INNOVATIVE FOOD HOLDINGS INC
Form 10-Q
November 14, 2016

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

FORM 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the Securities and Exchange Act of 1934
For the quarterly period ended September 30, 2016

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

Commission File Number: 0-9376

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

Florida	20-1167761
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer I.D. No.)

28411 Race Track Rd.
Bonita Springs, Florida 34135
(Address of Principal Executive Offices)

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

____

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

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

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

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

(Check One):

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

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

State the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date: shares of common stock issued 25,301,819 and 24,568,157 shares of common stock outstanding as of November 4, 2016.

INNOVATIVE FOOD HOLDINGS, INC.
TABLE OF CONTENTS TO FORM 10-Q

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1 - CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Innovative Food Holdings, Inc.
Condensed Consolidated Balance Sheets

	September 30, 2016 (unaudited)	December 31, 2015
ASSETS		
Current assets		
Cash and cash equivalents	$2,139,096	$1,645,320
Accounts receivable, net	1,875,886	1,650,584
Inventory	925,150	920,885
Current assets - discontinued operations	-	1,767,333
Other current assets	68,786	68,559
Total current assets	5,008,918	6,052,681
Property and equipment, net	2,086,878	2,193,463
Investment	150,000	150,000
Non-current assets - discontinued operations	-	4,665,554
Intangible assets, net	758,251	940,452
Total assets	$8,004,047	$14,002,150
LIABILITIES AND STOCKHOLDERS’ EQUITY (DEFICIT)		
Current liabilities		
Accounts payable and accrued liabilities	$1,566,202	$1,702,526
Accrued liabilities - related parties	-	458,710
Accrued interest	623,771	9,230
Revolving credit facilities	100,000	1,380,000
Notes payable, related party	164,650	-
Notes payable, current portion, net of discount	1,259,028	897,615
Current liabilities - discontinued operations	-	10,512,255
Contingent liabilities	-	91,000
Total current liabilities	3,713,651	15,051,336
Accrued interest – long term	-	614,465
Note payable - long term portion, net of discount	1,364,584	1,254,042
Notes payable - related parties, long term portion	-	164,650
Long term liabilities - discontinued operations	-	2,301,151
Total liabilities	5,078,235	19,385,644
Stockholders’ equity (deficit)		
Common stock, $0.0001 par value; 500,000,000 shares authorized; 25,301,819 and 24,248,486 shares issued; 24,568,157 and 23,547,823 shares outstanding at September 30, 2016 and December 31, 2015, respectively	2,528	2,423
Additional paid-in capital	34,398,840	32,344,584

Treasury stock, 519,254 and 486,254 shares outstanding at September 30, 2016 and December 31, 2015	(174,949)	(160,099)
Accumulated deficit	(31,300,607)	(37,570,402)
Total stockholder's equity (deficit)	2,925,812	(5,383,494)
Total liabilities and stockholders' equity (deficit)	$8,004,047	$14,002,150

See notes to these unaudited condensed consolidated financial statements.

Table of Contents

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

	For the Three Months Ended September 30, 2016	For the Three Months Ended September 30, 2015	For the Nine Months Ended September 30, 2016	For the Nine Months Ended September 30, 2015
Revenue	$9,094,443	$8,025,772	$25,413,011	$22,236,270
Cost of goods sold	6,404,185	5,671,714	17,979,553	15,666,141
Gross margin	2,690,258	2,354,058	7,433,458	6,570,129
Selling, general and administrative expenses	1,702,425	2,400,301	5,245,178	6,403,048
Total operating expenses	1,702,425	2,400,301	5,245,178	6,403,048
Operating income (loss)	987,833	(46,243)	2,188,280	167,081
Other (income) expense:				
Interest expense, net	121,226	223,256	365,764	443,824
Other (income)	-	(5,400)	-	(5,400)
Total other expense	121,226	217,856	365,764	438,424
Net income (loss) before taxes	866,607	(264,099)	1,822,516	(271,343)
Income tax expense	-	-	-	-
Net income (loss) from continuing operations	$866,607	$(264,099)	$1,822,516	$(271,343)
Net income (loss) from discontinued operations	-	(2,906,278)	4,447,279	(6,867,041)
Consolidated net income (loss)	$866,607	$(3,170,377)	$6,269,795	$(7,138,384)
Net income (loss) per share from continuing operations – basic	$0.035	$(0.012)	$0.073	$(0.012)
Net income (loss) per share from discontinued operations – basic	$-	$(0.127)	$0.178	$(0.312)
Net income (loss) per share from continuing operations – diluted	$0.030	$(0.012)	$0.066	$(0.012)
Net income (loss) per share from discontinued operations – diluted	$-	$(0.127)	$0.139	$(0.312)

Weighted average shares outstanding - basic	25,047,134	22,896,211	24,980,314	22,042,357
Weighted average shares outstanding - diluted	31,619,778	22,896,211	32,044,762	22,042,357

See notes to these unaudited condensed consolidated financial statements.

