

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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended
December 31, 2018

OR

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

COMMISSION FILE NUMBER: 0-9376

INNOVATIVE FOOD HOLDINGS, INC.

(Exact Name of Registrant as Specified in Its Charter)

FLORIDA

(State or Other Jurisdiction of Incorporation or Organization)

20-1167761

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

28411 Race Track Rd.

Bonita Springs, Florida 34135

(Address of Principal Executive Offices)

(239) 596-0204

(Registrant's telephone number, including area code)

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

NONE

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

COMMON STOCK, \$0.0001 PAR VALUE PER SHARE

(Title of class)

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

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

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

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

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

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

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

INNOVATIVE FOOD HOLDINGS, INC.

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FORWARD LOOKING INFORMATION

MAY PROVE INACCURATE

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

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PART I

ITEM 1. Business

Our History

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

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

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

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

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

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

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

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

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

Our Operations

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

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

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

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

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

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

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

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

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

Our Products

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

Some of the items we sell include:

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

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

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

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

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

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

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

Customer Service and Logistics

Our foodservice focused, live chef-driven customer service department is available by telephone Monday through Thursday, from 8 a.m. to 6 p.m. and on Friday from 8 a.m. to 5 p.m., Florida time. Our consumer-focused multi-lingual, customer care specialists are available by live chat and telephone Monday through Thursday, from 9 a.m. to 7:00 pm (ET), and on Friday from 9:00 am to 5 pm (ET). Our team is available and can be contacted 7 days a week via email and on social media platforms. The customer service departments are made up of a team of chefs and culinary experts, including a team of culinary trained chefs, who are full-time employees of the Company, and who are experienced in all aspects of perishable and specialty products. By employing chefs and culinary experts to handle customer service, we are able to provide our customers with extensive information about our products, including:

Flavor profile and eating qualities

Recipe and usage ideas

Origin, seasonality, and availability

Cross utilization ideas and complementary uses of products

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

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Relationship with U.S. Foods

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

Growth Strategy

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

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

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

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

We anticipate attempting to grow our business through:

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

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

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

Competition

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

Insurance

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

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

Government Regulation

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

Employees

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

Transactions with Major Customers

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

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How to Contact Us

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

ITEM 1A. Risk Factors

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

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

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

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

substantially dependent upon the efforts of the USF sales force. Although we have generated revenues from additional customers other than USF, if our relationship with USF were to be materially changed and we are unable to generate substantial new sales to offset such loss, we may be forced to significantly curtail our operations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The U.S. Congress has enacted legislation that significantly reforms the Internal Revenue Code of 1986, as amended. The new legislation, among other things, includes changes to U.S. federal tax rates, imposes significant additional limitations on the deductibility of interest and net operating losses, and allows for the expensing of certain capital expenditures. Our net deferred tax assets and liabilities will be revalued at the newly enacted U.S. corporate rate, and the impact will be recognized in our tax expense in the year of enactment. We have adjusted our deferred tax assets and liabilities at December 31, 2018, using the new corporate rate of 21 percent; however, we base our estimates on historical experience and on various other assumptions that are believed to be reasonable in the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. It is possible that the application of these new rules may have a material and adverse impact on our operating results, cash flows and financial condition. Furthermore, the recent Supreme Court Ruling in *South Dakota V. Wayfair, Inc.*, in which the Court upheld South Dakota's economic nexus law, which requires companies to collect sales tax when their sales or the number of transactions with the state exceed certain thresholds, could have an adverse impact on our business. In addition, any other changes to applicable tax laws, whether on a federal or state level, could also decrease our ability to compete with traditional retailers, and otherwise harm our business.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

our business.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ITEM 2. Properties

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

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

ITEM 3. Legal Proceedings

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

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

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

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

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

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

ITEM 4. Mine Safety Disclosure

Not Applicable.

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

Prices for our common stock are quoted on the OTCQB. Since March 2004, our common stock has traded under the symbol “IVFH”. Prior thereto, our common stock traded under the symbol “FBSN”. 36,427,354 shares of our common stock were outstanding as of April 12, 2019. The following table sets forth the high and low closing sales prices of our common stock as reported in the OTCQB for each full quarterly period within the two most recent fiscal years.

| Fiscal Year Ending December 31, 2018 | HIGH | LOW |
|---|-------------|------------|
| First Quarter | \$ 1.23 | \$ 1.01 |
| Second Quarter | 1.05 | 0.75 |
| Third Quarter | 0.77 | 0.53 |
| Fourth Quarter | 0.67 | 0.45 |

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

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

Security Holders

On April 12, 2019, there were approximately 53 record holders of our common stock. In addition, we believe there are at least several hundred additional beneficial owners of our common stock whose shares are held in “street name.”

Dividends

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

Recent Sales and Other Issuances of Our Equity Securities

During the twelve months ended December 31, 2018, the Company had the following previously unreported transactions:

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

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

Index**Dilutive Securities**December 31, 2018

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

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

December 31, 2017

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

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

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

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

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

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

ITEM 6. Selected Financial Data

Not Applicable.

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

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

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

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

Our ability to implement our business plan,

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

Our dependence on one major customer,

Our ability to employ and retain qualified management and employees,

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

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

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

The degree and nature of our competition,

The lack of diversification of our business plan,

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

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

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

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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. Accounts subject to estimate and judgements are accounts receivable reserves, income taxes, intangible assets, contingent liabilities, and equity based instruments. Actual results may differ from these estimates under different assumptions or conditions. We believe our estimates have not been materially inaccurate in past years, and our assumptions are not likely to change in the foreseeable future.

(a) Warrants:

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

(b) Embedded conversion features of notes payable:

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

(c) Stock options:

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

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

Black-Scholes model variables:

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

Doubtful Accounts Receivable

The Company maintained an allowance in the amount of \$155,176 for doubtful accounts receivable at December 31, 2018, and \$63,267 at December 31, 2017. The Company has an operational relationship of several years with our major customers, and we believe this experience provides us with a solid foundation from which to estimate our expected losses on accounts receivable. Should our sales mix change or if we develop new lines of business or new customers, these estimates and our estimation process will change accordingly. These estimates have been accurate in the past.

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Fair Value of Financial Instruments

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

Income Taxes

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

Background

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

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

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

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

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

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

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

Transactions With a Major Customer

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

RESULTS OF OPERATIONS

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

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

Revenue

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

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

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

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

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

Cost of goods sold

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

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

Selling, general, and administrative expenses

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

Interest expense, net

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

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Income Tax Expense

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

Net income

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

Liquidity and Capital Resources at December 31, 2018

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

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

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

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

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

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

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

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

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2019 Plans

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

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

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

Off-Balance Sheet Arrangements

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

Inflation

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

Transactions with Major Customers

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

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ITEM 8. Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of

Innovative Food Holdings, Inc.

Opinion on the Financial Statements

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

Basis for Opinion

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

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

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

/s/ Liggett & Webb, P.A.

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

New York, NY

April 16, 2019

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

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

See notes to consolidated financial statements.

Index**Innovative Food Holdings, Inc.****Consolidated Statements of Operations**

| | For the Twelve Months Ended December 31, 2018 | For the Twelve Months Ended December 31, 2017 |
|---|--|--|
| Revenue | \$52,925,526 | \$41,244,717 |
| Cost of goods sold | 36,841,530 | 27,619,026 |
| Gross margin | 16,083,996 | 13,625,691 |
| Selling, general and administrative expenses | 14,128,662 | 8,936,709 |
| Total operating expenses | 14,128,662 | 8,936,709 |
| Operating income | 1,955,334 | 4,688,982 |
| Other income (expense): | | |
| Gain on settlement of contingent liability | (11,000) | - |
| Interest expense, net | 115,435 | 159,720 |
| Total other expense | 104,435 | 159,720 |
| Net income before taxes | 1,850,899 | 4,529,262 |
| Income tax expense | 155,000 | - |
| Net income | \$1,695,899 | \$4,529,262 |
| Net income per share - basic | \$0.05 | \$0.15 |
| Net income per share - diluted | \$0.05 | \$0.15 |
| Weighted average shares outstanding - basic | 33,983,620 | 29,846,136 |
| Weighted average shares outstanding - diluted | 33,983,620 | 29,969,699 |

See notes to consolidated financial statements.

Index**Innovative Food Holdings, Inc.****Consolidated Statements of Cash Flows**

| | For the Twelve Months Ended December 31, 2018 | For the Twelve Months Ended December 31, 2017 |
|---|--|--|
| Cash flows from operating activities: | | |
| Net income | \$ 1,695,899 | \$ 4,529,262 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 1,082,224 | 533,473 |
| Stock based compensation | 67,405 | 439,774 |
| Provision for doubtful accounts | 5,099 | - |
| Gain on settlement of contingent liability | (11,000) | - |
| Amortization of discount on notes payable | - | 185,018 |
| Changes in assets and liabilities: | | |
| Accounts receivable, net | (821,735) | - |
| Inventory and other current assets, net | (1,246,310) | (154,266) |
| Accounts payable and accrued liabilities | 1,530,476 | (1,544,749) |
| Deferred revenue | 328,145 | (504,110) |
| Contingent liabilities | (69,424) | - |
| Accrued liabilities - related party | - | (65,000) |
| Net cash provided by operating activities | 2,560,779 | 3,419,402 |
| Cash flows from investing activities: | | |
| Cash related to the igourmet asset acquisition | (2,494,965) | - |
| Cash related to the Mouth Foods asset acquisition | (208,355) | - |
| Acquisition of property and equipment | (480,582) | (49,845) |
| Cash paid in the acquisition of Oasis | - | (300,000) |
| Investment in food related company | (138,000) | (325,500) |
| Net cash used in investing activities | (3,321,902) | (675,345) |
| Cash flows from financing activities: | | |
| Purchase of stock options from officers, directors, and employees | (167,000) | (163,925) |
| Common stock sold for exercise of warrants | - | 196,741 |
| Cash received from exercise of stock options | 35,000 | 105,000 |
| Cash paid in settlement of contingent liability - Oasis acquisition | (189,000) | - |
| Borrowings on term loan | 1,500,000 | - |
| Proceeds from line of credit | 391,558 | - |

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| | | |
|--|----------------|--------------------|
| Purchase of treasury stock | (24,057) | (505,660) |
| Principal payments on debt | (1,147,533) | (997,544) |
| Principal payments capital leases | (11,463) | (9,287) |
| Net cash provided by (used in) financing activities | 387,505 | (1,374,675) |
| | | |
| (Decrease) increase in cash and cash equivalents | (373,618) | 1,369,382 |
| | | |
| Cash and cash equivalents at beginning of year | 5,133,435 | 3,764,053 |
| | | |
| Cash and cash equivalents at end of year | \$4,759,817 | \$5,133,435 |

Supplemental disclosure of cash flow information:

Cash paid during the year for:

| | | |
|----------|-----------|----------|
| Interest | \$122,232 | \$74,341 |
| Taxes | \$155,000 | \$- |

Non-cash investing and financing activities:

| | | |
|--|-----------|-----------|
| Common stock issued for conversion of note payable by related party | \$- | \$164,650 |
| Issuance of 200,000 shares of common stock pursuant to structured equity agreement | \$- | \$200,000 |
| Capital lease for purchase of fixed assets | \$179,675 | \$- |

See notes to consolidated financial statements.

