to the note, and was amortized to interest expense when the note entered default status in November, 2005. Accrued interest is convertible into common stock of the Company at a price of \$0.25 (post reverse-split) per share. Interest in the amount of \$119 and \$119 was accrued on this note during the three months ended June 30, 2012 and 2011, respectively. Interest in the amount of \$239 and \$238 was accrued on this note during the six months ended June 30, 2012 and 2011, respectively. During the twelve months ended December 31, 2006, the holder of the note converted \$4,000 of principal and \$1,467 of accrued interest into common stock. In April 2009, the noteholder agreed to waive the default interest rate of 15%, and the note resumed accruing interest at the rate of 8% per annum. Also in April 2009, the noteholder agreed to extend the maturity date of this note until January 1, 2010. During the year ended December 31, 2010, the noteholder agreed to extend the maturity date of this note until April 15, 2011. During the three months ended June 30, 2012, the note holder agreed to further extend the maturity date of this note until October 3, 2013.</p> | 6,000 | 6,000 |
| <p>Secured note payable in the amount of \$120,000 to Alpha Capital, dated February 7, 2006. The note originally carried interest at the rate of 15% per annum, and was originally due in full on February 7, 2007. The Company was not in compliance with various terms of this note, including making timely payments of interest, and this note was in technical default at May 8, 2006. At this time, the interest rate increased to 20% and the note became immediately due and payable. During the three months ended September 30, 2007, the Company extended the due date of the note one year, to October 31, 2007; at the same time, the Company added a convertibility feature, allowing the noteholder to convert the notes and accrued interest into common stock of the Company at a rate of \$0.25 (post reverse-split) per share. This note entered technical default on October 31, 2007. The Company recorded a discount to this note for the fair value of the conversion feature in the amount of \$95,588 and amortized this discount to interest expense when the note entered default status in October 2007. On March 12, 2008, the Company extended this note to March 4,</p> | 120,000 | 120,000 |

2009. As consideration for the extension of this notes, the Company issued five-year warrants as follows: warrants to purchase 480,000 (post reverse-split) shares of common stock at \$0.575 (post reverse-split) per share; 120,000 (post reverse-split) shares of common stock at \$0.55 (post reverse-split) per share; and 48,000 (post reverse-split) shares of common stock at \$0.25 (post reverse-split) per share. These warrants were valued via the Black-Scholes valuation method at an aggregate amount of \$126,465. This transaction was accounted for as an extinguishment of debt, and a loss of \$126,465 was charged to operations during the twelve months ended December 31, 2008. Interest in the amount of \$4,487 and \$4,487 was accrued on this note during each of the three months ended June 30, 2012 and 2011, respectively. Interest in the amount of \$8,975 and \$8,926 was accrued on this note during each of the six months ended June 30, 2012 and 2011, respectively. In January 2009, the noteholder agreed to extend the maturity date of this note to April 16, 2009. In April 2009, the noteholder agreed to waive the default interest rate of 20%, and the note resumed accruing interest at the rate of 8% per annum. Also in April 2009, the noteholder agreed to extend the maturity date of this note until April 16, 2009. . This note contains a cross default provision. During the year ended December 31, 2010, the noteholder agreed to extend the maturity date of this note until April 15, 2011. During the three months ended June 30, 2012, the note holder agreed to further extend the maturity date of this note until October 3, 2013.

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| | June 30, 2012 | December 31, 2011 |
|--|------------------|----------------------|
| Reference is made to the secured note payable in the amount of \$30,000 to Whalehaven dated February 7, 2006, disclosed in prior reports. On September 21, 2011, a portion of that note was sold to Alpha Capital in the amount of \$16,957 of principal and accrued interest in the amount of \$15,070. Interest in the amount of \$634 and \$0 was accrued on this note during the three months ended June 30, 2012 and 2011, respectively. Interest in the amount of \$1,268 and \$0 was accrued on this note during the six months ended June 30, 2012 and 2011, respectively. The portion sold to Alpha Capital of the note included warrants to purchase 67,826 (post reverse-split) shares of common stock at \$0.575 (post reverse-split) per share; 16,957 (post reverse-split) shares of common stock at \$0.55 (post reverse-split) per share; and 6,783 (post reverse-split) shares of common stock at \$0.25 (post reverse-split) per share. During the three months ended June 30, 2012, the note holder agreed to further extend the maturity date of this note until October 3, 2013. | 16,957 | 16,957 |
| Reference is made the secured note payable in the amount of \$30,000 to Whalehaven dated February 7, 2006, disclosed in prior reports. On September 21, 2011, a portion of that note was sold to Osher Capital Partners LLC in the amount of \$7,609 of principal and accrued interest in the amount of \$6,762. Interest in the amount of \$285 and \$0 was accrued on this note during the three months ended June 30, 2012 and 2011, respectively. Interest in the amount of \$570 and \$0 was accrued on this note during the six months ended June 30, 2012 and 2011, respectively. The portion sold to Osher Capital Partners LLC of the note included warrants to purchase 30,435 (post reverse-split) shares of common stock at \$0.575 (post reverse-split) per share; 7,609 shares of common stock at \$0.55 (post reverse-split) per share; and 3,043 (post reverse-split) shares at \$0.25 per share. During the three months ended June 30, 2012, the note holder agreed to further extend the maturity date of this note until October 3, 2013. | 7,609 | 7,609 |
| Reference is made to the secured note payable in the amount of \$30,000 to Whalehaven dated February 7, 2006, disclosed in prior reports. On September 21, 2011, a portion of that note was sold to Assameka Capital, Inc. in the amount of \$5,435 of principal and accrued interest in the amount of \$4,830. Interest in the amount of \$203 and \$0 was accrued on this note during the three months ended June 30, 2012 and 2011, respectively. Interest in the amount of \$406 and \$0 was accrued on this note during the six months ended June 30, 2012 and 2011, respectively. The portion sold to Assameka Capital, Inc. of the note included warrants to purchase 21,739 (post reverse-split) shares of common stock at \$0.575 (post reverse-split) per share; 5,435 (post reverse-split) shares of common stock at \$0.55 (post reverse-split) per share; and 2,174 (post reverse-split) shares of common stock at \$0.25 (post reverse-split) per share. During the three months ended June 30, 2012, the note holder agreed to further extend the maturity date of this note until October 3, 2013. | 5,435 | 5,435 |

Twenty-nine convertible notes payable in the amount of \$4,500 each to Sam Klepfish, the Company's CEO and a related party, dated the first of the month beginning on November 1, 2006, issued pursuant to the Company's then employment agreement with Mr. Klepfish, which provided that the amount of \$4,500 in salary is accrued each month to a note payable. These notes bear interest at the rate of 8% per annum and have no due date. These notes and accrued interest are convertible into common stock of the Company at a rate of \$0.25 (post reverse-split) per share. Beneficial conversion features in the aggregate amount of \$9,000 for the year ended December 31, 2006, \$39,190 for the year ended December 31, 2007, and \$58,464 for the year ended December 31, 2008 was calculated using the Black-Scholes valuation model. Since these notes are payable on demand, the value of these discounts were charged immediately to interest expense. During the year ended December 31, 2011, the noteholder converted \$12,000 of accrued interest into 48,000 (post reverse-split) shares of common stock. Interest in the aggregate amount of \$2,603 and \$2,603 was accrued on these notes during the three months ended June 30, 2012 and 2011, respectively. Interest in the aggregate amount of \$5,206 and \$5,206 was accrued on these notes during the six months ended June 30, 2012 and 2011, respectively.