Table of Contents

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

	For The Nine Months Ended September 30, 2016	For The Nine Months Ended September 30, 2015
Cash flows from operating activities:		
Net income (loss)	$6,269,795	$(7,138,384)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Gain on sale of investment	-	(5,400)
Gain on sale of discontinued operations	(7,201,196)	-
Depreciation and amortization	409,228	925,710
Non-cash compensation	673,523	3,464,738
Non-cash compensation – FD employees	1,028,908	-
Amortization of discount on notes payable	277,529	396,678
Increase (decrease) in allowance for doubtful accounts	11,963	(515)
Changes in assets and liabilities:		
Accounts receivable, net	(237,265)	(354,755)
Deferred revenue	289,254	(921,758)
Inventory and other current assets, net	81,012	303,384
Accounts payable and accrued expenses - related party	(146,018)	(346,950)
Due from related party	110	-
Accounts payable and accrued expenses	197,603	(74,878)
Contingent liability	(91,000)	(2,500)
Net cash provided by (used in) operating activities	1,563,446	(3,754,630)
Cash flows from investing activities:		
Cash received from sale of investment		59,400
Cash decrease due to sale of discontinued operations	(470,482)	-
Cash paid to re-acquire shares issued in acquisition of The Fresh Diet	-	(3,000,000)
Acquisition of property and equipment	(10,512)	(1,454,833)
Net cash used in investing activities	(480,994)	(4,395,433)
Cash flows from financing activities:		
Common stock sold for cash	-	4,288,596
Common stock sold for exercise of options and warrants	-	788,860
Payments made for the repurchase of common stock	(14,850)	-
Borrowings on revolving credit facilities	805,959	4,547,700
Payments made on revolving credit facilities	(841,831)	(3,514,404)
Borrowings made on debt	-	1,980,000
Principal payments on debt	(1,021,829)	(523,905)
Principal payments capital leases	(8,094)	(164,270)

Net cash (used in) provided by financing activities	(1,080,645)	7,402,577
Increase (Decrease) in cash and cash equivalents	1,807	(747,486)
Cash and cash equivalents at beginning of period	2,137,289	3,112,526
Cash and cash equivalents at end of period	$2,139,096	$2,365,010
Cash and cash equivalents at end of period – discontinued operations	$-	$283,470
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$96,318	$71,200
Taxes	$-	$-
Non-cash transactions:		
Fair value of 25,000 shares of common stock issued to a service provider, previously accrued	$34,000	$-
Equipment acquired under capital lease	$9,217	$94,739
Fair value of options issued to a service provider	$-	$6,894
Discount on notes payable due to extension of term	$-	$647,565
Issuance of 150,000 shares of stock previously accrued pursuant to the Haley Group acquisition	$-	$37,500

See notes to these unaudited condensed consolidated financial statements.

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2016
(Unaudited)

1. BASIS OF PRESENTATION

Basis of Presentation

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

The accompanying unaudited interim condensed consolidated financial statements have been prepared by the Company, in accordance with generally accepted accounting principles pursuant to Regulation S-X of the Securities and Exchange Commission and with the instructions to Form 10-Q. Certain information and footnote disclosures normally included in audited consolidated financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. Accordingly, these interim financial statements should be read in conjunction with the Company's audited financial statements and related notes as contained in Form 10-K for the year ended December 31, 2015. In the opinion of management, the interim unaudited condensed consolidated financial statements reflect all adjustments, including normal recurring adjustments, necessary for fair presentation of the interim periods presented. The results of the operations for the three and nine months ended September 30, 2016 are not necessarily indicative of the results of operations to be expected for the full year.

Discontinued Operations

On February 23, 2016, the Company consummated the sale of 90% of its ownership in The Fresh Diet, Inc. ("FD"). As a result of the sale, the results of operations from January 1, 2016 through February 22, 2016 and from January 1, 2015 through September 30, 2015 have been included in "Net loss from discontinued operations" in our consolidated statements of operations. Additionally, these assets and liabilities have been presented as discontinued operations in our consolidated balance sheet as of December 31, 2015. See Note 3 - Discontinued Operations for additional information.

2. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Business Activity

Our business is currently conducted by our wholly-owned subsidiaries, Artisan , FII, FNM, OFB, GFG, Gourmet Foodservice Warehouse, Inc., Gourmeting, Inc., Haley, and Gourmet. Since its incorporation, the Company primarily through FII's relationship with US Food, Inc. ("U.S. Foods" or "USF"), has been in the business of providing premium restaurants, within 24 – 72 hours, with the freshest origin-specific perishables, specialty food products, 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 consumers with gourmet food products shipped directly from our network of vendors and from our warehouses within 24 – 72 hours. GFG is focused on expanding the Company's program offerings to additional customers. In our business model, we receive orders from our customers and then work closely with our suppliers and our warehouse facilities to have the orders fulfilled. In order to maintain freshness and quality, we carefully select our suppliers based upon, among other factors, their quality, uniqueness, reliability and access to overnight courier services.

Artisan is a supplier of over 1,500 niche gourmet products to over 500 customers in the Greater Chicago area. Haley is a dedicated foodservice consulting and advisory firm that works closely with companies to access private label and manufacturers' label food service opportunities with the intent of helping them launch and commercialize new products in the foodservice industry. OFB is an outsourced national sales and brand management team for emerging organic and specialty food Consumer Packaged Goods ("CPG") companies and provides emerging CPG specialty food brands distribution and shelf placement access in key major metro markets in the retail food industry.

Table of Contents

Use of Estimates

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

Principles of Consolidation

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

Concentration Risk

Cash includes amounts deposited in financial institutions in excess of insurable Federal Deposit Insurance Corporation (FDIC) limits. At times throughout the year, the Company may maintain cash balances in certain bank accounts in excess of FDIC limits. As of September 30, 2016, the cash balance in excess of the FDIC limits was $1,448,028. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk in these accounts.

Revenue Recognition

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

For revenue from product sales, the Company recognizes revenue in accordance with Financial Accounting Standards Board “FASB” Accounting Standards Codification “ASC” 605-15-05. ASC 605-15-05 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred; (3) the selling price is fixed and determinable; and (4) collectability is reasonably assured. Determination of criteria (3) and (4) are based on management’s judgments regarding the fixed nature of the selling prices of the products delivered and the collectability of those amounts. Provisions for discounts and rebates to customers, estimated returns and allowances, and other adjustments are provided for in the same period the related sales are recorded. The Company defers any revenue for which the product has not been delivered or is subject to refund until such time that the Company and the customer jointly determine that the product has been delivered or no refund will be required.