Index**Innovative Food Holdings, Inc.****Consolidated Statements of Stockholders' Equity**

| | December 31, Common Stock Amount | Value | Common Stock Subscribed | APIC | Treasury stock Amount | Value | Accum Deficit | Total |
|---|---|--------------|--|--------------|----------------------------------|--------------|--------------------------|--------------|
| Balance at December 31, 2016 | 25,301,809 | \$2,528 | \$ - | \$33,974,470 | 519,254 | \$(174,949) | \$(31,182,697) | \$2,619,352 |
| Issuance of comm stock for exercise of warrants | 499,421 | 49 | - | 196,692 | - | - | - | 196,741 |
| Purchase of stock options from employees, officers, and directors | - | - | - | (163,925) | - | - | - | (163,925) |
| Issuance of common stock to employees | 2,480,392 | 248 | - | (25,991) | - | - | - | (25,743) |
| Issuance of shares for conversion of notes payable and accrued interest | 5,285,027 | 529 | - | 1,319,928 | - | - | - | 1,320,457 |
| Vesting of restricted stock units issued to employees, officers, and directors | - | - | - | 240,208 | - | - | - | 240,208 |
| Acquisition of treasury shares | - | - | - | 311,704 | 1,757,450 | (817,364) | - | (505,660) |

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| | | | | | | | | |
|---|------------|-------|---|------------|-----------|------------|--------------|------------|
| Fair value of vested stock options issued to employees | - | - | - | 38,847 | - | - | - | 38,847 |
| Common stock issued for the exercise of options | 300,000 | 30 | - | 104,970 | - | - | - | 105,000 |
| Common stock issued for cashless exercise of warrants | 943,860 | 94 | - | (94) | - | - | - | - |
| Issuance of restricted stock awards to employees, officers, and directors | 1,070,000 | 107 | - | (107) | - | - | - | - |
| Issuance of common stock pursuant to structured equity agreement | 200,000 | 20 | - | 199,980 | - | - | - | 200,000 |
| Net income for the twelve months ended December 31, 2017 | - | - | - | - | - | - | 4,529,262 | 4,529,262 |
| Balance at December 31, 2017 | 36,080,519 | 3,605 | - | 36,196,682 | 2,276,703 | (992,313) | (26,653,435) | 8,554,539 |
| Common stock issued for the exercise of options | 100,000 | 10 | - | 34,990 | - | - | - | 35,000 |
| Purchase of stock options from employees, officers, and directors | 115,699 | 12 | - | (167,012) | - | - | - | (167,000) |

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| | | | | | | | | |
|---|------------|---------|------|--------------|-----------|---------------|----------------|--------------|
| Treasury stock acquired | - | - | - | - | 96,468 | (24,057) | - | (24,057) |
| Fair value of vested stock and stock options issued to management | - | - | - | 67,405 | - | - | - | 67,405 |
| Net income for the twelve months ended December 31, 2018 | - | - | - | - | - | - | 1,695,899 | 1,695,899 |
| Balance at December 31, 2018 | 36,296,218 | \$3,627 | \$ - | \$36,132,065 | 2,373,171 | \$(1,016,370) | \$(24,957,536) | \$10,161,786 |

See notes to consolidated financial statements.

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INNOVATIVE FOOD HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2018 and 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business Activity

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

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

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

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

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

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

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

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

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

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Use of Estimates

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

Principles of Consolidation

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

Revenue Recognition

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

For revenue from product sales, the Company recognizes revenue in accordance with Financial Accounting Standards Board "FASB" Accounting Standards Codification "ASC" 606. A five-step analysis a must be met as outlined in Topic 606: (i) identify the contract with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations, and (v) recognize revenue when (or as) performance obligations are satisfied.. Provisions for discounts and rebates to customers, estimated returns and allowances, and other adjustments are provided for in the same period the related sales are recorded. The Company defers any revenue for which the product has not been delivered or is subject to refund until such time that the Company and the customer jointly determine that the product has been delivered or no refund will be required. Adoption of ASC 606 had no material affect on the Company's financial statements.

Disaggregation of Revenue

The following table represents a disaggregation of revenue by from sales for the years ended December 31, 2018 and 2017:

| | Year Ended December 31, | |
|---------------------------|------------------------------------|--------------|
| | 2018 | 2017 |
| Specialty food service | \$41,713,775 | \$38,533,540 |
| Ecommerce | 9,038,357 | 518,774 |
| National Brand Management | 2,173,394 | 2,192,403 |
| Total | \$52,925,526 | \$41,244,717 |

Cost of goods sold

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

Selling, general, and administrative expenses

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

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Cash and Cash Equivalents

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

Accounts Receivable

The Company provides an allowance for doubtful accounts equal to the estimated uncollectible amounts. The Company's estimate is based on historical collection experience and a review of the current status of trade accounts receivable. It is reasonably possible that the Company's estimate of the allowance for doubtful accounts will change. Accounts receivable are presented net of an allowance for doubtful accounts of \$155,176 and \$63,267 at December 31, 2018, and 2017, respectively.

Property and Equipment

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

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

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

Inventories

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

Deferred Revenue

Certain customer arrangements in the Company's business such as gift cards and "Of the Month Club" purchases result in deferred revenues when cash payments are received in advance of performance. Gift cards are issued by the Company do not have expiration dates. The Company records a liability for unredeemed gift cards and advance payments for monthly club memberships, as cash is received, and the liability is reduced when the card is redeemed or product shipped.

The following table represents the changes in deferred revenue as reported on the Company's consolidated balance sheets:

| | |
|---|-----------|
| Balance acquired as of January 23, 2018 | \$231,169 |
| Cash payments received | 603,109 |
| Net sales recognized | (274,963) |
| Balance as of December 31, 2018 | \$559,315 |

Income Taxes

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

Fair Value of Financial Instruments

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

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

Long-Lived Assets

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

Comprehensive Income

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

Cost Method Investments

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

Basic and Diluted Income Per Share

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

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

Dilutive shares at December 31, 2018:

Convertible notes and interest

At December 31, 2018 there were no convertible notes outstanding.

Warrants

At December 31, 2018 there are no warrants outstanding.

IndexStock Options

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

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

In 2018, an aggregate of 115,941 shares were issued upon the option exercises in December 2017 described below.

RSUs

During the twelve months ended December 31, 2017, the Company cancelled all outstanding restricted stock units ("RSUs") and replaced them with common stock or restricted stock awards; see note 15.

At December 31, 2018, there are no RSUs outstanding.

Restricted Stock Awards

No Restricted stock awards vested in 2018. At December 31, 2018 there are an additional 300,000 unvested restricted stock awards remaining from grants in a prior year. Those 300,000 restricted stock awards will vest as follows: 125,000 restricted stock awards will vest contingent upon the attainment of a stock price of \$2.00 per share for 20 straight trading days, and an additional 175,000 restricted stock awards will vest contingent upon the attainment of a stock price of \$3.00 per share for 20 straight trading days.

Dilutive shares at December 31, 2017:

Convertible notes and interest

At December 31, 2017 there were no convertible notes outstanding.

Warrants

At December 31, 2017 there are no warrants outstanding.

IndexStock Options

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

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

RSUs

During the twelve months ended December 31, 2017, the Company cancelled all outstanding restricted stock units ("RSUs") and replaced them with common stock or restricted stock awards; see note 15.

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

We recognized stock-based compensation expense for RSUs in a straight-line manner over the vesting period of the grant. This resulted in stock-based compensation expense of \$0 for RSUs during the year ended December 31, 2017.

Restricted Stock Awards

During the year ended December 31, 2017, the Company cancelled unvested RSUs representing 1,370,000 shares of common stock and replaced them with restricted stock awards also representing 1,370,000 shares of common stock. The restricted stock awards vested over the same vesting period and under the same terms as the RSUs they replaced. Restricted stock awards representing 1,070,000 shares were vested at December 31, 2017; there are a total of 300,000 unvested restricted stock awards remaining. Those 300,000 restricted stock awards will vest as follows: 125,000 restricted stock awards will vest contingent upon the attainment of a stock price of \$2.00 per share for 20 straight trading days, and an additional 175,000 restricted stock awards will vest contingent upon the attainment of a stock price of \$3.00 per share for 20 straight trading days. During the year ended December 31, 2017, the Company recognized expense of \$240,208 for the vesting of restricted stock awards, the same amount of expense that would have been recognized had the RSUs not been replaced by the restricted stock awards.

Concentrations of Credit Risk

Financial instruments and related items, which potentially subject the Company to concentrations of credit risk, consist primarily of cash, cash equivalents and trade receivables. The Company places its cash and temporary cash in investments with credit quality institutions. At December 31, 2018 and 2017, the Company had cash deposits in excess of applicable government mandated insurance limits in the amount of \$3,180,000 and \$3,470,000, respectively. At December 31, 2018 and 2017, trade receivables from the Company's largest customer amounted to 39% and 48%, respectively, of total trade receivables.

IndexStock-based Compensation

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

Options expense charged to operations during the twelve months ended December 31, 2018 and 2017 are summarized in the table below:

| | December 31, | |
|--|---------------------|-------------|
| | 2018 | 2017 |

| | | |
|----------------|----------|----------|
| Option expense | \$19,098 | \$38,847 |
|----------------|----------|----------|

During the year ended December 31, 2018, the Company also granted 146,000 shares of restricted stock to an employee with the following vesting terms: 33,334 shares vest on December 31, 2019; 33,333 shares vest on December 31, 2020; and 33,333 shares vest on December 31, 2021. These shares were valued at the market price of \$0.54 on the date of the grant. A total of \$3,779 was charged to operations during the year ended December 31, 2018. During the year ended December 31, 2018, the Company also granted 46,000 restricted shares of restricted common stock to an officer and board member which vested December 31, 2018. The Company valued these shares at the market price of \$0.97 at the date of the grant, and charged the amount of \$44,528 to operations during the year ended December 31, 2018.