130,500

130,500

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| | June 30, 2012 | December 31, 2011 |
|--|------------------|----------------------|
| Secured note payable in the amount of \$10,000 to Alpha Capital, dated May 19, 2006. The note originally carried interest at the rate of 15% per annum, and was originally due in full on November 19, 2006. The Company was not in compliance with various terms of this note, including making timely payments of interest, and this note was in technical default at February 20, 2006. At that time, the interest rate increased to 20% and the note became immediately due and payable. During the three months ended September 30, 2007, the Company extended the due date of the note one year, to October 31, 2007; at the same time, the Company added a convertibility feature, allowing the noteholder to convert the notes and accrued interest into common stock of the Company at a rate of \$0.25 (post reverse-split) per share. This note entered technical default on October 31, 2007. The Company recorded a discount to this note for the fair value of the conversion feature in the amount of \$7,966 and amortized this discount to interest expense when the note entered default status in October 2007. On March 12, 2008, the Company extended this note to March 4, 2009. As consideration for the extension of this note, the Company issued five-year warrants as follows: warrants to purchase 40,000 (post reverse-split) shares of common stock at \$0.575 (post reverse-split) per share; 10,000 (post reverse-split) shares of common stock at \$0.55 (post reverse-split) per share; and 4,000 (post reverse-split) shares of common stock at \$0.25 (post reverse-split) per share. These warrants were valued via the Black-Scholes valuation method at an aggregate amount of \$10,539. This transaction was accounted for as an extinguishment of debt, and a loss of \$10,539 was charged to operations during the twelve months ended December 31, 2008. Interest in the amount of \$373 and \$373 was accrued on this note during the three months ended June 30, 2012 and 2011, respectively. Interest in the amount of \$746 and \$742 was accrued on this note during the six months ended June 30, 2012 and 2011, respectively. During the year ended December 31, 2009, the noteholder agreed to waive the default interest rate of 20%, and the note resumed accruing interest at the rate of 15% per annum. Also, during the year ended December 31, 2009, the noteholder agreed to extend the maturity date until January 1, 2010. During the year ended December 31, 2010, the noteholder agreed to extend the maturity date of this note until April 15, 2011. This note contains a cross default provision. During the three months ended June 30, 2012, the note holder agreed to further extend the maturity date of this note until October 3, 2013. | 10,000 | 10,000 |
| Convertible secured note payable in the amount of \$200,000 to Alpha Capital, dated December 31, 2008. This note bears interest at the rate of 8% per annum, and is due in full on July 31, 2011. Principal and accrued interest is convertible into common stock of the Company at the rate of \$0.25 (post reverse-split) per share. Also issued with this note are warrants to purchase 800,000 (post reverse-split) shares of the Company's common stock at a price of \$0.25 (post reverse-split) per share. The Company calculated a discount to the note in the amount of \$200,000, and recorded | - | 16,000 |

\$0 and \$25,118 amortization for the three and six months ended June 30, 2012. Interest in the aggregate amount of \$0 and \$1,436 was accrued on this note during the three months ended June 30, 2012 and 2011, respectively. Interest in the aggregate amount of \$128 and \$3,337 was accrued on this note during the six months ended June 30, 2012 and 2011, respectively. During the years ended December 31, 2011, 2010, and 2009, the Company made principal payments on this note in the amount of \$88,000, \$80,000 and \$16,000, respectively. During the three months ended March 31, 2012, the Company made principal payment on this note in the amount of \$16,000 and a payment of \$8,000 on accrued interest. During the three months ended June 30, 2012, the Company made interest payments in the amount of \$25,118. This note contains a cross default provision.

Convertible secured note payable for the settlement of the amount owed for the penalty for the late registration of shares in the amount of \$230,000 to Alpha Capital, dated January 1, 2009. This note bears interest at the rate of 8% per annum, and was due in full on July 31, 2011. Principal and accrued interest are convertible into shares of common stock of the Company at a rate of \$0.25 (post reverse-split) per share. The Company calculated a discount to the note in the amount of \$230,000, and recorded 64,327 and \$124,067 amortization for this discount during the three and six months ended June 30, 2012. Interest in the aggregate amount of \$4,587 and \$4,587 was accrued on this note during the three months ended June 30, 2012 and 2011, respectively. Interest in the aggregate amount of \$9,175 and \$9,125 was accrued on this note during the six months ended June 30, 2012 and 2011, respectively. This note contains a cross default provision. During the three months ended June 30, 2012, the note holder agreed to further extend the maturity date of this note until October 3, 2013.