Cost of Goods Sold

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

Basic and Diluted Earnings Per Share

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

Table of Contents

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. For the three months ended September 30, 2016, the company did not include the following in the calculation of weighted-average fully-diluted shares outstanding because the result would have been anti-dilutive: 2,742,503 shares underlying warrants and 1,475,000 shares underlying options. For the nine months ended September 30, 2016, the company did not include the following in the calculation of weighted-average fully-diluted shares outstanding because the result would have been anti-dilutive: 2,294,493 shares underlying warrants and 1,290,000 shares underlying options.

For the three and nine months ended September 30, 2015, fully-diluted earnings per share was the same as basic earnings per share because the effect of the exercise of any of the dilutive securities would have been anti-dilutive, and the following were not included in the calculation of fully-diluted earnings per share: 5,682,320 shares underlying convertible notes payable and accrued interest; 3,120,000 shares from the exercise of options; and 3,537,286 shares from the exercise of warrants.

Dilutive shares at September 30, 2016:

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

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

Stock options:
At September 30, 2016, the Company had outstanding options for holders to purchase the following additional shares: 30,000 shares at a price of $3.40 per share; 20,000 shares at a price of $2.40 per share; 500,000 shares at a price of $2.00 per share; 15,000 shares at a price of $1.90 per share; 310,000 shares at a price of $1.60 per share; 100,000 shares at a price of $1.46 per share; 15,000 shares at a price of $1.44 per share; 75,000 shares at a price of $1.31 per share; 225,000 shares at a price of $0.57 per share; 92,500 shares at a price of $0.48 per share; 92,500 shares at a price of $0.474 per share; 92,500 shares at a price of $0.45 per share; 275,000 shares at a price of $0.40 per share; 92,500 shares at a price of $0.38 per share; and 1,170,000 shares at a price of $0.35 per share.

RSUs:
At September 30, 2016, the Company has issued restricted stock units (“RSUs”) for the potential issuance of shares of the Company’s common stock for the purpose of aligning executives and employees of the Company and for the purpose of compensation for serving as members of the Board of Directors of the Company and for the purposes of retaining qualified personnel at compensation levels that otherwise would not be available should the company have been required to pay certain salaries in cash only. Certain of the RSUs were issued to members of the board of directors of the Company (“Board RSUs”); certain RSUs were issued to the executive officers of the Company (“Executive RSUs”); certain RSUs were issued to employees of the Company (“Employee RSUs”); and certain RSUs were issued to employees of The Fresh Diet (“FD RSUs”).

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

At September 30, 2016, the following Executive RSUs were outstanding: a total of 1,137,072 RSUs were vested; 600,000 RSUs will vest on December 31, 2016; and 800,000 RSUs will vest on July 1, 2017. An additional 125,000 RSUs will vest contingent upon the attainment of a stock price of $2.00 per share for 20 straight trading days, and an additional 175,000 RSUs will vest contingent upon the attainment of a stock price of $3.00 per share for 20 straight trading days. The Company estimated that the stock-price goals of the Company's stock price closing above $2.00 per share for 20 straight days have a 90% likelihood of achievement, and these RSUs were valued at 90% of their face value; the Company also estimated that the likelihood of the Company's stock closing above $3.00 per share for 20 straight days is 70%, and these RSUs were valued at 70% of their face value

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

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

Table of Contents

We recognized stock-based compensation expense for RSUs in a straight-line manner over the vesting period of the grant. This resulted in stock-based compensation expense (continuing operations) of $190,692 and $753,633 related to recognition of RSUs during the three months ended September 30, 2016 and 2015, respectively, and $658,709 and $1,551,775 related to recognition of RSUs during the nine months ended September 30, 2016 and 2015, respectively.

Dilutive shares at September 30, 2015:

Convertible notes and interest:
At September 30, 2015, the Company had outstanding convertible notes payable in the aggregate principal amount of $758,065 with accrued interest of $665,516 convertible at the rate of $0.25 per share into an aggregate of 5,694,324 shares of common stock, and a convertible note payable in the amount of $100,000 convertible at the rate of $1.54 per share into 64,935 shares of common stock.

Warrants:
At September 30, 2015, the Company had outstanding warrants for holders to purchase the following additional shares: 2,294,493 shares at a price of $0.575 per share; 448,011 shares at a price of $0.55 per share; 94,783 shares at a price of $0.25 per share; and 700,000 shares at a price of $0.01 per share.

Stock Options:
At September 30, 2015, the Company had outstanding options for holders to purchase the following additional shares: 30,000 shares at a price of $3.40 per share; 20,000 shares at a price of $2.40 per share; 500,000 shares at a price of $2.00 per share; 15,000 shares at a price of $1.90 per share; 310,000 shares at a price of $1.60 per share; 15,000 shares at a price of $1.50 per share; 100,000 shares at a price of $1.46 per share; 15,000 shares at a price of $1.44 per share; 75,000 shares at a price of $1.31 per share; 225,000 shares at a price of $0.57 per share; 92,500 shares at a price of $0.48 per share; 92,500 shares at a price of $0.474 per share; 92,500 shares at a price of $0.45 per share; 275,000 shares at a price of $0.40 per share; 92,500 shares at a price of $0.38 per share; and 1,170,000 shares at a price of $0.35 per share.