Reclassifications

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

New Accounting Pronouncements

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

February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842): Accounting for Leases. This update requires that lessees recognize right-of-use assets and lease liabilities that are measured at the present value of the future lease payments at lease commencement date. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee will largely remain unchanged and shall continue to depend on its classification as a finance or operating lease. We have performed a comprehensive review in order to determine what changes were required to support the adoption of this new standard. We will adopt the ASU and related amendments on January 1, 2019 and expects to elect certain practical expedients permitted under the transition guidance. We will elect the optional transition method that allows for a cumulative-effect adjustment in the period of adoption and will not restate prior periods. Under the new guidance, the majority of our leases will continue to be classified as operating. During the first quarter of 2019, we will complete our implementation of our processes and policies to support the new lease accounting and reporting requirements. Based on our lease portfolio as of January 1, 2019, we preliminarily estimate the impact of adoption ASU 2016-02 to increase both our total assets and total liabilities in the range of \$500,000 to \$700,000. The adoption of this ASU is not expected to have a significant impact on our Consolidated Statements of Operations or Cash Flows. We continue to finalize the implementation of the new processes and the assessment of the impact of this adoption on our consolidated financial statements; therefore, the preliminary estimated impacts disclosed can change, and the final impact will be known once the adoption is completed during the first quarter of 2019.

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

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

2. ACQUISITIONS

Mouth Foods, Inc.

Effective July 6, 2018, M Innovations acquired certain assets of Mouth Foods, Inc. (“Mouth”) from MFI (assignment for the benefit of creditors), LLC (“MFI”), the assignee of Mouth’s assets in connection with a Delaware assignment proceeding, pursuant to the terms of an Asset Purchase Agreement (“MFI APA”). The MFI APA was accounted for as an acquisition of an ongoing business in accordance with ASC Topic 805 - Business Combinations (“ASC 805”), where the Company was treated as the acquirer and the acquired assets and assumed liabilities were recorded by the Company at their preliminary estimated fair values. Mouth, was a privately held New York company operating out of Brooklyn, was an expert curator and online retailer of high quality specialty foods from small-batch makers in the US.

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

The acquisition date estimated fair value of the consideration transferred totaled \$513,355. During the year ended December 31, 2018, the Company changed the original allocation of the purchase price among the assets acquired.

The reallocated purchase price consisted of the following:

| | |
|---|-----------|
| Cash | \$208,355 |
| Contingent liability – payable to debt holder | 185,000 |
| Contingent liabilities – payable to sellers | 100,000 |
| Additional Contingent Liabilities | 20,000 |
| Total purchase price | \$513,355 |
| | |
| Tangible assets acquired | \$57,000 |
| Intangible assets acquired | 419,926 |
| Goodwill acquired | 36,429 |
| Total purchase price | \$513,355 |

The above estimated fair value of the intangible assets is based on a preliminary purchase price allocation prepared by management. As a result, during the preliminary purchase price allocation period, which may be up to one year from the business combination date, we may record adjustments to the assets acquired and liabilities assumed, with a corresponding offset to goodwill. After the preliminary purchase price allocation period, we record adjustments to assets acquired or liabilities assumed subsequent to the purchase price allocation period in our operating results in the period in which the adjustments were determined. During the year ended December 31, 2018, the Company amortized the amount of \$26,262 in connection with the intangible assets and recorded depreciation in the amount of \$3,666 in connection with the tangible assets above.

IndexiGourmet, LLC

The iGourmet Asset Purchase Agreement effective January 23, 2018 (the “iGourmet APA”) was accounted for as an acquisition of an ongoing business in accordance with ASC Topic 805 - Business Combinations (“ASC 805”), where the Company was treated as the acquirer and the acquired assets and certain liabilities not purchased or assumed by Innovative Gourmet, which under certain circumstances, Innovative Gourmet may determine to pay, were recorded by the Company at their preliminary estimated fair values.

The consideration for and in connection with the iGourmet APA consisted of: (i) \$1,500,000, which satisfied or reduced secured, priority and administrative debt of sellers; (ii) in connection with and prior to the acquisition, our wholly-owned subsidiary, Food Funding, funded advances of \$325,500 to sellers on a secured basis, pursuant to certain loan documents and as bridge loans, which loans were reduced by the proceeds of the iGourmet APA; (iii) the purchase for \$200,000 of certain debt owed by sellers, to be paid out of, if available, Innovative Gourmet’s cash flow; (iv) potential contingent liability allocation for a percentage of sellers’ approximately \$2,300,000 of certain debt, not purchased or assumed by Innovative Gourmet, which under certain circumstances, Innovative Gourmet may determine to pay; and (v) additional purchase price consideration of (a) up to a maximum of \$1,500,000, if EBITDA of Innovative Gourmet reaches \$800,000 thousand in 2018, (b) up to a maximum of \$1,750,000, if EBITDA of Innovative Gourmet in 2019 exceeds its EBITDA in 2018 by at least 20% and if its EBITDA reaches \$5,000,000; and (c) up to a maximum of \$2,125,000, if EBITDA of Innovative Gourmet in 2020 exceeds its EBITDA in 2019 by at least 20% and if its EBITDA reaches \$8,000,000. The EBITDA based earnout shall be paid 37.5% in cash, 25% in Innovative Food Holdings shares valued at the time of the closing of this transaction and 37.5%, at Innovative Gourmet’s option, in Innovative Food Holdings shares valued at the time of the payment of the earnout or in cash. See note 14.

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

The acquisition date estimated fair value of the consideration transferred totaled \$4,151,243. During the year ended December 31, 2018, the Company made the following purchase price adjustments: (i) accrued an additional \$286,239 for accounts payable prior to acquisition; (ii) decreased contingent liabilities by the amount of \$392,900 for earnout payments not made; (iii) decreased accounts receivable in the amount of \$108,893 for amounts not collected; and (4) increased deferred revenue in the amount of \$231,169 for shipments made. These adjustments increased the value of the acquisition to \$4,275,751. At December 31, 2018, the value of the acquisition consisted of the following:

| | |
|---|--------------|
| Initial purchase price | \$ 1,500,000 |
| Cash payable in connection with transaction | 1,863,443 |
| Accounts payable | 286,239 |

| | |
|----------------------------|-------------|
| Deferred revenue | 231,169 |
| Contingent liabilities | 394,900 |
| Total purchase price | \$4,275,751 |
| | |
| Tangible assets acquired | \$842,458 |
| Intangible assets acquired | 2,970,600 |
| Goodwill acquired | 462,693 |
| Total purchase price | \$4,275,751 |

The above estimated fair value of the intangible assets is based on a third party valuation expert and also includes additional analysis by management based on a subsequent analysis of the transaction and adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill. Going forward, adjustments to assets acquired or liabilities assumed subsequent to the purchase price allocation period will be made in our operating results in the period in which the adjustments are determined.

IndexPro forma results

The following table sets forth the unaudited pro forma results of the Company as if the iGourmet APA was effective on the first day of December 31, 2018 and 2017. These combined results are not necessarily indicative of the results that may have been achieved had the companies always been combined.

| | 12 months Ended | |
|-----------------------------------|--------------------------|--------------|
| | December 31 2018, | |
| | 2018 | 2017 |
| | (unaudited) | (unaudited) |
| Revenues | \$53,303,176 | \$49,973,916 |
| Net Income | \$1,706,253 | \$3,348,889 |
| Basic net income per share | \$0.05 | \$0.12 |
| Diluted net income per share | \$0.05 | \$0.12 |
| Weighted average shares – basic | 33,983,620 | 29,846,136 |
| Weighted average shares – diluted | 33,983,620 | 29,969,699 |

Oasis Sales and Marketing, LLC

Pursuant to the Oasis Asset Purchase Agreement, effective January 1, 2017, the Company, through its wholly-owned subsidiary, Oasis Sales Corp., purchased certain assets of Oasis Sales and Marketing, L.L.C., a California limited liability company. The purchase price consisted of \$300,000 cash; a two-year promissory note in the amount of \$100,000, and a structured equity instrument (the “SEI”) in the amount of \$200,000. In addition, the Company is contingently liable for certain performance-based payments over the twenty-four months following the acquisition date up to a maximum of \$400,000 (“Earnout Payments”). On May 23, 2018, the Company paid the amount of \$189,000 related to the Earnout Payment, and recorded a gain in the amount of \$11,000. The amount of \$200,000 related to the second Earnout Payment is carried as a current liability on the Company’s balance sheet at December 31, 2018. The second Earnout Payment has been earned and is expected to be paid in the second quarter of 2019.

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

At the time of acquisition, the Company believed it likely that the Earnout Payments would be made, and accordingly recorded the entire amount of \$400,000 as a contingent liability on its balance sheet as of the acquisition date. The amount of \$800,000 was allocated to customer lists, an intangible asset with a useful life of 60 months; and the

amount of \$200,000 was allocated to a non-compete agreement, an intangible asset with a useful life of 48 months. A total of \$210,000 was amortized to operations during each of the years ended December 31, 2018 and 2017.

3. ACCOUNTS RECEIVABLE

At December 31, 2018 and 2017, accounts receivable consists of:

| | 2018 | 2017 |
|------------------------------------|-------------|-------------|
| Accounts receivable from customers | \$3,194,932 | \$2,105,772 |
| Allowance for doubtful accounts | (155,176) | (63,267) |
| Accounts receivable, net | \$3,039,756 | \$2,042,505 |

4. INVENTORY

Inventory consists of specialty food products. At December 31, 2018 and 2017, inventory consisted of the following:

| | 2018 | 2017 |
|--------------------------|-------------|-------------|
| Finished Goods Inventory | \$2,301,377 | \$937,962 |

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5. NOTES RECEIVABLE

During the year ended December 31, 2017, the Company's wholly-owned subsidiary Food Funding, LLC loaned the amount of \$325,500 to iGourmet, LLC pursuant to a note agreement (the "iGourmet Note Receivable"). The iGourmet Note Receivable bears interest at the rate of 9% per annum, and is due April 1, 2018. During the year ended December 31, 2017, the Company recorded interest income in the amount of \$5,238 in the iGourmet Note Receivable. Subsequent to December 31, 2017, the Company acquired substantially all of the assets and certain liabilities of iGourmet LLC; see Note 2.

6. PROPERTY AND EQUIPMENT

Acquisition of Building

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

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

Depreciation on the building and the related improvements, furniture, fixtures, and equipment began when the Company occupied the facility in October, 2015.