| | |
|---------|---------|
| 230,000 | 230,000 |
|---------|---------|

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| | June 30, 2012 | December 31, 2011 |
|---|------------------|----------------------|
| Reference is made to the convertible secured note payable for the settlement of the amount owed for the penalty for the late registration of shares in the amount of \$38,000 to Whalehaven, dated January 1, 2009, disclosed in prior reports. On September 21, 2011, a portion of that note was sold to Alpha Capital in the amount of \$21,478 of principal and accrued interest in the amount of \$7,674. Interest in the aggregate amount of \$428 and \$0 was accrued on this note during the three months ended June 30, 2012 and 2011, respectively. Interest in the aggregate amount of \$857 and \$0 was accrued on this note during the six months ended June 30, 2012 and 2011, respectively. During the three months ended June 30, 2012, the note holder agreed to further extend the maturity date of this note until October 3, 2013. | 21,478 | 21,478 |
| Reference is made to the convertible secured note payable for the settlement of the amount owed for the penalty for the late registration of shares in the amount of \$38,000 to Whalehaven, dated January 1, 2009, disclosed in prior reports. On September 21, 2011, a portion of that note was sold to Osher Capital Partners LLC in the amount of \$9,638 of principal and accrued interest in the amount of \$3,443. Interest in the aggregate amount of \$191 and \$0 was accrued on this note during the three months ended June 30, 2012 and 2011, respectively. Interest in the aggregate amount of \$382 and \$0 was accrued on this note during the six months ended June 30, 2012 and 2011, respectively. During the three months ended June 30, 2012, the note holder agreed to further extend the maturity date of this note until October 3, 2013. | 9,638 | 9,638 |
| Reference is made to the convertible secured note payable for the settlement of the amount owed for the penalty for the late registration of shares in the amount of \$38,000 to Whalehaven, dated January 1, 2009, disclosed in prior reports. On September 21, 2011, a portion of that note was sold to Assameka Capital, Inc. in the amount of \$6,884 of principal and accrued interest in the amount of \$2,460. Interest in the aggregate amount of \$137 and \$0 was accrued on this note during the three months ended June 30, 2012 and 2011, respectively. Interest in the aggregate amount of \$275 and \$0 was accrued on this note during the six months ended June 30, 2012 and 2011, respectively. During the three months ended June 30, 2012, the note holder agreed to further extend the maturity date of this note until October 3, 2013. | 6,884 | 6,884 |
| Convertible secured note payable for the settlement of the amount owed for the penalty for the late registration of shares in the amount of \$25,310 to Momona Capital, dated January 1, 2009. This note bears interest at the rate of 8% per annum, and was due in full on July 31, 2011. Principal and accrued interest is convertible into shares of common stock of the Company at a rate of \$0.25 (post reverse-split) per share. The Company calculated a discount to the note in the amount of \$25,310, which was fully amortized at September 30, 2011. Interest in the aggregate | 25,310 | 25,310 |

amount of \$504 and \$504 was accrued on this note during the three months ended June 30, 2012 and 2011, respectively. Interest in the aggregate amount of \$1,009 and \$1,003 was accrued on this note during the six months ended June 30, 2012 and 2011, respectively. This note contains a cross default provision. During the three months ended June 30, 2012, the note holder agreed to further extend the maturity date of this note until October 3, 2013.

Convertible secured note payable for the settlement of the amount owed for the penalty for the late registration of shares in the amount of \$10,124 to Lane Ventures, dated January 1, 2009. This note bears interest at the rate of 8% per annum, and was due in full on July 31, 2011. Principal and accrued interest is convertible into shares of common stock of the Company at a rate of \$0.25 (post reverse-split) per share. The Company calculated a discount to the note in the amount of \$10,124, which was fully amortized at September 30, 2011. Interest in the aggregate amount of \$203 and \$203 was accrued on this note during the three months ended June 30, 2012 and 2011, respectively. Interest in the aggregate amount of \$405 and \$403 was accrued on this note during the six months ended June 30, 2012 and 2011, respectively. This note contains a cross default provision. During the three months ended June 30, 2012, the note holder agreed to further extend the maturity date of this note until October 3, 2013.

10,124

10,124

Secured convertible promissory note payable for the acquisition of Artisan Specialty Foods, Inc. to Alpha Capital, dated May 11, 2012 in the face amount of \$1,200,000 at a purchase price of \$1,080,000. The note carries simple interest at an annual rate of 4.5% and is due in full by April 2015. The note is convertible into the registrant's common stock at a fixed conversion price of \$1.00 per share. Principal and interest in the aggregate amount of \$39,163 are payable on a monthly basis beginning in September 2012. The note allows for prepayments at any time. The note also includes cross-default provisions; is secured by all of the registrant's and its subsidiaries' assets; and is guaranteed by each of the subsidiaries. As part of the transaction, the registrant also issued to the noteholder eight year warrants to purchase 1,500,000 shares (post reverse-split) at an exercise price of \$0.01 per share. 460,000 of these warrants are exercisable immediately; 240,000 of these warrants are exercisable commencing May 11, 2013; 300,000 of these warrants are exercisable commencing January 11, 2014, and 500,000 of these warrants are exercisable commencing September 11, 2014. The note had a discount in the amount of \$956,441 at inception; \$1,308 of this amount was amortized to interest expense during the three months ended June 30, 2012. Interest expense in the amount of \$4,500 was also accrued on this note during the three months ended June 30, 2012.

1,200,000

-

Note payable at an effective interest rate of 9.96% for purchase of vehicle, payable in monthly installments (including principal and interest) of \$614 through January 2015. During the three and six months ended June 30 2012, the Company paid principal and interest in the amount of \$471 and \$143, respectively, on this note.

16,567

Note payable at an effective interest rate of 8.26% for purchase of vehicle, payable in monthly installments (including principal and interest) of \$519 through June 2015. During the three and six months ended June 30 2012, the Company paid principal and interest in the amount of \$403 and \$116, respectively, on this note.

16,509

-

| | | | |
|----|-----------|----|-----------|
| \$ | 2,326,558 | \$ | 1,109,482 |
|----|-----------|----|-----------|

| | For the Three Months Ended June 30, | |
|--|--|------------|
| | 2012 | 2011 |
| Discount on Notes Payable amortized to interest expense: | \$ 1,308 | \$ 133,585 |

| | For the Six Months Ended June 30, | |
|--|--------------------------------------|------------|
| | 2012 | 2011 |
| Discount on Notes Payable amortized to interest expense: | \$ 1,308 | \$ 234,615 |

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INNOVATIVE FOOD HOLDINGS, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2012
(Unaudited)

Conversion Options Embedded in Convertible Notes

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

At June 30, 2012 and December 31, 2011, the Company had outstanding \$2,293,482 and \$1,109,482 in principal, respectively, of various convertible notes with embedded conversion options accounted for as free standing derivative financial instruments in accordance with ASC 815-10-05 and ASC 815-40-05. The fair value of these embedded conversion options was \$1,957,383 and \$1,245,761 at June 30, 2012 and December 31, 2011, respectively. The fair value of these embedded conversion options were estimated at June 30, 2012 using the Black-Scholes option pricing model with the following assumptions: risk free interest rate of 0.17-0.41%; expected dividend yield of 0%; expected option life of 2.9 to 10 years; and volatility of 125.18%. The fair value of these embedded conversion options were estimated at December 31, 2011 using the Black-Scholes option pricing model with the following assumptions: risk free interest rate of 0.06%; expected dividend yield of 0%; expected option life of 10 years; and volatility 114.30%. The expected term of 10 years was used for all notes in both periods which have been past due or have been in default, and accordingly the term of the note is deemed not relevant as a variable for the Black-Scholes calculation. The Company revalues the conversion options at each reporting period, and charges any change in value to operations. During the three months ended June 30, 2012 and 2011, the Company recorded a loss of \$89,569 and a gain of \$188,075 respectively, due to the change in value of the conversion option liability. During the six months ended June 30, 2012 and 2011, the Company recorded a loss of \$468,004 and a gain of \$265,801, respectively, due to the change in value of the conversion option liability.