RSUs:
At September 30, 2015, the Company has issued restricted stock units (“RSUs”) for the potential issuance of shares of the Company’s common stock for the purpose of aligning executives and employees of the Company and for the purpose of compensation for serving as members of the Board of Directors of the Company and for the purposes of retaining qualified personnel at compensation levels that otherwise would not be available should the company have been required to pay certain salaries in cash only. Certain of the RSUs were issued to employees of The Fresh Diet (“Employee RSUs”) and certain RSUs were issued to the executive officers of the Company (“Executive RSUs”) and certain RSUs were issued to members of the board of directors of the Company (“Board RSUs”). With respect to the Executive RSUs, the Company’s executive officers were awarded an aggregate number of RSUs which vest according to the following schedule, provided the performance conditions are met: 322,466 RSU’s vested on January 1, 2015, 390,000 RSUs vested on July 1, 2015 and 300,000 RSU’s vest on December 31, 2015; 75,000 RSU’s vest on May 1, 2016, 90,000 RSU’s vest on July 1, 2016 and 600,000 RSUs vest on December 31, 2016 and 890,000 RSUs vest on July 1, 2017 and 300,000 RSU’s vest solely upon the achievement of performance goals and the continued employment with the Company. The members of the Company’s Board of Directors were awarded the aggregate number of RSU’s which vest according to the following schedule: 270,000 RSU’s vested on July 1, 2015; 270,000 RSU’s vest on July 1, 2016; and 270,000 RSU’s vest on July 1, 2017.

The Employee RSUs issued to certain nonexecutive employees of the Company were issued either partially in lieu of salary, future bonuses or a combination of both bonus and salary. At September 30, 2015, there were a total of 99,907 Employee RSUs, all of which were vested.

The FD RSUs issued to certain nonexecutive employees of FD were issued either partially in lieu of salary, future bonuses, or a combination of both bonus and salary. At September 30, 2015, the FD RSUs were scheduled to vest as follows: On July 1, 2015, 600,000 RSUs vested; on December 31, 2015 an additional 600,000 RSUs vest; on December 31, 2016 an additional 1,200,000 RSUs vest; and on July 1, 2017, an additional 1,600,000 RSUs vest. An additional 350,000 RSUs will vest if the price of the Company's common stock closes above $2.50 per share for twenty consecutive trading days. In addition there are restrictions on the sale of such vested stock, including aggregate volume restrictions, and shares cannot be sold below $2.50 per share.

Table of Contents

The Company estimated that the stock-price goals of the Company's stock price closing above $2.50 per share for 20 straight days have a 90% likelihood of achievement, and these RSUs were valued at 90% of their face value. The Company estimated that the revenue targets had a 100% likelihood of achievement, and these RSUs were valued at 100% of their face value. We recognized stock-based compensation expense of in a straight-line manner over the vesting period of the RSUs. This resulted in stock-based compensation expense of $1,128,170 and $3,287,219 respectively, related to recognition of RSUs during the three and nine months ended September 30, 2015.

Fully-diluted earnings per share was the same as basic earnings per share for the three and nine months ended September 30, 2015 because the effect of the exercise of above instruments would be anti-dilutive.

Significant Recent Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-2, which creates ASC Topic 842, "Leases." This update increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. This guidance is effective for interim and annual reporting periods beginning after December 15, 2018. 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.

In March 2016, the FASB issued ASU No. 2016-9, which amends ASC Topic 718, "Compensation – Stock Compensation." This amendment simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. This guidance is effective for interim and annual reporting periods beginning after December 15, 2016. 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.

In August 2016, the FASB issued ASU No. 2016-15 which amends ASC Topic 230, "Classification of Certain Cash Receipts and Cash Payments." The amendments in this Update address eight specific cash flow issues with the objective of reducing the existing diversity in practice. The update outlines the classification of specific transactions as either cash inflows or outflows from financing activities, operating activities, investing activities or non-cash activities. This guidance is effective for interim and annual reporting periods beginning after December 15, 2017. 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.

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 unaudited condensed consolidated financial statements.

3. DISCONTINUED OPERATIONS

Effective February 23, 2016, the Company closed a transaction to sell 90% of its ownership in FD to New Fresh Co., LLC, a Florida limited liability company controlled by the former founder of FD who was appointed Interim CEO of FD prior thereto. The consideration to Innovative Food Holdings consisted primarily of a restructuring of our loans, which includes the ability to convert to additional amounts of FD under certain circumstances. There is no continuing cash inflows or outflows from or to the discontinued operations.

ASC 360-10-45-9 requires that a long-lived asset (disposal group) to be sold shall be classified as held for sale in the period in which a set of criteria have been met, including criteria that the sale of the asset (disposal group) is probable and actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. This criteria was achieved on February 9, 2016. Additionally, the discontinued operations are comprised of the entirety of The Fresh Diet, excluding corporate services expenses. Lastly, for comparability purposes certain prior period line items relating to the assets held for sale have been reclassified and presented as discontinued operations for all periods presented in the accompanying condensed consolidated statements of operations and the condensed consolidated balance sheets.

Table of Contents

The following information presents the major classes of line item of assets and liabilities included as part of discontinued operations in the consolidated balance sheet:

	December 31, 2015
Current assets - discontinued operations:	
Cash and cash equivalents	$491,969
Inventory	173,987
Other current assets	640,137
Due from related parties	461,240
Total current assets - discontinued operations	$1,767,333
Noncurrent assets - discontinued operations:	
Property and equipment, net	$802,843
Intangible assets, net	3,862,711
Total noncurrent assets - discontinued operations	$4,665,554
Current liabilities - discontinued operations:	
Accounts payable and accrued liabilities	$3,022,466
Deferred revenue	5,035,906
Accrued liabilities - related parties	135,935
Accrued interest	58,943
Revolving credit facilities	211,211
Notes payable, current portion	528,594
Deferred tax liability	1,069,200
Contingent liabilities	450,000
Total current liabilities - discontinued operations:	$10,512,255
Long term liabilities - discontinued operations:	
Note payable - long term portion	101,181
Notes payable - related parties, long term portion	2,199,970
Total long term liabilities - discontinued operations	$2,301,151