A summary of property and equipment at December 31, 2018 and 2017 is as follows:

| | December 31, 2018 | December 31, 2017 |
|---------------------------------------|----------------------------------|----------------------------------|
| Land | \$385,523 | \$385,523 |
| Building | 1,326,165 | 1,326,165 |
| Computer and Office Equipment | 523,853 | 497,189 |
| Warehouse Equipment | 302,622 | 226,953 |
| Furniture and Fixtures | 889,073 | 473,572 |
| Vehicles | 220,812 | 40,064 |
| Total before accumulated depreciation | 3,648,048 | 2,949,466 |
| Less: accumulated depreciation | (1,191,438) | (994,216) |
| Total | 2,456,610 | \$1,955,250 |

Depreciation and amortization expense for property and equipment amounted to \$197,222 and \$162,705 for the years ended December 31, 2018 and 2017, respectively.

7. INVESTMENTS

The Company has made investments in certain early stage food related companies which it expects can benefit from synergies with the Company's various operating businesses. At December 31, 2018, the Company has investments in five food related companies in the aggregate amount of \$339,525. The Company does not have significant influence over the operations of these companies.

Index**8. INTANGIBLE ASSETS**

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

| | December 31, 2018 | | |
|--------------------------------------|--------------------------|-------------------------------------|-------------|
| | Gross | Accumulated Amortization | Net |
| Non-Compete Agreement - amortizable | \$505,900 | \$ (362,913) | \$ 142,987 |
| Customer Relationships - amortizable | 3,068,034 | (1,928,175) | 1,139,859 |
| Trade Name | 1,532,822 | - | 1,532,822 |
| Internally Developed Technology | 875,643 | - | 875,643 |
| Goodwill | 650,252 | - | 650,252 |
| Total | \$6,632,651 | \$ (2,291,088) | \$4,341,563 |

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

Total amortization expense charged to operations for the year ended December 31, 2018 and 2017 was \$885,002 and \$370,770, respectively.

Amortization of finite life intangible assets as of December 31, 2018 is as follows:

| | |
|---------------------|--------------|
| 2019 | 723,791 |
| 2020 | 525,046 |
| 2021 | 34,009 |
| 2022 and thereafter | - |
| Total | \$ 1,282,846 |

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

amortized over periods of 60 months.

As detailed in ASC 350, the Company tests for goodwill impairment in the fourth quarter of each year and whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its fair value and may not be recoverable. As detailed in ASC 350-20-35-3A, in performing its testing for goodwill impairment, management has completed a qualitative analysis to determine whether it was more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. To complete this review, management followed the steps in ASC 350-20-35-3C to evaluate the fair value of goodwill and considered all known events and circumstances that might trigger an impairment of goodwill. The analysis completed in 2018 and 2017 determined that there was no impairment to goodwill assets related to the Artisan and Haley transactions.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at December 31, 2018 and December 31, 2017 are as follows:

| | December 31, | December 31, |
|-------------------------------------|-------------------------|-------------------------|
| | 2018 | 2017 |
| Trade payables and accrued expenses | \$3,425,178 | \$1,652,681 |
| Accrued payroll and commissions | 264,690 | 183,878 |
| Total | 3,689,868 | \$1,836,559 |

Index**10. ACCRUED INTEREST**

At December 31, 2018, accrued interest on a note outstanding was \$16,402. During the twelve months ended December 31, 2018, the Company paid cash for interest in the aggregate amount of \$119,791.

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

11. REVOLVING CREDIT FACILITIES

| | December 30, 2018 | December 31, 2017 |
|--|----------------------------------|----------------------------------|
| On March 23, 2018, the Company entered into a Master Loan & Security Agreement that provided for the advance of funds in connection with a \$500,000 Draw Promissory Note. in order to finance certain equipment acquisitions (“Artisan Equipment Loan”); On December 21, 2018, the Company advanced \$391,558 under the \$500,000 Draw Promissory Note. This loan is secured by the Company’s tangible and intangible personal property and bears interest at the rate of 5.20%. As of December 31, 2018, there was \$108,422 remaining to be drawn on the Artisan Equipment Loan. On March 27, 2019, an amendment was made to the Draw Promissory Note to extend the draw period to December 31, 2019. On March 27, 2019, a Promissory Note was made for the amounts advanced in the amount of \$391,558 to convert to a Term Loan. (see note 12). | \$ - | \$ - |
| Line of credit facility with Fifth Third Bank in the original amount of \$1,000,000 with an interest rate of LIBOR plus 3.25%. In August 2015, the amount of the credit facility was increased to \$1,500,000 and the due date was extended to August 1, 2016. In August 2016, this credit facility was extended to August 1, 2017. On August 1, 2017 this credit facility was increased to \$2,000,000 and the due date was extended to August 1, 2018. In August 2018, this credit facility was extended to August 1, 2019. | \$ - | \$ - |
| Total | \$ - | \$ - |

Index**12. NOTES PAYABLE AND NOTES PAYABLE TO RELATED PARTIES**

| | December 31, 2018 | December 31, 2017 |
|--|---------------------------------------|---------------------------------------|
| Term loan dated as of August 5, 2016 in the original amount of \$1,200,000 payable to Fifth Third Bank. This loan is secured by the Company's tangible and intangible personal property and bears interest at the rate of LIBOR plus 4.5%. Principal payments in the amount of \$66,667 are due monthly along with accrued interest beginning September 5, 2016. The entire principal balance and all accrued interest was due and was paid on the maturity date of February 5, 2018. See note 20. During the twelve months ended December 31, 2016, the Company transferred principal in the amount of \$1,200,000 from the line of credit facility with Fifth Third Bank into this term loan. During the twelve months ended December 31, 2018, the Company made principal and interest payments on this loan in the amounts of \$114,033 and \$829, respectively. | \$- | \$ 114,033 |
| Secured mortgage note payable for the acquisition of land and building in Bonita Springs, Florida in the amount of \$546,000. Principal payments of \$4,550 plus interest at the rate of Libor plus 3% are due monthly. The balance of the principal amount was due February 28, 2018. On March 23, 2018 and effective February 26, 2018, this note was amended and renewed in the amount of \$273,000, with monthly payments of principal and interest of \$4,550 payable through the maturity date of February 28, 2023. During the twelve months ended December 31, 2018, the Company made payments of principal and interest on this note in the amounts of \$50,050 and \$13,083, respectively. | 232,050 | 282,100 |
| Secured mortgage note payable for the acquisition of land and building in Broadview, Illinois in the amount of \$980,000. Principal payments of \$8,167 plus interest at the rate of LIBOR plus 2.75% are due monthly through April 2020, the remaining principal balance in the amount of \$490,000 will be due May 29, 2020. During the twelve months ended December 31, 2017, the Company made payments of principal and interest on this note in the amounts of \$98,000 and \$30,508, respectively. During the twelve months ended December 31, 2018, the Company made payments of principal and interest on this note in the amounts of \$98,000 and \$33,055, respectively. | 628,833 | 726,833 |
| Term loan dated March 28, 2018 in the original amount of \$1,500,000 payable to Fifth Third Bank. This loan is secured by the Company's tangible and intangible personal property and bears interest at the rate of LIBOR plus 4.25%. Principal payments in the amount of \$83,333 are due monthly along with accrued interest beginning March 28, 2018. The entire principal balance and all accrued interest is due on the maturity date of August 28, 2019. During the twelve months ended December 31, 2018, the Company made payments of principal and interest on this note in the amounts of \$833,330 and \$72,017, respectively. | 666,670 | - |
| Promissory note dated March 22, 2019 in the original amount of \$391,558 (the "Artisan Equipment Loan") payable to Fifth Third Bank. This loan is secured by the Company's | 391,558 | |

tangible and intangible personal property and bears interest at the rate of 5.20%. Monthly payments in the amount of \$7,425 including principal and interest are due April 22, 2019. The entire principal balance and all accrued interest is due on the maturity date of March 21, 2024. (see note 11).

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| | December 31, 2018 | December 31, 2017 |
|--|-----------------------------|-----------------------------|
| <p>A total of 16 convertible notes payable in the aggregate amount of \$627,565 (the “Convertible Notes Payable”). Certain of the Convertible Notes Payable contain cross default provisions, and are secured by subordinated interest in a majority of the Company’s assets. The Convertible Notes Payable bear interest at the rate of 1.9% per annum; principal and accrued interest are convertible into common stock of the Company at a conversion price of \$0.25 per share; however, the interest may be paid in cash by the Company and certain limited amounts of principle may also be prepaid in cash. Effective May 13, 2014, the due date of these notes was extended from May 15, 2014 to December 31, 2015, and a discount to the notes in the aggregate amount of \$712,565 was recorded to recognize the value of the beneficial conversion feature embedded in the extension of the term of the notes. In March 2015 the notes were further extended to January 1, 2016. On September 30, 2015, notes in the amount of \$627,565 were further extended to July 1, 2017, and a discount in the amount of \$627,565 was recorded to recognize the value of the beneficial conversion featured embedded in the extension of the term of the notes. During the twelve months ended December 31, 2017, \$0 of this discount was charged to operations.</p> | - | - |
| <p>During the twelve months ended December 31, 2017, holders of the Convertible Notes Payable converted principal in the amount of \$627,565 and accrued interest in the amount of \$528,242 into an aggregate of 1,155,807 shares of common stock, and accrued interest in the amount of \$86,089 was forgiven. The amount of \$86,809 was recorded as a decrease in interest expense during the twelve months ended December 31, 2017.</p> | | |
| <p>A note payable in the amount of \$20,000. The Note was due in January 2006 and the Company is currently accruing interest on this note at 1.9%. During each of the twelve months ended December 31, 2018 and 2017, the Company accrued interest in the amount of \$372 and \$372, respectively, on this note.</p> | 20,000 | 20,000 |
| <p>Unsecured note to Sam Klepfish for \$164,650 which may not be prepaid without Mr. Klepfish’s consent, originally carrying an interest rate of 8% per annum and no due date. As of July 1, 2014, the interest rate was reduced to 1.9% and as of November 17, 2014 the interest rate was further reduced to 0%. During the three months ended December 31, 2015, interest in the amount of \$54,150 was capitalized, and the aggregate principal amount of \$164,650 was extended to July 1, 2017. This note and accrued interest are convertible into common stock of the Company at a conversion price of \$0.25 per share. During the twelve months ended December 31, 2017, the entire principal balance of this note in the amount of \$164,650 was converted into 658,600 shares of the Company’s common stock.</p> | - | - |
| <p>Unsecured promissory note in the amount of \$100,000 dated January 1, 2017 bearing interest at the rate of 2.91% per annum issued in connection with the Oasis acquisition. Payments in the amount of \$4,297 consisting of principal and interest are to be made monthly beginning February 15, 2017 for twenty-four months until paid in full. During the twelve months ended</p> | 4,291 | 55,054 |

December 31, 2017, the Company made principal and interest payments on this note in the amount of \$44,946 and \$2,318, respectively. During the twelve months ended December 31, 2018, the Company made principal and interest payments on this note in the amount of \$50,759 and \$807, respectively.