When convertible notes payable are satisfied by payment or by conversion to equity, the Company revalues the related conversion option liability at the time of the payment or conversion. The conversion option liability is then relieved by this amount, which is charged to additional paid-in capital. During the three months ended June 30, 2012 and 2011, conversion option liabilities in the amounts of \$0 and \$385,897 were transferred from liability to equity due to the conversion or payment of the related convertible notes payable. During the six months ended June 30, 2012 and 2011, a conversion option in the amount of \$20,046 and \$418,890, respectively, was transferred from liability to equity due to the conversion or payment of the related convertible notes payable.

Discounts on notes payable

The Company calculates the fair value of any beneficial conversion features embedded in its convertible notes via the Black-Scholes valuation method. The Company also calculates the fair value of any detachable warrants offered with its convertible notes via the Black-Scholes valuation method. The instruments are considered discounts to the notes, to the extent the aggregate value of the warrants and conversion features do not exceed the face value of the notes. These discounts are amortized to interest expense via the effective interest method over the term of the notes. The fair value of these instruments is expensed to interest expense to the extent that the value of these instruments exceeds the face value of the notes. During the three months ended June 30, 2012, the Company calculated a discounts on the \$1,200,000 note payable to Alpha Capital as follows: (i) a discount in the amount of \$263,664 related to the conversion option feature of this note; (ii) a discount in the amount of \$572,777 related to the fair value of warrants issued with this note; and (iii) an original issue discount ("OID") in the amount of \$120,000. During the three months

ended June 30, 2012, these discounts were amortized to interest expense in the aggregate amount of \$1,144.

Extension of notes payable

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

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

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

During the year ended December 31, 2010, the Company negotiated the extension of nine of its notes payable in the aggregate amount of \$617,000, to April 15, 2011. The Company also negotiated the extension of two of its notes payable in the aggregate amount of \$130,000 until June 15, 2010. During the three months ended June 30, 2012, the Company negotiated the extension of twenty-four of its notes payable in the aggregate amount of \$942,982 to October 3, 2013.

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INNOVATIVE FOOD HOLDINGS, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2012

(Unaudited)

Embedded conversion features of notes payable:

The Company values embedded conversion features utilizing the Black-Scholes valuation model. Conversion options are valued upon issuance, and re-valued at each financial statement reporting date. Any change in value is charged to income or expense during the period. The following table illustrates certain key information regarding our conversion option valuation assumptions at June 30, 2012 and 2011:

| | June 30, | |
|---|----------------|---------------|
| | 2012 | 2011 |
| Number of conversion options outstanding | 5,573,924 | 5,013,164 |
| Value at June 30, | \$ 1,957,383 | \$ 1,780,875 |
| Number of conversion options issued during the period | 1,200,000 | - |
| Value of conversion options issued during the period | \$ 263,664 | \$ - |
| Number of conversion options exercised or underlying notes paid during the period | - | 1,328,000 |
| Value of conversion options exercised or underlying notes paid during the period | \$ - | \$ 385,897 |
| Revaluation loss (gain) during the period | \$ 89,569 | \$ (188,075) |
| Black-Scholes model variables: | | |
| Volatility | 124.12-125.18% | 92.52-110.66% |
| Dividends | - | - |
| Risk-free interest rates | 0.4% | 0.10-0.19% |
| Term (years) | 3-10 | 10 |

11. CONTINGENT LIABILITY

Pursuant to the Artisan acquisition, the Company may be obligated to pay up to another \$300,000 (with a fair value of \$131,000) in the event certain financial milestones are met over the next one or two years (see note 3).

12. INCOME TAXES

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

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. Included in deferred tax assets are Federal and State net

operating loss carryforwards of approximately \$3.7 million, which will expire beginning in 2025 through 2029. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Due to significant changes in the Company's ownership, the Company's future use of its existing net operating losses may be limited.

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INNOVATIVE FOOD HOLDINGS, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2012
(Unaudited)

13. EQUITY

On June 13, 2012, the Company effected a reverse split of its common stock (the "Reverse Split") in the amount of 1-for-50. The number of shares issued and outstanding immediately before the Reverse Split were 293,692,189 and 282,956,546, respectively; the number of shares issued and outstanding immediately after the Reverse Split were 5,873,801 and 5,659,130, respectively. In addition, the proposal to authorize the Board of Directors to change the Company's domicile from Florida to Delaware was approved.

Common Stock

During the three and six months ended June 30, 2012, the Company did not have any issuances of common stock. During the three months ended June 30, 2012, the Company committed to issue 26,078 shares (post reverse-split) of common stock for settlement of a claim. The fair value of \$7,302 is included in Common Stock Subscribed on the Company's balance sheet at June 30, 2012.

Treasury Stock

During the six months ended June 30, 2012, the Company did not purchase any outstanding shares of the Company's common stock.

Warrants

The following table summarizes the significant terms of warrants outstanding at June 30, 2012. These warrants may be settled in cash or via cashless conversion into shares of the Company's common stock at the request of the warrant holder. These warrants were granted as part of a financing agreement:

| Range of exercise prices (post reverse-split) | Number of warrants outstanding (post reverse-split) | Weighted average remaining contractual life (years) | Weighted average exercise price of outstanding warrants (post reverse-split) | Number of warrants exercisable (post reverse-split) | Weighted average exercise price of exercisable warrants (post reverse-split) |
|---|---|---|--|---|--|
| \$ 0.2500 | 3,594,000 | 2.76 | \$0.250 | 3,594,000 | \$0.250 |
| \$ 0.5500 | 370,000 | 2.76 | \$0.550 | 370,000 | \$0.550 |
| \$ 0.6000 | 20,000 | 1.21 | \$0.600 | 20,000 | \$0.600 |
| \$ 0.5750 | 1,480,000 | 2.76 | \$0.575 | 1,480,000 | \$0.575 |
| \$ 0.0100 | 1,500,000 | 7.88 | 0.010 | 460,000 | \$ 0.010 |
| | 6,964,000 | 3.86 | \$0.284 | 5,924,000 | \$0.3325 |

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INNOVATIVE FOOD HOLDINGS, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2012
(Unaudited)

Transactions involving warrants are summarized as follows:

| | Number of Warrants (post reverse-split) | Weighted Average Exercise Price (post reverse-split) |
|---|--|--|
| Warrants exercisable at December 31, 2011 | 5,464,000 | \$ 0.36 |
| Granted | 1,500,000 | 0.010 |
| Exercised | - | - |
| Cancelled / Expired | - | - |
| Warrants outstanding at June 30, 2012 | 6,964,000 | \$ 0.284 |

During the three months ended June 30, 2012, the Company issued warrants to purchase 1,500,000 shares (post reverse-split) of common stock; the fair value of these warrants was \$572,777. The Company also extended the term of warrants to purchase 5,440,000 shares of common stock from April 3, 2012 to April 3, 2015. The fair value of this extension of \$842,100 was charged to operations during the three months ended June 30, 2012.