The following information presents the major classes of line items constituting the after-tax loss from discontinued operations in the consolidated statements of operations. The three and nine months ended September 30, 2016 includes the results from discontinued operations from January 2, 2016 through the date of disposal (February 22, 2016):

	Three Months Ended	
	September 30, 2016	September 30, 2015
Revenue	-	4,103,930
Cost of goods sold	-	3,542,429
Gross margin	-	561,501
Selling, general and administrative expenses	-	3,446,223

Total operating expenses	-	3,446,223
Operating loss	-	(2,884,722)
Other (income) expense:		
Gain on sale of discontinued operations	-	-
Interest expense, net	-	21,556
Total other (income) expense	-	21,556
Income (loss) from discontinued operations, net of tax	$-	$(2,906,278)

11

Table of Contents

	Nine Months Ended	
	September 30, 2016	September 30, 2015
Revenue	2,389,950	13,607,750
Cost of goods sold	1,764,834	10,504,109
Gross margin	625,116	3,103,641
Selling, general and administrative expenses	3,368,213	9,905,762
Total operating expenses	3,368,213	9,905,762
Operating loss	(2,743,097)	(6,802,121)
Other (income) expense:		
Gain on sale is discontinued operations	(7,201,196)	-
Interest expense, net	10,820	64,920
Total other (income) expense	(7,190,376)	64,920
Income (loss) from discontinued operations, net of tax	$4,447,279	$(6,867,041)

The following information presents the major classes of line items constituting significant operating and investing cash flow activities in the unaudited consolidated statements of cash flows relating to discontinued operations:

	Nine Months Ended	
	September 30, 2016	September 30, 2015
Cash Flow: Major line items		
Depreciation and Amortization	107,009	652,038
Non-cash compensation	1,028,908	1,777,944
Purchase of equipment	(6,296)	(142,162)
Cash from revolving credit facilities	685,959	2,267,700
Payments made on revolving credit facilities	(641,831)	(2,614,404)
Principal payments made on notes payable	(7,074)	(75,756)
Principal payments made on capital leases	(8,094)	(157,374)

The components of the gain on sale and income from discontinued operations are as follows:

	February 22, 2016
Receivable due from buyer, net of reserve of $8,700,000	$-
Net proceeds from sale of assets and liabilities	-
Assets sold	(6,225,073)
Liabilities sold	13,426,269
Net liabilities sold	7,201,196

Gain on sale	7,201,196
Loss from discontinued operations before income tax	(2,753,917)
Income tax expense	-
Income from discontinued operations	$4,447,279

12

Table of Contents

4. ACCOUNTS RECEIVABLE

At September 30, 2016 and December 31, 2015, accounts receivable consists of:

	September 30, 2016	December 31, 2015
Accounts receivable from customers	$1,932,257	$1,706,948
Allowance for doubtful accounts	(56,371)	(56,364)
Accounts receivable, net	$1,875,886	$1,650,584

5. INVENTORY

Inventory consists primarily of specialty food products. At September 30, 2016 and December 31, 2015, inventory consisted of the following:

	September 30, 2016	December 31, 2015
Finished Goods Inventory	$925,150	$920,885

6. PROPERTY AND EQUIPMENT

The Company owns a building and property located at 28411 Race Track Road, Bonita Springs, Florida 34135 and with respect thereto has entered into each of a Loan Agreement, Mortgage, Security Agreement and Note with Fifth Third Bank, each with an effective date of February 26, 2013. 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 and was financed in part by a five year mortgage in the amount of $546,000 carrying an annual interest rate of 3% above LIBOR Rate, as such term is defined in the Note.

The Company also owns 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 up-fit expenses at the property. The interest on the loan is at the LIBOR rate plus 3.0%. The building is used for office and warehouse space for the Company's Artisan subsidiary.

A summary of property and equipment at September 30, 2016 and December 31, 2015, was as follows:

	September 30, 2016	December 31, 2015
Land	$385,523	$385,523
Building	1,326,165	1,326,165
Computer and Office Equipment	466,177	466,177
Warehouse Equipment	207,596	197,561

Furniture, Fixtures	454,743	451,346
Vehicles	40,064	40,064
Total before accumulated depreciation	2,880,268	2,866,836
Less: accumulated depreciation	(793,390)	(673,373)
Total	$2,086,878	$2,193,463

Depreciation and amortization expense for property and equipment amounted to $37,807 and $106,083 for the three months ended September 30, 2016 and 2015, respectively. Depreciation and amortization expense for property and equipment amounted to $120,017 and $293,348 for the nine months ended September 30, 2016 and 2015, respectively.

Table of Contents

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. As of September 30, 2016 and December 31, 2015, the Company had made investments in two such companies in the aggregate amount of $150,000. The Company does not have significant influence over the operations of the companies it invests in.

8. INTANGIBLE ASSETS

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

	September 30, 2016		
	Gross	Accumulated Amortization	Net
Trade Name	$217,000	$ -	$217,000
Non-Compete Agreement	244,000	(244,000)	-
Customer Relationships	1,130,994	(740,743)	390,251
Goodwill	151,000	-	151,000
Total	$1,742,994	$ (984,743)	$758,251

	December 31, 2015		
	Gross	Accumulated Amortization	Net
Trade Name	$217,000	$ -	$217,000
Non-Compete Agreement	244,000	(213,500)	30,500
Customer Relationships	1,130,994	(589,042)	541,952
Goodwill	151,000	-	151,000
Total	$1,742,994	$ (802,542)	$940,452

Amortization expense charged to continuing operations for the three months ended September 30, 2016 and 2015 was $50,567 and $210,788, respectively. Amortization expense charged to continuing operations for the nine months ended September 30, 2016 and 2015 was $182,201 and $632,364, respectively.