Capital lease obligations under a lease agreement for a forklift payable in thirty-six monthly installments of \$274 including interest at the rate of 4.46%. During the twelve months ended December 31, 2017, the Company made principal and interest payments on this lease obligation in the amounts of \$3,093 and \$195, respectively. During the twelve months ended December 31, 2018, the Company paid this lease in full by making principal and interest payments on this lease obligation in the amount of \$2,685 and \$55, respectively.

| | |
|---|-------|
| - | 2,685 |
|---|-------|

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| | December 31, 2018 | December 31, 2017 |
|--|----------------------------------|----------------------------------|
| Capital lease obligations under a lease agreement for a forklift payable in thirty-six monthly installments of \$579 including interest at the rate of 4.83%. During the twelve months ended December 31, 2018, the Company made principal and interest payments on this lease obligation in the amounts of \$6,499 and \$434, respectively. | 5,661 | 12,160 |
| Vehicle acquisition loan dated December 6, 2018 in the original amount of \$51,088, payable in sixty monthly installments of \$955 including interest at the rate of 4.61%. During the year ended December 31, 2018, the Company made principal and interest payments in the amount of \$760 and \$195, respectively, on this loan. | 50,328 | - |
| Capital lease obligations under a lease agreement for a truck in the original amount of \$128,587 payable in seventy monthly installments of \$2,326 including interest at the rate of 8.33%. During the twelve months ended December 31, 2018, the Company made principal and interest payments on this lease obligation in the amounts of \$2,876 and \$1,776, respectively. | 125,711 | |
| Total | \$2,125,102 | \$1,212,865 |
| Less: Discount | - | - |
| Net | \$2,125,102 | \$1,212,865 |
| Current maturities | \$928,857 | \$346,855 |
| Long-term portion | 1,196,245 | 866,010 |
| Total | \$2,125,102 | \$1,212,865 |

**For the Year
Ended
December
31,
2018**

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

At December 31, 2018 and 2017, the Company did not have any unamortized discounts to notes.

Aggregate maturities of long-term notes payable as of December 31, 2018 are as follows:

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For the twelve months ended December 31,

| | |
|------------|-------------|
| 2019 | 930,299 |
| 2020 | 687,849 |
| 2021 | 163,121 |
| 2022 | 169,582 |
| 2023 | 174,251 |
| Thereafter | - |
| Total | \$2,125,102 |

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13. RELATED PARTY TRANSACTIONS

For the year ended December 31, 2018:

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

In May 2018, as part of a realignment towards focusing on certain specific growth initiatives and growth opportunities the Company amended the employment agreement with its President, and the President of the Company was named as the Director of Strategic Acquisitions, whose responsibilities include: (i) identifying and assisting in the acquisition and integration of strategic assets; (ii) identifying and executing on new growth opportunities; and (iii) identifying and executing growth initiatives for the Company. In order to allow for the Executive to devote his full time to his new responsibilities, the President of the Company resigned from his role as President of the Company and its subsidiaries. Pursuant to this agreement, the Executive's salary was reduced by \$15,000 per year, and an equity bonus of 46,000 shares of the Company's common stock will be issued to the Executive. These shares will vest at a rate of one-sixth per month over a period of six months.

In addition, in 2018, 55,192 shares were issued to the Company's President upon the option exercises in December 2017, and 60,507 shares were issued to the Company's Chief Executive Officer upon the exercises in December 2017, as described below.

For the year ended December 31, 2017:

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

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

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

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

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

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

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

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

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

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

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

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

The Company's Chief Executive Officer exercised 100,000 options at a price of \$0.35 per share and an additional 100,000 options at a price of \$0.57 per share. The amount due to the Company for these conversions was extended to April 26, 2018. 55,192 shares of common stock were deemed issued on March 5, 2018, which number of shares represents a net amount after a cash payment of \$45,000 which was a portion of the difference between the exercise price of the options and the market price of the stock on the date of purchase, and taxes. See note 16.

The Company's President exercised 100,000 options at a price of \$0.35 per share and an additional 100,000 options at a price of \$0.57 per share. The amount due to the Company for these conversions was extended to April 26, 2018. 60,507 shares of common stock were deemed issued on March 5, 2018, which number of shares represents a net amount after a cash payment of \$45,000 which was a portion of the difference between the exercise price of the options and the market price of the stock on the date of purchase, and taxes. See note 16.

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

14. INCOME TAXES

Deferred income taxes result from the temporary differences primarily attributable to amortization of intangible assets and debt discount and an accumulation of net operating loss carryforwards for income tax purposes with a valuation allowance against the carryforwards for book purposes.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. Included in deferred tax assets are Federal and State net operating loss carryforwards of approximately \$1.4 million, which will expire through 2038. 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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The provision (benefit) for income taxes for the years ended December 31, 2018 and 2017 consist of the following:

| | 2018 | 2017 |
|----------|-------------|-------------|
| Current | \$ - | \$ - |
| Deferred | - | - |
| Total | \$ - | \$ - |

The provision (benefit) for income taxes differs from the amount of income tax determined by applying the applicable statutory income tax rate of 27.6% and 39.6% for the December 31, 2018 and 2017, respectively, to the loss before taxes as a result of the following differences:

| | 2018 | | 2017 |
|---|-------------|---|-------------|
| Income (loss) before income taxes | \$1,850,899 | | \$4,529,262 |
| Statutory tax rate | 27.6 | % | 39.6 |
| Total tax at statutory rate | 510,000 | | 1,794,000 |
| Temporary differences | 53,000 | | 255,000 |
| Permanent difference – meals and entertainment | 7,000 | | 6,000 |
| Permanent differences- non cash compensation, and discount amortization | 18,000 | | 256,700 |
| Total | 588,000 | | 2,311,700 |
| Changes in valuation allowance | (588,000) | | (2,311,700) |
| Income tax expense | \$- | | \$- |

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

Deferred income taxes include the net tax effects of net operating loss (NOL) carryforwards and the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. As of December 31, 2018 and 2017 significant components of the Company's deferred tax assets are as follows:

| | 2018 | 2017 |
|---|-------------|-------------|
| Deferred Tax Assets (Liabilities): | | |
| Net operating loss carryforwards | \$410,000 | \$997,500 |
| Allowance for doubtful accounts | 7,000 | (7,100) |
| Property and equipment | (132,600) | 38,000) |
| Intangible assets | (350,000) | (154,800) |
| Accrued officer compensation | 18,700 | 18,700 |

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| | | |
|---------------------------------------|-----------|-----------|
| Net deferred tax assets (liabilities) | (46,900) | 892,300 |
| Valuation allowance | 46,900 | (892,300) |
| Net deferred tax assets (liabilities) | \$- | \$- |

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

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

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15. EQUITY

Common Stock

At December 31, 2018 and 2017, a total of 2,587,580 and 2,491,112 shares, respectively, are deemed issued but not outstanding by the Company.

Twelve months ended December 31, 2018:

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

In December 2017, the Company's Chief Executive Officer exercised 100,000 options at a price of \$0.35 per share and an additional 100,000 options at a price of \$0.57 per share. The date for payment of the exercise price of these options was extended to April 26, 2018. 55,192 shares of common stock were deemed issued on March 5, 2018, which number of shares represents a net amount after a cash payment of \$45,000 which was a portion of the difference between the exercise price of the options and the market price of the stock on the date of purchase, and taxes.

In December 2017, the Company's President exercised 100,000 options at a price of \$0.35 per share and an additional 100,000 options at a price of \$0.57 per share. The date for payment of the exercise price of these options was extended to April 26, 2018. 60,507 shares of common stock were deemed issued on March 5, 2018, which number of shares represents a net amount after a cash payment of \$45,000 which was a portion of the difference between the exercise price of the options and the market price of the stock on the date of purchase, and taxes.

The Company recognized the fair value of stock options vested to management and employees in the amount of \$19,098. The Company also recognized the fair value of stock grants to management and employees in the amount of \$48,307.

The Company purchased 2,000 shares of common stock from an employee at a cost of \$0.97 per share for a total of \$1,940 and retired these shares to treasury.

The Company made open market purchases of 27,800 shares of its common stock at an average cost of \$0.79 per share for a total of \$22,117 and retired these shares to treasury.

The Company received for cancellation a share certificate representing 66,668 shares of common stock which the investor had lost. The Company retired these shares to treasury.

Twelve months ended December 31, 2017:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Treasury Stock

At December 31, 2018 and 2017, the Company had 2,373,171 and 2,276,703 shares of treasury stock, respectively.

Warrants

The Company had no warrants outstanding at December 31, 2018 or 2017.

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Options

Twelve months ended December 31, 2018:

In May 2018, the Company issued the following options:

Options to purchase 75,000 shares of common stock at a price of \$1.10 per share, vesting at a rate of one-sixth per month beginning June 1, 2018 and expiring May 14, 2021.

In November 2018, the Company issued the following options:

- Options to purchase 50,000 shares of common stock at a price of \$0.75 per share, vesting on April 1, 2020 and expiring December 31, 2021;
- Options to purchase 50,000 shares of common stock at a price of \$0.95 per share, vesting on April 1, 2020 and expiring December 31, 2021;
- Options to purchase 125,000 shares of common stock at a price of \$1.50 per share, vesting on December 31, 2019 and expiring December 31, 2021;
- Options to purchase 125,000 shares of common stock at a price of \$2.00 per share, vesting on August 30, 2020 and expiring December 31, 2021;
- Options to purchase 125,000 shares of common stock at a price of \$2.50 per share, vesting on August 30, 2020 and expiring December 31, 2021;
- Options to purchase 125,000 shares of common stock at a price of \$3.00 per share, vesting on August 30, 2020 and expiring December 31, 2021;

During the year ended December 31, 2018, an aggregate 1,135,000 options to purchase shares of common stock at a weighted average price of \$1.51 expired.

In 2018, an aggregate of 115,699 shares were issued upon the option exercises in December 2017 described below.

Twelve months ended December 31, 2017:

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

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

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

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

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

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

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

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

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A net number of 55,192 shares will be issued to the Chief Executive Officer, after a cash payment of \$45,000, which was a portion of the difference between the exercise price of the options and the market price of the stock on the date of purchase, and taxes.