Options

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

| Range of exercise Prices (post reverse-split) | Number of options Outstanding (post reverse-split) | Weighted average remaining contractual life (years) | Weighted average exercise price of outstanding Options (post reverse-split) | Number of options Exercisable (post reverse-split) | Weighted average exercise price of exercisable Options (post reverse-split) |
|--|--|---|---|--|---|
| \$ 0.350 | 1,040,000 | 3.18 | \$0.350 | 1,040,000 | \$ 0.350 |
| \$ 0.380 | 132,500 | 2.75 | \$0.380 | 132,500 | \$ 0.380 |
| \$0.450 | 132,500 | 3.25 | \$0.450 | 132,500 | \$ 0.450 |
| \$ 0.474 | 132,500 | 3.00 | \$0.474 | 132,500 | \$ 0.474 |
| \$0.480 | 132,500 | 3.50 | \$0.480 | 132,500 | \$ 0.480 |

| | | | | |
|-----------|------|---------|-----------|----------|
| 1,570,000 | 2.61 | \$0.382 | 1,570,000 | \$ 0.383 |
|-----------|------|---------|-----------|----------|

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INNOVATIVE FOOD HOLDINGS, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2012
(Unaudited)

Transactions involving stock options are summarized as follows:

| | Number of Shares (post reverse-split) | Weighted Average Exercise Price (post reverse-split) |
|---|--|--|
| Options outstanding at December 31, 2011 | 970,000 | \$ 0.400 |
| Granted | 600,000 | 0.350 |
| Exercised | - | - |
| Cancelled / Expired | - | - |
| Options outstanding at June 30, 2012 | 1,570,000 | \$ 0.3820 |

Aggregate intrinsic value of options outstanding and exercisable at June 30, 2012 and 2011 was \$52,000 and \$69,650 respectively. Aggregate intrinsic value represents the difference between the Company's closing stock price on the last trading day of the fiscal period, which was \$0.40 and \$0.40 as of June 30, 2012 and 2011, respectively, and the exercise price multiplied by the number of options outstanding. During the three months ended June 30, 2012 and 2011, the Company charged \$186,299 and \$0 to operations related to recognized stock-based compensation expense for employee stock options. During the six months ended June 30, 2012 and 2011, the Company charged \$186,299 and \$0, respectively, to operations related to recognized stock-based compensation expense for employee stock options.

Accounting for warrants and stock options

The Company accounts for the issuance of common stock purchase warrants, stock options, and other freestanding derivative financial instruments in accordance with the provisions of FASB ASC 815-40-15. Based on the provisions of ASC 815-40-05, the Company classifies, as equity, any contracts that (i) require physical settlement or net-share settlement or (ii) gives the Company a choice of net-cash settlement or settlement in its own shares (physical settlement or net-share settlement). The Company classifies as assets or liabilities any contract that (i) require net-cash settlement or (ii) give the counterparty a choice of net-cash settlement in shares (physical or net-share settlement). At June 30, 2012 and 2011, the Company had no freestanding derivative financial instruments that require net cash settlement or give the counterparty a choice of net cash settlement or settlement in shares.

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

contract was classified as equity should be accounted for as an adjustment to stockholders' equity." Accordingly, during the year ended December 31, 2005, the Company charged the amount of \$10,374,536 to stockholders' equity. At the same time, the Company changed the way in which it accounts for the beneficial conversion feature of convertible notes payable (see note 8).

The accounting guidance shows that the warrants and stock options which are a derivative liability should be revalued each reporting period. The recorded value of such warrants and stock options can fluctuate significantly based on fluctuations in the market value of the underlying securities of the issuer of the warrants and stock options, as well as in the volatility of the stock price during the term used for observation and the term remaining for warrants. During the three months ended June 30, 2012 and 2011, the Company recognized a loss of \$75,356 and a gain of \$154,789, respectively, for the change in the fair value of the warrant liability and recorded the change in operations during the three months ended June 30, 2012 and 2011. During the six months ended June 30, 2012 and 2011, the Company recognized a loss of \$269,177 and a gain of \$299,468, respectively, for the change in the fair value of the warrant liability and recorded the change in operations during the six months ended June 30, 2012 and 2011. During the three months ended June 30, 2012 and 2011, the Company recognized a loss of \$16,763 and a gain of \$43,293, respectively, for the change in the fair value of the stock option liability and recorded these amounts in operations during the three months ended June 30, 2012 and 2011. During the six months ended June 30, 2012 and 2011, the Company recognized a loss of \$71,351 and a gain of \$64,573, respectively, for the change in the fair value of the stock option liability and recorded these amounts in operations during the six months ended June 30, 2012 and 2011.

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INNOVATIVE FOOD HOLDINGS, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2012
(Unaudited)

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

| | June 30, 2012 | December 31, 2011 |
|--------------------------|------------------|----------------------|
| Volatility | 125.18.0% | 92.52-114.30% |
| Dividends | \$ - | \$ - |
| Risk-free interest rates | 0.16-1.11% | 0.06-0.17% |
| | 0.75 – | |
| Term (years) | 4.85 | 0.01-5.00 |

Insufficient Authorized but Unissued Shares of Common Stock

At March 31, 2012, and December 31, 2011, the Company's potential obligation to issue shares had exceeded its shares authorized by 9,621,782 (post reverse-split) and 11,135,994 (post reverse-split), respectively. During the three months ended June 30, 2012, the Company effected a 1-50 reverse split of its common on stock; at June 30, 2012, the Company had outstanding a total of 5,873,801 shares (post reverse-split), and obligations to issue an additional 16,245,372 shares (post reverse-split). At June 30, 2012, 494,126,157 shares (post reverse-split) were available for issuance.