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

As detailed in ASC 350, the Company tests for goodwill impairment in the fourth quarter of each year and whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its fair value and may not be recoverable. As detailed in ASC 350-20-35-3A, in performing its testing for goodwill impairment, management has completed a qualitative analysis to determine whether it was more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. To complete this review, management followed the steps in ASC 350-20-35-3C to evaluate the fair value of goodwill and considered all known events and circumstances that might trigger an impairment of goodwill. The analysis completed in 2015 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 September 30, 2016 and December 31, 2015 are as follows:

	September 30, 2016	December 31, 2015
Trade payables	$1,273,435	$1,623,856
Accrued costs of discontinued operations	202,964	-
Accrued payroll and commissions	89,803	78,670
Total	$1,566,202	$1,702,526

At September 30, 2016 and December 31, 2015, accrued liabilities to related parties of consisted of accrued payroll, accrued bonus, and payroll related benefits.

Table of Contents

10. ACCRUED INTEREST

At September 30 2016 accrued interest was $623,771, which is convertible at the option of the note holders into the Company's common stock a price of $0.25 per share, or a total of 2,495,084 shares. During the nine months ended September 30, 2016, the Company paid cash for interest in the aggregate amount of $92,965. The due date of the accrued interest in the amount is July 1, 2017.

At December 31, 2015, accrued interest was $623,695. Of this amount, $614,465 is convertible at the option of the note holders into the Company's common stock a price of $0.25 per share, or a total of 2,457,860 shares. During the twelve months ended December 31, 2015, the Company paid cash for interest in the aggregate amount of $68,754. The due date of accrued interest in the amount of $614,465 was extended to July 1, 2017 pursuant to an amendment to the September 2015 Notes Payable Extension Agreement (See Note 12) and is classified as a long-term liability on the Company's balance sheet at December 31, 2015.

11. REVOLVING CREDIT FACILITIES

	September 30, 2016	December 31, 2015
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. During the three and nine months ended September 30, 2016, the Company made net borrowings in the amount of $0 and $120,000 from this facility. During the three months and nine months ended September 30, 2016, the Company made principal payments in the net amount of $0 and $200,000, respectively. During the three months ended September 30,2016, the Company transferred principal in the amount of $1,200,000 from this credit facility to a new term loan established with Fifth Third Bank. During the three and nine months ended September 30, 2016, the Company recorded interest in the amount of $6,151 and $23,203, respectively.	$ 100,000	$ 1,380,000
Total	$ 100,000	$ 1,380,000

12. NOTES PAYABLE AND NOTES PAYABLE TO RELATED PARTIES

	September 30, 2016	December 31, 2015
Term loan dated as of August 5, 2016 in the original amount of $1,200,000 payable to Fifth Third Bank. This loan is secured by the Company's tangible and intangible personal property and bears interest at the rate of LIBOR plus 4.5%. Principal payments in the amount of $66,667 are due monthly along with accrued interest beginning September 5, 2016. The entire principal balance and all accrued interest is due on the maturity date of February 5, 2018. During the three months ended September 30, 2016, the Company transferred principal in the amount of $1,200,000 from the line of credit facility with Fifth Third Bank into this term loan. During the three months ended September 30, 2016, the Company made principal and interest payments in the amount of $152,634 and $10,039, respectively, on this	$ 1,047,366	$ -

loan.		
Secured mortgage note payable for the acquisition of land and building in Bonita Springs, Florida in the amount of $546,000. Principal payments of $4,550 and interest at the rate of Libor plus 3% are due monthly. The balance of the principal amount will be due February 28, 2018. During the three months ended September 30, 2016, the Company made payments of principal and interest in the amounts of $13,650 and $3,205, respectively. During the nine months ended September 30, 2016, the Company made payments of principal and interest in the amounts of $40,950 and $9,987, respectively.	350,350	391,300
Secured mortgage note payable for the acquisition of land and building in Broadview, Illinois in the amount of $980,000. Payments of $8,167 including principal and interest at the rate of LIBOR plus 2.75% are due monthly through April 2020, the remaining principal balance in the amount of $490,000 will be due May 29, 2020. During the three months ended September 30, 2016, the Company made payments of principal and interest in the amounts of $24,500 and $7,282, respectively. During the nine months ended September 30, 2016, the Company made payments of principal and interest in the amounts of $73,500 and $22,189, respectively.	849,333	922,833

Table of Contents

	September 30, 2016	December 31, 2015
A total of 17 convertible notes payable in the aggregate amount of $647,565 (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 $732,565 was recorded to recognize the value of the beneficial conversion feature embedded in the extension of the term of the notes. In March 2015 the notes were further extended to January 1, 2016. On September 30, 2015, the notes in the amount of $647,565 were further extended to July 1, 2017, and a discount in the amount of $647,565 was recorded to recognize the value of the beneficial conversion featured embedded in the extension of the term of the notes. During the three and nine months ended September 30, 2016, $92,509 and $277,528, respectively, of this discount was charged to operations. During the three and nine months ended September 30, 2016, the Company accrued interest in the amount of $3,102 and $9,306, respectively, on these notes.	$ 647,565	$ 647,565
An 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.	164,650	164,650
Promissory note in the amount of $200,000 bearing interest at the rate of 1% per annum issued in connection with the OFB acquisition. Principal in the amount of $100,000 was due June 30, 2015; this payment was made in July 2015 within the 5 day grace period stipulated in the note agreement. During the three and nine months ended September 30, 2016, the Company paid accrued interest in the amount of $2,010 on this note. The note is convertible into shares of the Company's common stock at the conversion price of $1.54 per share. During the three and nine months ended September 30, 2016, the Company accrued interest in the amount of $510 and $1,010, respectively, on this note. In July 2016, the Company made a principal payment in the amount of $100,000 which satisfied this note in full.	-	100,000
Promissory note payable to Alpha Capital in the amount of $469,010 dated November 6, 2015 bearing interest at the rate of 9.9% per annum. This note is unsecured, and became due December 6, 2015. During the nine months ended September 30, 2016 the Company accrued interest expense in the amount of $9,525, on this note. During the nine months ended September 30, 2016, the Company paid principal and accrued interest in the amounts of $469,010 and $15,798, respectively, which satisfied this note in full.	-	469,010
Promissory note payable to Alpha Capital in the amount of $176,005 dated November 20, 2015 bearing interest at the rate of 9.9% per annum. This note is unsecured, and became due December 20, 2015. During the nine months ended September 30, 2016, the Company	-	176,005