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

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

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

| Range of exercise Prices | Number of options Outstanding | Weighted average Remaining contractual life (years) | Weighted average exercise price of outstanding Options | Number of options Exercisable | Weighted average exercise price of exercisable Options |
|---------------------------------|--------------------------------------|--|---|--------------------------------------|---|
| \$ 0.75 | 50,000 | 3.00 | \$ 0.75 | - | \$ - |
| \$ 0.95 | 50,000 | 3.00 | \$ 0.95 | - | \$ - |
| \$ 1.10 | 75,000 | 2.37 | \$ 1.10 | 75,000 | \$ 1.10 |
| \$ 1.31 | 100,000 | 0.01 | \$ 1.31 | 100,000 | \$ 1.10 |
| \$ 1.38 | 100,000 | 0.92 | \$ 1.38 | 100,000 | \$ 1.38 |
| \$ 1.50 | 125,000 | 3.00 | \$ 1.50 | - | |
| \$ 1.90 | 175,000 | 0.48 | \$ 1.90 | 175,000 | \$ 1.90 |
| \$ 2.00 | 125,000 | 3.00 | \$ 2.00 | - | |
| \$ 2.50 | 125,000 | 3.00 | \$ 2.50 | | |
| \$ 3.00 | 125,000 | 3.00 | \$ 3.00 | | \$ - |
| | 1,050,000 | 2.05 | \$ 1.80 | 450,000 | \$ 1.52 |

Transactions involving stock options are summarized as follows:

| | Number of Shares | Weighted Average Exercise Price |
|--|-----------------------------|--|
| Options outstanding at December 31, 2016 | 2,445,000 | \$ 1.01 |
| Granted | 950,000 | 1.55 |
| Exercised | (1,370,000) | 0.38 |
| Cancelled / Expired | (515,000) | 2.00 |
| Options outstanding at December 31, 2017 | 1,510,000 | \$ 1.60 |
| Granted | 675,000 | 1.91 |
| Exercised | - | - |
| Cancelled / Expired | (1,135,000) | 1.51 |
| Options outstanding at December 31, 2018 | 1,050,000 | \$ 1.80 |

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Aggregate intrinsic value of options outstanding and exercisable at December 31, 2018 and 2017 was \$0 and \$15,500, 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 \$0.58 and \$1.19 as of December 31, 2018 and 2017, respectively, and the exercise price multiplied by the number of options outstanding.

During the year ended December 31, 2018 and 2017, the Company charged \$19,098 and \$38,847, respectively, to operations related to recognized stock-based compensation expense for stock options.

The exercise price grant dates in relation to the market price during 2018 and 2017 are as follows:

| | 2018 | 2017 |
|--|----------------|----------------|
| Exercise price lower than market price | - | - |
| Exercise price equal to market price | - | - |
| Exercise price exceeded market price | \$0.75 to 3.00 | \$1.04 to 1.38 |

As of December 31, 2018 and 2017, there were 600,000 and 200,000, respectively, non-vested options outstanding.

Accounting for warrants and stock options

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

| | December 31, 2018 | December 31, 2017 |
|--------------------------|----------------------------------|----------------------------------|
| Volatility | 43.0-48.1 % | 47.3-56.9 % |
| Dividends | \$0 | 0 |
| Risk-free interest rates | 2.67-2.91 % | 0.87-2.0 % |
| Term (years) | 3.00-3.13 | 0.8-2.5 |

Restricted Stock Units ("RSUs")

There were no RSUs outstanding during the twelve months ended December 31, 2018.

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

There was no RSUs expense during the twelve months ended December 31, 2018 and 2017.

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16. COMMITMENTS AND CONTINGENCIES

Contingent Liability

Pursuant to the iGourmet Asset Purchase Acquisition, the Company recorded contingent liabilities in the original amount of \$787,800. This amount relates to certain performance based payments over the twenty-four months following the acquisition date as well as to certain additional liabilities that the Company has evaluated and has recorded on a contingent basis. During the year ended December 31, 2018, the Company reduced this amount by \$392,900 as the performance goals for the first year were not met. At December 31, 2018, the amount of \$132,300 remains on the Company's balance sheet as a current contingent liability, and \$257,600 as a long term contingent liability.

Pursuant to the Oasis acquisition, the Company had a contingent liability in the amount of \$400,000 on connection with performance-based bonus obligations. During the year ended December 31, 2018, the company paid the amount of \$189,000 related to these obligations, and recorded a gain in the amount of \$11,000. At December 31, 2018, the Company has the amount of \$200,000 on its balance sheet as a current contingent liability in connection with the second year performance based bonus payment.

Pursuant to the Mouth Foods LLC Asset Acquisition, the Company recorded contingent liabilities in the amount of \$240,576. \$140,576 is classified as a current contingent liability and \$100,000 is classified as a non-current contingent liability at December 31, 2018. This amount relates to the estimate of certain performance based payments following the acquisition date as well as to certain additional liabilities that the Company has evaluated and has recorded on a contingent basis.

Litigation

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

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

On July 7, 2017, Scher Zalman Duchman and Deborah L. Duchman (collectively, “Duchmans”) filed an amended complaint in the United States District Court for the Southern District of Florida seeking approximately \$1 million in damages against Innovative Food Holdings, Inc., FD Acquisition Corp., and Sam Klepfish, IVFH’s CEO. The Duchmans, amongst other things, allege that defendants owed a fiduciary duty to the Duchmans to minimize the Duchmans’ own personal guarantees and personal obligations related to loans and other obligations incurred by a former subsidiary of the Company and that the Defendants did not fulfill that alleged fiduciary obligation. By Order dated March 22, 2018, the following causes of action were dismissed without prejudice: Count I, Breach of Fiduciary Duty; Count III, Unjust Enrichment; Count IV, Unjust Enrichment; and Count IX, Fraud in the Inducement. The Court further ordered Count XI, Punitive Damages, stricken from the Complaint and that all claims against Third Party Defendant FD Acquisition Corp. dismissed with prejudice. Discovery is ongoing, and IVFH will soon be filing a motion for summary judgment. The parties have scheduled required mediation. The court has provided a scheduled trial date. IVFH believes that this lawsuit is without merit and is an attempt by the Duchmans to drag IVFH into the Duchmans’ personal financial matters which are unrelated to IVFH. While IVFH intends to vigorously defend against this lawsuit, the outcome of this lawsuit cannot ultimately be predicted. On May 9, 2018, the parties reached a confidential settlement agreement and dismissal of all counts on terms favorable to IVFH. The court accepted the parties’ notice of settlement, dismissed the claims, retained jurisdiction to enforce the settlement, and closed the case as applied to IVFH.

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

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

17. MAJOR CUSTOMER

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

18. FAIR VALUE MEASUREMENTS

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

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

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

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

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

As December 31, 2018 and 2017, the Company did not have financial assets or liabilities that are required to be accounted for at fair value on a recurring basis.

19. SUBSEQUENT EVENTS

As of January 28, 2019, upon approval by the Company's compensation committee comprised solely of independent directors, we entered into an employment agreement with Mr. Sam Klepfish, our CEO, having an effective date of January 28, 2019 and terminating three years thereafter with up to two two-year extension periods. The agreement provides a base salary in the amount of \$300,000 with annual increases of at least \$25,000 and annual stock compensation of 50% of the base salary. The agreement also provides for additional bonuses of up to 25% of base compensation, based on increases in EBITDA (as defined in the agreement) and increases in our stock price as reflected in our market capitalization and other perquisites and benefits as detailed therein. The agreement also contains change of control, confidentiality, non-compete and non-solicitation provisions.

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As of January 28, 2019, upon approval by the Company's compensation committee, we entered into an employment agreement with Mr. Justin Wiernasz, our Director of Strategic Acquisitions, having an effective date of January 28, 2019 and terminating three years thereafter with up to two extension periods; one for two years and one for one year. The agreement provides a base salary in the amount of \$326,000 with annual increases of at least 5% and annual stock compensation of 5% of the base salary. This agreement was further modified to a base salary of \$350,000 in 2019. The agreement also provides for additional bonuses of up to 35% of base compensation, and based upon increases in our stock price as reflected in our market capitalization and other perquisites and benefits as detailed therein. The agreement also contains change of control, confidentiality, non-compete and non-solicitation provisions.

As of January 28, 2019, upon approval by the Company's compensation committee, we entered into a Director Agreement which provides for an initial one time of grant of \$45,000 cash and \$45,000 of stock to two non-employee directors. The Director Agreement also provides for annual compensation to non-employee directors of \$30,000 cash, payable quarterly and \$30,000 of stock, vesting in equal quarterly amounts over three years. In addition, as compensation for 2019-2021, all directors shall receive a grant of 450,000 stock options which vest quarterly over three years and which are exercisable for five years from the date of grant at exercise prices ranging from \$0.62 - \$1.20. The Director Agreement also contains confidentiality, non-compete and non-solicitation provisions.

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

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

None.

ITEM 9A. Controls and Procedures

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Under the supervision and with the participation of our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer’s management, including its principal executive and principal financial officers, or persons performing similar functions as appropriate to allow timely decisions regarding required disclosure. We concluded that our disclosure controls and procedures as defined in Rule 13a-15(e) under the Exchange Act were effective as of December 31, 2018 to ensure that information required to be disclosed in reports we file or submit under the Exchange Act is recorded, processed, and summarized and reported within the time periods specified in SEC rules and forms and our disclosure controls and procedures are also effective to ensure that the information required to be disclosed in reports that we file under the Exchange Act is accumulated and communicated to our principal executive and financial officers to allow timely decisions regarding required disclosures.

Management’s Annual Report on Internal Control over Financial Reporting

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

- (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
 - (ii) provide reasonable assurance that transactions are recorded as necessary to permit the preparation of our consolidated financial statements in accordance with U.S. generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors;
- and

(iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the consolidated financial statements.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2018. In making this assessment, management used the criteria set forth in Internal Control Over Financial Reporting — Guidance for Smaller Public Companies issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013). Management has identified a control deficiency regarding the integration of two acquisitions in 2018 and as a result management has concluded our internal control over financial reporting was ineffective at December 31, 2018 at the reasonable assurance level. Management of the Company believes that this deficiency is primarily due to the smaller size of the company's accounting staff in relation to certain continued system integrations related to the 2018 acquisitions of certain assets of iGourmet LLC and Mouth Foods, Inc. To address this matter, we have expanded our accounting staff and we expect to retain additional qualified personnel to continue to remediate this control deficiency in the future.

Inherent Limitations Over Internal Controls

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

Changes in Internal Control over Financial Reporting

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

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Attestation Report of the Registered Public Accounting Firm

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

ITEM 9B. Other Information

None.