14. FAIR VALUE MEASUREMENTS

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

As a result of the adoption of ASC 815-40, the Company is required to disclose the fair value measurements required by ASC 820, "Fair Value Measurements and Disclosures." The other liabilities recorded at fair value in the balance sheet as of June 30, 2012 are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels, defined by ASC 820 are directly related to the amount of subjectivity associated with the inputs to fair valuations of these liabilities are as follows:

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

Level 2 — Inputs other than Level 1 inputs that are either directly or indirectly observable; and

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

The following table summarizes the financial liabilities measured at fair value on a recurring basis as of June 30, 2012, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

| Level 1 | Level 2 | Level 3 |
|---------|---------|---------|
|---------|---------|---------|

| | | | | Liabilities at fair value | |
|--------------------------------|----|---|----|---------------------------------|--------------|
| Warrant liability | \$ | - | \$ | 2,185,068 | \$ 2,185,068 |
| Option liability | | - | | 419,832 | 419,832 |
| Conversion option liability | | - | | 1,957,383 | 1,957,383 |
| Total | \$ | - | \$ | 4,562,283 | \$ 4,562,283 |

The following is a reconciliation of the derivative liability for which Level 3 inputs were used in determining the approximate fair value:

| | |
|---|--------------|
| Beginning balance as of January 1, 2012 | \$ 1,908,470 |
| Reclassification of notes payable conversion option liability to equity | (20,046) |
| Fair value of common stock equivalents issued | 1,022,728 |
| Fair value of warrants extended | 842,100 |
| Change in fair value | 809,031 |
| Ending balance as of June 30, 2012 | \$ 4,562,283 |

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

FORWARD LOOKING STATEMENTS

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

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

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

Our ability to implement our business plan,

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

Our ability to employ and retain qualified management and employees,

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

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

Changes in the demand for our services,

The degree and nature of our competition,

The lack of diversification of our business plan,

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

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

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

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Critical Accounting Policy and Estimates

Use of Estimates in the Preparation of Financial Statements

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

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

(a) Warrants:

The Company values warrants using the Black-Scholes valuation model. Warrants are valued upon issuance, and re-valued at each financial statement reporting date. Any change in value is charged to income or expense during the period. The following table illustrates certain key information regarding our warrants and warrant valuation assumptions at June 30, 2012 and 2011:

| | June 30, | |
|--|--------------|----------------|
| | 2012 | 2011 |
| Number of warrants outstanding (post reverse-split) | 6,964,000 | 5,464,000 |
| Value at June 30, | \$ 2,185,068 | \$ 883,707 |
| Number of warrants issued during the period (post reverse-split) | 1,500,000 | - |
| Value of warrants issued during the period | \$ 572,777 | \$ - |
| Value of warrants extended during the period | \$ 842,100 | \$ - |
| Revaluation loss (gain) during the period | \$ 75,356 | \$ (154,789) |
| Black-Scholes model variables: | | |
| Volatility | 117.77 | |
| | -126.6 % | 92.52-110.66 % |
| Dividends | \$ - | \$ - |
| Risk-free interest rates | 0.41-1.11 % | 0.10-0.17 % |
| Term (years) | 2.9-1.11 | 0.48-2.75 |

(b) Embedded conversion features of notes payable:

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

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The Company values embedded conversion features utilizing the Black-Scholes valuation model. Conversion options are valued upon issuance, and re-valued at each financial statement reporting date. Any change in value is charged to income or expense during the period. The following table illustrates certain key information regarding our Conversion options and conversion option valuation assumptions at June 30, 2012 and 2011:

| | June 30, | |
|---|--------------|---------------|
| | 2012 | 2011 |
| Number of conversion options outstanding | 5,573,924 | 5,013,164 |
| Value at June 30 | \$ 1,957,383 | \$ 1,780,874 |
| Number of conversion options issued during the period | 1,200,000 | - |
| Value of conversion options issued during the period | \$ 263,664 | \$ - |
| Number of conversion options exercised or underlying notes paid during the period | - | 1,382,000 |
| Value of conversion options exercised or underlying notes paid during the period | \$ - | \$ 385,897 |
| Revaluation loss (gain) loss during the period | \$ 89,569 | \$ (188,075) |
| Black-Scholes model variables: | | |
| Volatility | 125.18% | 92.52-110.66% |
| Dividends | - | - |
| Risk-free interest rates | 0.17-0.41 % | 0.10-0.19 % |
| Term (years) | 2.9-10 | 10 |

(c) Stock options:

The Company accounts for options in accordance FASB ASC 718-40. Options are valued upon issuance, and re-valued at each financial statement reporting date, utilizing the Black-Scholes valuation model. Option expense is recognized over the requisite service period of the related option award. Any change in value is charged to income or expense during the period. The following table illustrates certain key information regarding our options and option assumptions at June 30, 2012 and 2011:

| | June 30, | |
|--|------------|------------|
| | 2012 | 2011 |
| Number of vested options outstanding | 1,570,000 | 1,270,000 |
| Value at June 30 | \$ 419,832 | \$ 272,146 |
| Number of options issued during the period | 600,000 | - |
| Value of options issued during the period | \$ 186,299 | - |
| Number of options recognized during the period pursuant to SFAS 123(R) | - | - |
| | \$ - | \$ - |

Value of options recognized during the period

pursuant to SFAS 123(R)

| | | |
|---|-----------|-------------|
| Revaluation loss (gain) during the period | \$ 16,763 | \$ (43,293) |
|---|-----------|-------------|

Black-Scholes model variables:

| | | |
|--------------------------|-------------|----------------|
| Volatility | 125.18% | 92.52-110.66 % |
| Dividends | \$ - | \$ - |
| Risk-free interest rates | 0.16-1.11 % | 0.10-0.17 % |
| Term (years) | 0.75 -4.85 | 0.39-4.75 |

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Background

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

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

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. The purchase price was primarily financed via a loan from Alpha Capital in the principal amount of \$1,200,000. Prior to the acquisition, Artisan was a vendor and had sold products to the Company.

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) Concentrations of Credit Risk in Note 2 to the Condensed Consolidated Financial Statements, and (3) as the fourth item under Risk Factors.

Relationship with U.S. Foods

In February 2010, our subsidiary, Food Innovations, signed a new contract with U.S. Foods (“USF”). This current contract with USF expires on December 31, 2012. The contract is automatically renews for an additional 12-month term unless either party notifies the other in writing 30 days prior to the end date of its intent not to renew. We believe that although a significant portion of our sales occurs through the USF sales force, the success of the program is less contingent on a contract than on the actual performance and quality of our products. Other than our business arrangements with USF, we are not affiliated with either USF or its subsidiary, Next Day Gourmet, L.P. (“Next Day Gourmet”).

RESULTS OF OPERATIONS

The following is a discussion of our financial condition and results of operations for the three and six months ended June 30, 2012 and 2011.

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 unaudited condensed consolidated financial statements, the notes thereto and other financial information included elsewhere in the report.