accrued interest expense in the amount of $3,533 on this note. During the nine months ended September 30, 2016, the Company paid principal and accrued interest in the amounts of $176,005 and $5,490, respectively, which satisfied this note in full.		
Capital lease obligations under a lease agreement for a forklift payable in thirty-six monthly installments of $274 including interest at the rate of 4.46%. During the three months ended September 30, 2016, the Company made principal and interest payments in the amount of $744 and $78, respectively. During the nine months ended September 30, 2016, the Company made principal and interest payments in the amount of $2,206 and $260, respectively.	6,527	-

16

Table of Contents

	September 30, 2016	December 31, 2015
Total	$3,065,791	$2,871,363
Less: Discount	(277,529)	(555,056)
Net	$2,788,262	$2,316,307
Current maturities, net of discount	$1,423,678	$897,615
Long-term portion, net of discount	1,364,584	1,418,692
Total	$2,788,262	$2,316,307

	For the Three Months Ended September 30,	
	2016	2015
Discount on Notes Payable amortized to interest expense:	$92,509	$198,364

	For the Nine Months Ended September 30,	
	2016	2015
Discount on Notes Payable amortized to interest expense:	$277,527	$396,678

At September 30, 2016 and December 31, 2015, the Company had unamortized discounts to notes payable in the aggregate amount of $277,529 and $555,056, respectively.

Beneficial Conversion Features

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

13. RELATED PARTY TRANSACTIONS

For the nine months ended September 30, 2016:

At December 31, 2015, the Company had an accrued liability in the amount of $160,150 representing an aggregate of 210,520 shares of common stock to be issued to officers, directors, and employees for services performed during 2013; during the three months ended March 31, 2016, the Company issued 210,520 RSUs in satisfaction of this liability. Also at December 31, 2015, the Company had an accrued liability in the amount of $157,780 representing 244,620 RSUs to be issued to officers and employees as a bonus for services performed in 2015; during the three months ended March 31, 2016, the Company issued an aggregate of 244,620 RSUs in satisfaction of this liability.

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

For the nine months ended September 30, 2015:

During the nine months ended September 30, 2015, the Company extended the expiration date to December 31, 2015 of certain options to purchase a total of 277,500 shares of the Company's common stock which were held by board members and key employees. The Company valued the options at the extended due dates using the Black-Scholes valuation model, and charged the amount of $146 to operations during the period ended June 30, 2015. (See note 15).

Table of Contents

At September 30, 2015, the Company's subsidiary, FD had loans receivable outstanding in the aggregate amount of $426,342 from four individuals who were previously owners of The Fresh Diet. The Company also has a loan receivable in the amount of $34,899 from a previously related entity.

During the three months ended September 30, 2015, the Company issued 25,000 shares of common stock with a value of $42,500 to the President of The Fresh Diet pursuant to his employment agreement.

14. COMMITMENTS AND CONTINGENT LIABILITIES

Contingent Liability

Pursuant to the OFB acquisition, the Company was contingently liable for certain performance-based payments over the twenty-four months following the acquisition date. The Company believed it was likely that these payments would be made, and accordingly recorded the entire amount of $225,000 as a contingent liability on its balance sheet at acquisition with $91,000 outstanding at December 31, 2015. During the three months ended September 30, 2016 and 2015, payments were made in the aggregate amount of $60,000 and $26,250, respectively. During the nine months ended September 30, 2016 and 2015, payments in the aggregate amount of $91,000 and $52,500, respectively, have been made under this contingent liability; at September 30, 2016, the balance of the contingent liability is $0.

Litigation

From time to time, the Company may be involved in various lawsuits and legal proceedings which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business.

15. EQUITY

Common Stock

At September 30, 2016 and December 31, 2015, a total of 733,662 shares are deemed issued but not outstanding by the Company.

Nine months ended September 30, 2016:

The Company issued 25,000 shares of common stock with a fair value of $34,000 to a service provider. The value of these shares was accrued during the twelve months ended December 31, 2015.

The Company issued an aggregate of 600,000 shares of common stock to an employee of The Fresh Diet pursuant to a separation agreement. These shares were issued as follows: 300,000 of these shares were issued for the exercise of RSUs held by the employee, and an additional 300,000 shares were charged to discontinued operations at the fair value of $147,000.

The Company issued 133,333 shares of common stock to an employee of The Fresh Diet pursuant to an employee agreement. The fair value of these shares in the amount of $67,987 was charged to discontinued operations during the period.

The Company issued 200,000 shares of common stock to an employee of The Fresh Diet pursuant to a separation agreement. These shares were issued via the exercise of RSUs; the par value of $20 was charged to additional paid-in capital during the period.