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PART III

ITEM 10. Directors, Executive Officers and Corporate Governance

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

| Name | Age | Position |
|-----------------|------------|---|
| Sam Klepfish | 44 | Chief Executive Officer and Director |
| Justin Wiernasz | 53 | Director of Strategic Acquisitions and Director |
| Joel Gold | 77 | Director |
| Hank Cohn | 49 | Director |

Directors

Sam Klepfish

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

Joel Gold, Director

Mr. Gold is currently a partner in a merchant banking firm, and has served on the board and committees of numerous companies. Prior to that, he was an investment banker at Buckman, Buckman and Reid located in New Jersey, a position he held since May 2010. Prior there to, from October 2004, he was head of investment banking of Andrew Garrett, Inc. From January 2000 until September 2004, he served as Executive Vice President of Investment Banking of Berry Shino Securities, Inc., an investment banking firm also located in New York City. From January 1999 until

December 1999, he was an Executive Vice President of Solid Capital Markets, an investment-banking firm also located in New York City. From September 1997 to January 1999, he served as a Senior Managing Director of Interbank Capital Group, LLC, an investment banking firm also located in New York City. From April 1996 to September 1997, Mr. Gold was an Executive Vice President of LT Lawrence & Co., and from March 1995 to April 1996, a Managing Director of Fechter Detwiler & Co., Inc., a representative of the underwriters for the Company's initial public offering. Mr. Gold was a Managing Director of Furman Selz Incorporated from January 1992 until March 1995. From April 1990 until January 1992, Mr. Gold was a Managing Director of Bear Stearns and Co., Inc. ("Bear Stearns"). For approximately 20 years before he became affiliated with Bear Stearns, he held various positions with Drexel Burnham Lambert, Inc.

Hank Cohn, Director

Mr. Cohn has been a director since October 29, 2010. Hank Cohn is currently CEO of P1 Billing, LLC, a revenue cycle management services provider to ambulatory medical clinics. P1 Billing is a spinoff of PracticeOne Inc., (formerly PracticeXpert, Inc., an OTCBB traded company), an integrated PMS and EMR software and services company for physicians. Mr. Cohn served as President and Chief Executive Officer of PracticeOne from December 2009 until December 2009, at which time he sold the company to Francison Partners, one of the largest, global technology focused, private equity firms in Silicon Valley. Prior to that, Mr. Cohn worked with a number of public companies. A partial list of his past and present board memberships include: Analytical Surveys, Inc., Kaching Kaching, Inc., and International Food and Wine, Inc., currently Evolution Resources Inc. Mr. Cohn also served as the executive vice president of Galaxy Ventures, LLC a closely-held investment fund concentrating in the areas of bond trading and early stage technology investments, where he acted as portfolio manager for investments.

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Justin Wiernasz, Director of Strategic Acquisitions

Mr. Wiernasz has been a director since November 1, 2013. Effective on May 11, 2018, Mr. Justin Wiernasz resigned his position of President of Innovative Food Holdings, Inc. which he held since July 31, 2008 and assumed the position of Director of Strategic Acquisitions. Prior thereto he was the Executive Vice President of Marketing and Sales and Chief Marketing Officer of our operating subsidiary, Food Innovations, Inc. since May 2007 and the President of Food Innovations and our Chief Marketing Officer since December 2007. Prior thereto, he was at USF, our largest customer, for 13 years. From 2005 to 2007 he was the Vice President of Sales & Marketing, USF, Boston, and prior thereto, from 2003 to 2005 he was a National Sales Trainer at USF, Charleston SC, from 1996 to 2003 he was the District Sales Manager at USF, Western Massachusetts and from 1993 to 1996 he was Territory Manager, USF, Northampton, Easthampton & Amherst, MA. Prior to that from 1989 to 1993 he was the owner and operator J.J.'s food and spirit, a 110 seat restaurant.

Key Employee

John McDonald

Mr. McDonald, age 57, has been our principal accounting officer since November 2007; from November 2007 through October 2017, he was also our Chief Information Officer. From 2004 through 2007, Mr. McDonald worked as a consultant with Softrim Corporation of Estero, Florida where he created custom applications for a variety of different industries and assisted in building interfaces to accounting applications. Since 1999 he has also been President of McDonald Consulting Group, Inc. which provide consulting on accounts receivable, systems and accounting services.

Qualification of Directors

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

Committees

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

Code of Ethics

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

Section 16(a) Beneficial Ownership Reporting Compliance

During 2018, Messrs. Klepfish, Wiernasz and Cohn did not file one Form 4. None of the unfiled Forms 4 related to the public sale of securities.

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The following table sets forth information concerning the compensation for services rendered to us for the two years ended December 31, 2018, of our Chief Executive Officer and two of our highest compensated officers whose annual compensation exceeded \$100,000 in the fiscal year ended December 31, 2018, if any. We refer to the Chief Executive Officer and these other officers as the named executive officers.

SUMMARY COMPENSATION TABLE

| Name and Principal Position | Year | Salary (\$) | Bonus (\$) | Stock Awards (\$) | Option Awards (\$) | Non-Equity | | | Total (\$) |
|--|------|----------------|---------------|-------------------------|--------------------------|---|--|-----------------------------------|----------------|
| | | | | | | Incentive Plan Compensation (\$) | Deferred Compensation Earnings (\$) | All Other Compensation (\$) | |
| Sam Klepfish CEO | 2018 | \$392,841 | \$- | \$- | \$ - | \$ - | \$ - | \$ 3,131 | (a) \$395,972 |
| | 2017 | \$376,997 | \$- | \$117,060 | (b) \$ - | \$ - | \$ - | \$ 2,229 | (a) \$512,141, |
| Justin Wiernasz Director of Strategic Acquisitions | 2018 | \$378,378 | \$69,000 | (c) \$44,528 | (e) \$ - | \$ - | \$ - | \$ 13,874 | (a) \$505,780 |
| | 2017 | \$376,997 | \$65,000 | (c) \$76,190 | (d) \$ - | \$ - | \$ - | \$ 12,960 | (a) \$531,147 |
| John McDonald Principal Accounting Officer | 2018 | \$199,650 | \$70,266 | (c) \$- | \$ - | \$ - | \$ - | \$ 9,054 | (a) \$278,969 |
| | 2017 | \$199,301 | \$69,000 | (c) \$- | \$ - | \$ - | \$ - | \$ 8,415 | (a) \$276,716 |

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

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

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

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

(e) Consists of a restricted stock award of 46,000 shares of common stock.

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Outstanding Equity Awards at Fiscal Year-End as of December 31, 2018

| Name | Option Awards | | | | Stock Awards | | Equity Incentive Plan Awards: Number of Unearned Shares, Units or Rights That Have Not Vested (#) | Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Rights That Have Not Vested (\$) |
|--------------|---|---|----------------------------|------------------------|---|--|---|--|
| | Number of Securities Underlying Unexercised Options (#) Exercisable | Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#) | Option Exercise Price (\$) | Option Expiration Date | Number of Shares or Units of Stock That Have Not Vested (#) | Market Value of Shares or Units of Stock That Have Not Vested (\$) | | |
| Sam Klepfish | | | | | 300,000 | (a) \$171,0000 | (b) | |

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

(b) Amounts are calculated by multiplying the number of shares shown in the table by \$ 0.5750 per share, which is the closing price of common stock on December 31, 2018 (the last trading day of the 2018 fiscal year).

Director Compensation

| Name | Fees Earned | Stock Awards | Option Awards | Non-Equity Incentive Plan | Nonqualified Deferred | All Other Compensation | Total (\$) |
|------|-------------|--------------|---------------|---------------------------|-----------------------|------------------------|------------|
|------|-------------|--------------|---------------|---------------------------|-----------------------|------------------------|------------|

| | or Paid | (\$) | (\$) | (b) | Compensation | Compensation | (\$) | | (\$) |
|-----------------|----------|------|------|------|--------------|--------------|------|------|----------|
| | in Cash | | | | (\$) | Earnings | | | |
| | (\$) | | | | | (\$) | | | |
| Joel Gold | \$30,000 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$30,000 |
| Sam Klepfish | \$- | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$- |
| Hank Cohn | \$- | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$- |
| Justin Wiernasz | \$- | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$- |

Employment Agreements

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

SAM KLEPFISH

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

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On August 7, 2014, our board of directors approved the amendment of the Employment Agreement with Mr. Klepfish effective as of August 13, 2014. The employment agreement was amended as follows: (i) it has been extended by one year to December 31, 2016; (ii) it provides for 10% annual increases of Base Salary commencing in 2014; (iii) certain performance based bonuses in the employment agreement are eliminated; (iv) stock grants previously issued with vesting based upon performance or stock price are cancelled; (v) a new performance based bonus structure to partially replace the previous structure, based upon meeting certain Cash EBITDA (earnings before interest, taxes, depreciation, and amortization and non-cash compensation charges) targets, the new bonus will have a cash portion and a stock portion and all Base Salary can be paid in cash or in stock at the option of Mr. Klepfish, and (vi) 125,000 restricted stock units which vest if the 30 day average closing price of our common stock is \$2.00 or above and there is a 50,000 average daily volume or there is a 50,000 average daily volume for 14 straight trading days; and 175,000 restricted stock units which vest if the 30 day average closing price of our common stock is \$3.00 or above and there is a 50,000 average daily volume for 14 straight trading days. Mr. Klepfish will have the option, on an annual basis, to take all or part of the cash portion of the bonus, or any part of Base Salary in the form of stock at a valuation based upon the closing stock price on the last trading day of the prior year. The decision on how much, if any, of the bonus to take in stock must be made by May 1 of each year, unless earlier required. The Cash EBITDA target levels do not include the effect of any potential future acquisitions and also do not include certain one time or non-recurring expenses in the calculation of the Cash EBITDA. If a Cash EBITDA target is missed by 3% or less, the bonus for the target so missed shall be reduced by 20% and if it is missed by 3.1% -5%, the bonus for such target shall be reduced by 30%, except in both cases, Mr. Klepfish has negative discretion to further reduce the bonuses or even cancel them. In March 2016, Mr. Klepfish's employment agreement was extended for another year under the same terms.

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

Mr. Klepfish was awarded, as a special bonus, effective November 17, 2014, an aggregate of 1,000,000 restricted stock units ("RSU") subject to time and performance vesting conditions, with the timing conditions as follows: 150,000

RSUs vest on each of July 1 and December 31, 2015; 300,000 RSUs vest on December 31, 2016 and 400,000 RSUs vest on July 1, 2017, and the performance conditions are as follows: for the RSUs vesting in 2015, the Corporation, on a consolidated basis, must have four months with sales above \$2,500,000 during 2015, for the RSUs vesting in 2016, the Corporation, on a consolidated basis, must have four months with sales above \$2,500,000 during 2016 and for the RSUs vesting in 2017, the Corporation, on a consolidated basis, must have four months with sales above \$2,500,000 during 2017, provided however, that if the performance condition is not met in any year, the RSUs scheduled to vest in such year will still vest if the Corporation, on a consolidated basis, has six months with sales of at least \$2,500,000 during the following year. The company's board of directors will modify and increase the performance requirements, with the consent of executive, if warranted and appropriate.