Three Months Ended June 30, 2012 Compared to Three Months Ended June 30, 2011

Revenue

Revenue increased by \$1,576,595 or approximately 56.8% to \$4,352,871 for the three months ended June 30, 2012 from \$2,776,276 in the prior three months ended June 30, 2011. The increase was attributable both to the acquisition of Artisan, as well as to increases in sales in existing parts of our business. The areas of increased sales included specialty items, produce, meat and game, cheese and seafood, and with a smaller increase in poultry products. We continue to assess the potential of new revenue sources from the manufacture and sale of proprietary food products and additional sales channel opportunities and will implement that strategy if, based on our analysis, we deem it beneficial to us.

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

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

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

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Cost of goods sold

Our cost of goods sold for the three months ended June 30, 2012 was \$3,160,614, an increase of \$1,121,906 or approximately 55.0% compared to cost of goods sold of \$2,038,708 for the three month ended June 30, 2011. The increase was due primarily to a corresponding growth in sales. Cost of goods sold is primarily made up of the following expenses for the three months ended June 30, 2012: cost of good of specialty, meat, game, cheese poultry and other sales categories in the amount of \$2,075,280 ; and shipping expenses in the amount of \$682,538. The cost of goods sold increase is mainly associated with an increase in sales.

In 2012, we continued to aggressively price our products in order to gain market share and increase the number of our end users. We were successful in doing so and increased the number of our end users for the quarter by approximately 3% to more than 12,000 end users for the first quarter compared to the second quarter of 2011 . We currently expect if market conditions remain constant that our cost of goods sold will stabilize and likely improve compared to first half of 2012.

In 2012, we continued to aggressively price our products in order to gain market share and increase the number of our end users. We were successful in doing so and increased the number of our end users for the quarter by approximately 3% to more than 12,000 end users for the first quarter. We currently expect if market conditions remain constant that our cost of goods sold will stabilize and likely remain at historical levels in the first half of 2012.

Selling, general and administrative expenses

Selling, general, and administrative expenses increased by \$649,015 or approximately 137.2%, to \$1,122,172 during the three months ended June 30, 2012 compared to \$473,157 for the three months ended June 30, 2011. The increase was due primarily to the costs associated with the acquisition of Artisan and additional operational Selling, general, and administrative expenses related to the operations of Artisan. Selling, general and administrative expenses were primarily made up of the following for the three months ended June 30, 2012: payroll and related expenses, including employee benefits, in the amount of \$455,560; consulting and professional fees in the amount of \$189,748; insurance costs in the amount of \$42,348; facilities and related expenses in the amount of \$45,720; advertising expenses in the amount of \$27,984; travel and entertainment expenses in the amount of \$25,691; commissions expense in the amount of \$17,920; cost of options, including the fair value of options issued and the change in fair value of the option liability in the amount of \$203,062; bad debt expense in the amount of \$14,094; office expense in the amount of \$17,688; and computer support expenses in the amount of \$32,662. . We expect our legal fees to slightly increase in 2012 and our accounting fees in 2012 to remain constant. We do however expect to increase our spending on advertising and marketing and web development fees in 2012.

Interest expense

Interest expense decreased by \$157,314, or approximately 74.9%, from \$209,996 during the three months ended June 30, 2011 to \$52,682 for the three months ended June 30, 2012. Interest expense decreased during the three months ended June 30, 2012 as compared to the three months ended June 30, 2011 as the result of the settlement of notes payable that occurred in the year ended December 31, 2011. Interest expense is expected to increase due to an increase in notes payable, and the amortization of the discount on notes payable.

Loss from change in fair value of warrant liability

At June 30, 2012, the Company had outstanding warrants to purchase an aggregate of 6,964,000 shares of the Company's common stock. The Company revalued this warrant liability at June 30, 2012 at \$2,185,058. This revaluation resulted in a loss of \$75,356 which the Company charged to operations during the three months ended June 30, 2012. This is an increase of \$230,145 or approximately 148.7% compared to a gain of \$154,789 from the

revaluation of the warrant liability which the Company recorded during the three months ended June 30, 2011.

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

At June 30, 2012 the Company had outstanding a liability to issue an aggregate of 5,573,924 shares of the Company's common stock pursuant to convertible notes payable. The Company revalued this liability at June 30, 2012 at \$1,957,383. This revaluation resulted in a loss of \$89,569, which the Company included in operations for the three months ended June 30, 2012. This is an increase of \$277,644 or approximately 147.6% compared to a gain of \$188,075 from the revaluation of the conversion option liability which the Company recorded during the three months ended June, 30 2011.

Net Income (loss)

For the reasons above, the Company had a net loss for the three months ended June 30, 2012 of \$989,622, a decrease of \$1,552,226 compared to a net income of \$562,604 during the three months ended June 30, 2011.

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Six Months Ended June 30, 2012 Compared to Six Months Ended June 30, 2011

Revenue

Revenue increased by \$2,390,372 or approximately 45% to \$7,638,178 for the six months ended June 30, 2012 from \$5,247,806 in the prior six months ended June 30, 2011. The increase was due both to the acquisition of Artisan and to increases in sales from our existing parts of our business. There were significant increases in sales of specialty items, produce, meat and game, cheese and seafood, and with a smaller increase in poultry products. We continue to assess the potential of new revenue sources from the manufacture and sale of proprietary food products and additional sales channel opportunities and will implement that strategy if, based on our analysis, we deem it beneficial to us.

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

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

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

Cost of goods sold

Our cost of goods sold for the six months ended June 30, 2012 was \$5,772,596, an increase of \$1,841,746 or approximately 46.9% compared to cost of goods sold of \$3,930,850 for the six months ended June 30, 2011. The increase was due primarily to a corresponding growth in sales and to a focus on gaining market share in certain of our product lines. Cost of goods sold is primarily made up of the following expenses for the six months ended June 30, 2012: cost of goods of specialty, meat, game, cheese poultry and other sales categories in the amount of \$3,896,249; and shipping expenses in the amount of \$1,368,645. The gross margin increased in 2012 as compared to 2011 due to the acquisition of Artisan Specialty Foods partially offset by the company's strategy of pursuing market share in certain product lines.

In 2012, we continued to aggressively price our products in order to gain market share and increase the number of our end users. In 2012, we continued to aggressively price our products in order to gain market share and increase the number of our end users. We were successful in doing so and increased the number of our end users for the six months ending June 30, 2012 by approximately 5% to more than 15,000 versus the six months ending June 30, 2011. We currently expect if market conditions remain constant that our cost of goods sold will stabilize and likely improve compared to the first half of 2012.