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

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As of January 28, 2019, upon approval by the Company's compensation committee comprised solely of independent directors, we entered into an employment agreement with Mr. Sam Klepfish, our CEO, having an effective date of January 28, 2019 and terminating three years thereafter with up to two two-year extension periods. The agreement provides a base salary in the amount of \$300,000 with annual increases of at least \$25,000 and annual stock compensation of 50% of the base salary. The agreement also provides for additional bonuses of up to 25% of base compensation, based on increases in EBITDA (as defined in the agreement) and increases in our stock price as reflected in our market capitalization and other perquisites and benefits as detailed therein. The agreement also contains change of control, confidentiality, non-compete and non-solicitation provisions.

JUSTIN WIERNASZ

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

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

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

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

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

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

As of January 28, 2019, upon approval by the Company’s compensation committee, we entered into an employment agreement with Mr. Justin Wiernasz, our Director of Strategic Acquisitions, having an effective date of January 28, 2019 and terminating three years thereafter with up to two extension periods; one for two years and one for one year. The agreement provides a base salary in the amount of \$326,000 with annual increases of at least 5% and annual stock compensation of 5% of the base salary. This agreement was further modified to a base salary of \$350,000 in 2019. The agreement also provides for additional bonuses of up to 35% of base compensation, and based upon increases in our stock price as reflected in our market capitalization and other perquisites and benefits as detailed therein. The agreement also contains change of control, confidentiality, non-compete and non-solicitation provisions.

Compensation Committee Interlocks and Insider Participation

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

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

The following table sets forth certain information as of March 15, 2019, with respect to the beneficial ownership of our common stock by (1) each person known by us to own beneficially more than 5% of the outstanding shares of our common stock, (2) each of our directors, (3) each Named Officer, and (4) all our directors and executive officers as a group. Unless otherwise stated, each person listed below uses the Company's address. Pursuant to SEC rules, includes shares that the person has the right to receive within 60 days from March 15, 2019.

| Name and Address of Beneficial Owners | | Number of Shares Beneficially Owned | Percent of Class | |
|---|-----|--|------------------------|---|
| Sam Klepfish (Officer, Director) | (1) | 1,896,628 | 5.6 | % |
| Joel Gold (Director) | (2) | 399,054 | 1.2 | % |
| Justin Wiernasz (Officer, Director) | (3) | 1,578,776 | 4.7 | % |
| Hank Cohn (Director) | | 275,000 | 0.8 | % |
| Yorkmont Capital Partners, LP | (4) | 2,156,858 | 6.4 | % |
| A group consisting of Denver J. Smith, CRC Founders Fund, LP, Donald E. Smith, Richard G. Hill, Samuel N. Jurens, 73114 Investments, LLC, Youth Properties, LLC, and Paratus Capital, LLC | (5) | 1,808,125 | 5.4 | % |
| JCP Investment Management, LLC | (6) | 2,945,309 | 8.7 | % |
| All officers and directors as a whole (4 persons) | (7) | 4,149,458 | 12.3 | % |

- (1) Includes 16,250 shares of common stock owned by Mr. Klepfish's spouse, ownership of which is disclaimed by Mr. Klepfish.
- (2) Includes 18,400 shares of common stock held by Mr. Gold's spouse.
- (3) Includes 1,578,776 shares of common stock held by Mr. Wiernasz.
Consists of 2,156,858 shares of common stock held by Yorkmont Capital Partners, LP. The address of Yorkmont Capital Partners, LP is 2313 Lake Austin Blvd. Suite 202, Austin, TX 78703. Information gathered from a Schedule 13G/A filed with the Securities and Exchange Commission on January 11, 2019.
- (4) Pursuant to a Schedule 13D/A file on January 8, 2019 with the Securities and Exchange Commission, Mr. Denver Smith, part of the group, reports beneficially owning 1,808,125 shares, although Mr. Denver Smith only has sole voting and dispositive power over 765,637 of such shares. Mr. Smith's address is 52 Carlson Drive, Milford, CT 06460.
- (5) Consists of 2,945,309 shares of common stock held, directly and indirectly, by JCP Investment Management, LLC, which is ultimately controlled by James C. Pappas who has sole voting and dispositive power. The address of JCP Investment Management, LLC is 1177 West Loop South, suite 1320, Houston, TX 77027. Information gathered from a Schedule 13D/A filed with the Securities and Exchange Commission on February 27, 2019.
- (6) Includes 4,149,458 shares of common stock held by officers and directors;
- (7)

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

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

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ITEM 14. Principal Accountant Fees and Services

Audit Fees

The Company engaged Liggett & Webb P.A. (“LW”) as our independent registered public accounting firm since November 9, 2012. During the year ended December 31, 2018 and 2017, LW billed us audit fees of approximately \$128,000 and \$96,000, respectively.

Audit-Related Fees

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

Tax Fees

LW tax fees were \$20,000 and \$10,000 for the years ended December 31, 2018 and 2017, respectively.

All Other Fees

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

For the fiscal years ended December 31, 2018 and 2017 the board of directors considered the audit fees, audit-related fees, tax fees and other fees paid to our accountants, as disclosed above, and determined that the payment of such fees was compatible with maintaining the independence of the accountants. Our board of directors pre-approves all auditing services and all permitted non-auditing services (including the fees and terms thereof) to be performed by our independent registered public accounting firm, except for de minimis non-audit services that are approved by the board of directors prior to the completion of the audit.

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PART IV

ITEM 15. Exhibits

**EXHIBIT
NUMBER**

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

Securities and Exchange Commission on January 7, 2009)

4.8 Subscription Agreement between the Registrant and Alpha Capital Anstalt dated December 31, 2008 (incorporated by reference to exhibit 10.3 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 7, 2009)

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

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

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

Securities and Exchange Commission on May 24, 2012)

10.20 Loan Agreement between the registrant and Fifth Third Bank effective February 26, 2013 (incorporated by reference to exhibit 10.1 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 15, 2013)

10.21 Security Agreement between the registrant and Fifth Third Bank effective February 26, 2013 (incorporated by reference to exhibit 10.2 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 15, 2013)

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- 10.22 Mortgage by registrant in favor of Fifth Third Bank effective February 26, 2013 (incorporated by reference to exhibit 10.3 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 15, 2013)
- 10.23 Note by registrant in favor of Fifth Third Bank effective February 26, 2013 (incorporated by reference to exhibit 10.4 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 15, 2013)
- 10.24 Employment Agreement with Sam Klepfish dated as of March 29, 2017 (incorporated by reference to the Company's Form 10-K filed with the Securities and Exchange Commission on March 30, 2017)
- 10.25 Employment Agreement with Justin Wiernasz dated as of March 29, 2017 (incorporated by reference to the Company's Form 10-K filed with the Securities and Exchange Commission on March 30, 2017)
- 10.26 Asset Purchase Agreement dated as of January 22, 2018 by and among Innovative Gourmet, LLC, a subsidiary of the registrant, and iGourmet LLC and iGourmet NY LLC (incorporated by reference to the Company's Form 8-K filed with the Securities and Exchange Commission on January 30, 2018)
- 10.27 Loan Sale Agreement dated as of January 10, 2018 between Food Funding, LLC, a subsidiary of the registrant and UPS Capital Business Credit (incorporated by reference to the Company's Form 8-K filed with the Securities and Exchange Commission on January 30, 2018)
- 10.28 Fifth Amendment to Restated Loan Agreement dated February 28, 2018 between Fifth Third Bank and the registrant and its subsidiaries (incorporated by reference to the Company's Form 10-K filed with the Securities and Exchange Commission on March 29, 2018).
- 10.29 Promissory Note of the registrant and its subsidiaries in favor of Fifth Third Bank dated as of February 28, 2018 (incorporated by reference to the Company's Form 10-K filed with the Securities and Exchange Commission on March 29, 2018).
- 10.30 Draw Promissory Note of the registrant and its subsidiaries in favor of Fifth Third Bank dated as of March 13, 2018 (incorporated by reference to the Company's Form 10-K filed with the Securities and Exchange Commission on March 29, 2018).
- 10.31 Master Loan and Security Agreement dated March 13, 2018 between Fifth Third Bank and the registrant and its subsidiaries (incorporated by reference to the Company's Form 10-K filed with the Securities and Exchange Commission on March 29, 2018).
- 10.32 Employment Agreement with Sam Klepfish dated as of January 28, 2019 (incorporated by reference to the Company's Form 8-K filed with the Securities and Exchange Commission on February 1, 2019)
- 10.33 Employment Agreement with Justin Wiernasz dated as of January 28, 2019 (incorporated by reference to the Company's Form 8-K filed with the Securities and Exchange Commission on February 1, 2019)
- 10.34 Form of Director Agreement dated as of January 28, 2019 (incorporated by reference to the Company's Form 8-K filed with the Securities and Exchange Commission on February 1, 2019)

Code of Ethics (incorporated by reference to exhibit 14 of the Company's Form 10-KSB/A for the year ended December 31, 2006, filed with the Securities and Exchange Commission on July 31, 2008)

- 21 Subsidiaries of the Company
- 31.1 Rule 13a-14(a) Certification of Chief Executive Officer
- 31.2 Rule 13a-14(a) Certification of Principal Accounting Officer
- 32.1 Rule 1350 Certification of Chief Executive Officer
- 32.2 Rule 1350 Certification of Principal Accounting Officer

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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

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SIGNATURES

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

INNOVATIVE FOOD HOLDINGS, INC.

By: /s/ Sam Klepfish

Sam Klepfish,

Chief Executive Officer and Director

Dated: April 16, 2019

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

| Name | Title | Date |
|------------------------------------|---|-------------------|
| /s/ Sam Klepfish Sam Klepfish | CEO and Director (Chief Executive Officer) | April 16, 2019 |
| /s/ John McDonald John McDonald | Principal Accounting Officer (Principal Financial Officer) | April 16, 2019 |
| /s/ Joel Gold Joel Gold | Director | April 16, 2019 |
| /s/ Hank Cohn Hank Cohn | Director | April 16, 2019 |

/s/ Justin Wiernasz Director
Justin Wiernasz

April 16, 2019

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