Selling, general and administrative expenses

Selling, general, and administrative expenses increased by \$853,090 or approximately 91.9%, to \$1,781,809 during the six months ended June 30, 2012 compared to \$928,719 for the six months ended June 30, 2011. The increase was due primarily to the costs associated with the acquisition of Artisan and additional operational selling, general, and administrative expenses related to the operations of Artisan. Selling, general and administrative expenses were primarily made up of the following for the six months ended June 30, 2012: payroll and related expenses, including

employee benefits, in the amount of \$805,421; consulting and professional fees in the amount of \$270,023; options expense, including the fair value of options issued and the change in fair value of the option liability in the amount of \$257,649; insurance costs in the amount of \$67,167; facilities and related expenses in the amount of \$73,826; travel and entertainment expenses in the amount of \$46,821; commissions expense in the amount of \$40,958; office expense in the amount of \$43,340; computer support expenses in the amount of \$56,375; and advertising expenses in the amount of \$38,044. We expect our legal fees to slightly increase in 2012 and our accounting fees in 2012 to remain constant. We do however expect to increase our spending on advertising and marketing and web development fees in 2012.

Interest expense

Interest expense decreased by \$287,348 , or approximately 74%, from \$386,099 during the six months ended June 30, 2011 to \$98,751 for the six months ended June 30, 2012. Interest expense decreased during the six months ended June 30, 2012 as compared to the six months ended June 30, 2011 as the result of the settlement of notes payable that occurred in the year ended December 31, 2011. Interest expense is expected to increase due to an increase in notes payable, and the amortization of the discount on notes payable.

Loss from change in fair value of warrant liability

At June 30, 2012, the Company had outstanding warrants to purchase an aggregate of 6,964,000 shares of the Company's common stock. The Company revalued this warrant liability at June 30, 2012 at \$2,185,058. This revaluation resulted in a loss of \$269,177 which the Company charged to operations during the six months ended June 30, 2012. This is an increase of \$568,645 or approximately 189.9% compared to a gain of \$299,468 from the revaluation of the warrant liability which the Company recorded during the six months ended June 30, 2011.

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

At June 30, 2012 the Company had outstanding a liability to issue an aggregate of 5,573,924 shares of the Company's common stock pursuant to convertible notes payable. The Company revalued this liability at June 30, 2012 at \$1,957,383. This revaluation resulted in a loss of \$468,004, which the Company included in operations for the six months ended June 30, 2012. This is an decrease of \$733,805 or approximately 276.1% compared to a gain of \$265,801 from the revaluation of the conversion option liability which the Company recorded during the six months ended June, 30 2011.

Net Income (loss)

For the reasons above, the Company had a net loss for the six months ended June 30, 2012 of \$1,594,259, a decrease of \$2,326,991 compared to a net income of \$732,732 during the six months ended June 30, 2011.

Liquidity and Capital Resources

As of June 30, 2012, the Company had current assets of \$2,166,161 consisting of cash of \$688,655, trade accounts receivable of \$1,059,019, inventory of \$404,737, and other current assets of \$13,753. Also at June 30, 2012, the Company had current liabilities of \$7,354,636, consisting of accounts payable and accrued liabilities of \$1,481,304 (of which \$75,280 is payable to a related party); accrued interest of \$678,935; accrued interest – related parties of \$34,602; current portion of notes payable, net of discounts of \$336,012; current portion of notes payable – related parties, net of discounts of \$130,500; warrant liability of \$2,185,068; option liability of \$419,832; conversion option liability of \$1,957,383; and contingent liability of \$131,000.

During the six months ended June 30, 2012, the Company had cash used in operating activities of \$27,203. This consisted of the Company's net loss of \$1,594,259, offset by charges to operations \$14,584 for depreciation and amortization, \$1,308 for the amortization of the discount on notes payable, \$43,863 for the amortization of the discount on accrued convertible interest, \$269,177 loss for the revaluation of the warrant liability, \$468,004 loss for the revaluation of the conversion option liability, and a \$71,351 loss for the revaluation of the option liability; \$186,299 for the fair value of options issued to officers and directors, and \$842,100 for the cost of extending the term of certain warrants outstanding. The Company's results also reflect an increase in working capital deficiency of \$1,798,462.

The Company had cash provided by financing activities of \$1,059,716 in 2012, which consisted primarily of proceeds from issuance of a note payable in the amount \$1,080,000, offset by principal payments on debt of \$20,284.

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

The Company's current liabilities exceeded its current assets by \$5,188,475 as of June 30, 2012. By adjusting its operation and development to the level of available resources, management believes it has sufficient capital resources to meet projected cash flow through the next twelve months. The Company also intends to focus on increasing market share and cash flow from operations by focusing its sales activities on specific market segments and new product lines as well as the completion of the integration of IT and systems at Artisan. However, if thereafter, the Company is not successful in generating sufficient liquidity from operations or in raising sufficient capital resources, on terms acceptable to us, this could have a material adverse effect on our business, results of operations, liquidity and financial condition. Currently, we do not have any material long-term obligations other than those described in Note 10 to the financial statements included in this report. As we seek to increase our sales of perishables, as well as identify new and other consumer oriented products and services, we may use existing cash reserves, long-term financing, or other

means to finance such diversification.

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

In any of these events, the Company may be unable to implement its current plans for expansion, repay its debt obligations as they become due or respond to competitive pressures, any of which circumstances would have a material adverse effect on its business, prospects, financial condition and results of operations. The Company has not made any adjustments to the financial statements which would be necessary should the Company not be able to continue as a going concern.

The independent auditors' reports on our December 31, 2011 and 2010 financial statements included in our Annual Report on Form 10-K for the two years then ended states that our working capital deficiency raises substantial doubts about our ability to continue as a going concern.

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.

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RISK FACTORS

The Company's business and success is subject to numerous risk factors as detailed in its Annual Report on Form 10-K for the year ended December 31, 2011 which is available at no cost at www.sec.gov.

ITEM 4 - CONTROLS AND PROCEDURES

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

(a) Evaluation of disclosure controls and procedures

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

(b) Changes in internal control over financial reporting

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

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

31.1 Section 302 Certification

31.2 Section 302 Certification

32.1 Section 906 Certification

32.2 Section 906 Certification

101.INS* XBRL Instance Document

101.SCH* XBRL Taxonomy Extension Schema

101.CAL* XBRL Taxonomy Extension Calculation Linkbase

101.DEF* XBRL Taxonomy Extension Definition Linkbase

101.LAB* XBRL Taxonomy Extension Label Linkbase

101.PRE* XBRL Taxonomy Extension Presentation Linkbase

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

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SIGNATURES

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

| SIGNATURE | TITLE | DATE |
|---------------------------------------|--------------------------------|-----------------|
| /s/Sam Klepfish Sam Klepfish | Chief Executive Officer | August 20, 2012 |
| /s/ John McDonald John McDonald | Principal Financial Officer | August 20, 2012 |

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