The Company repurchased 33,000 shares of common stock at a share price of $0.45 per share. The value of these shares in the amount of $14,850 has been recorded in treasury stock.

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

Nine months ended September 30, 2015:

The Company sold 3,178,420 shares of common stock at a price of $0.9646 per share and an additional 943,829 shares at a price of $1.30 per share in a private placement for net cash proceeds of $4,288,596.

Table of Contents

The Company paid $3,000,000 cash for the purpose of acquiring, in a block sale, the shares of Monolith Ventures Ltd, a former shareholder of The Fresh Diet, who agreed to sell its position of 3,110,063 shares at a price of $0.9646 per share. The Company cancelled these 3,110,063 shares during the three months ended March 31, 2015.

The Company issued 727,272 shares of common stock pursuant to the exercise of warrants for cash of $400,000.

The Company issued 40,000 shares of common stock pursuant to the exercise of stock options for cash of $15,200.

The Company issued 150,000 shares of common stock Michael Ferrone pursuant to the exercise of 150,000 stock options with a weighted average exercise price of $0.444 per share, for cash proceeds of $66,600.

On September 25, 2015, the Company issued 533,913 shares of common stock pursuant to the exercise of warrants with a purchase price of $0.575 per share, for cash proceeds of $307,000.

On September 30, 2015, the Company recorded the issuance of 25,000 shares of common stock with a fair value of $42,500 to an employee pursuant to an employment agreement.

Warrants

The following table summarizes the significant terms of warrants outstanding at September 30, 2016. These warrants may be settled in cash and, unless the underlying shares are registered, via cashless conversion, into shares of the Company's common stock at the request of the warrant holder. These warrants were granted as part of a financing agreement:

Range of exercise Prices	Number of warrants Outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price of outstanding Warrants	Number of warrants Exercisable	Weighted average exercise price of exercisable Warrants
$0.010	700,000	3.63	$ 0.010	700,000	$ 0.010
$0.250	94,783	0.75	$ 0.250	94,783	$ 0.250
$0.550	448,010	0.75	$ 0.550	448,011	$ 0.550
$0.575	2,294,491	0.75	$ 0.575	2,294,491	$ 0.575
	3,537,284	1.32	$ 0.451	3,537,284	$ 0.451

Transactions involving warrants are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
Warrants outstanding at December 31, 2015	3,537,284	$ 0.451
Granted	-	-
Exercised	-	-

Cancelled / Expired	-	-
Warrants outstanding at September 30, 2016	3,537,284	$ 0.451

Table of Contents

Options

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

Range of exercise Prices	Number of options Outstanding	Weighted average Remaining contractual life (years)	Weighted average exercise price of outstanding Options	Number of options Exercisable	Weighted average exercise price of exercisable Options
$ 0.350	1,170,000	0.91	$ 0.350	1,170,000	$ 0.350
$ 0.380	92,500	0.25	$ 0.380	92,500	$ 0.380
$ 0.400	275,000	0.25	$ 0.400	275,000	$ 0.400
$ 0.450	92,500	0.25	$ 0.450	92,500	$ 0.450
$ 0.474	92,500	0.25	$ 0.474	92,500	$ 0.474
$ 0.480	92,500	0.25	$ 0.480	92,500	$ 0.480
$ 0.570	225,000	1.25	$ 0.570	225,000	$ 0.570
$ 1.310	75,000	1.92	$ 1.310	25,000	$ 1.310
$ 1.440	15,000	0.09	$ 1.440	15,000	$ 1.440
$ 1.460	100,000	1.75	$ 1.460	100,000	$ 1.460
$ 1.600	310,000	1.25	$ 1.600	310,000	$ 1.600
$ 1.900	15,000	1.09	$ 1.900	15,000	$ 1.900
$ 2.000	500,000	0.41	$ 2.000	500,000	$ 2.000
$ 2.400	20,000	1.67	$ 2.400	20,000	$ 2.400
$ 3.400	30,000	1.67	$ 3.400	30,000	$ 3.400
	3,105,000	0.81	$ 0.887	3,055,000	$ 0.880

Transactions involving stock options are summarized as follows:

	Number of Shares	Weighted Average Exercise Price

Options outstanding at December 31, 2015	3,105,000	$ 0.887
Granted	-	$ -
Exercised	-	$ -
Cancelled / Expired	-	$ -
Options outstanding at September 30, 2016	3,105,000	$ 0.887

Table of Contents

Aggregate intrinsic value of options outstanding and exercisable at September 30, 2016 and 2015 was $737,905 and $1,268,030, 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 $0.48 and $1.02 as of September 30, 2016 and 2015, respectively, and the exercise price multiplied by the number of options outstanding.

During the nine months ended September 30, 2015, the Company extended the expiration date of certain options to purchase a total of 277,500 shares of the Company's common stock which were held by board members and key employees. The expiration dates of options to purchase 92,500 shares of common stock at a price of $0.38 per share were extended from March 31, 2015 to December 31, 2015; the expiration dates of options to purchase 92,500 shares of common stock at a price of $0.45 per share were extended from June 30, 2015 to December 31, 2015; and the expiration dates of options to purchase 92,500 shares of common stock at a price of $0.474 per share were extended from September 30, 2015 to December 31, 2015. The Company valued the options at the extended due dates using the Black-Scholes valuation model, and charged the amount of $146 to operations during the period ended March 31, 2015.

During the three months ended September 30, 2016, and 2015 the Company charged a total of $4,983 and $9,959, respectively, to operations related to recognized stock-based compensation expense for employee stock options. During the nine months ended September 30, 2016, and 2015 the Company charged a total of $14,814 and $95,873, respectively, to operations related to recognized stock-based compensation expense for employee stock options.

Accounting for warrants and stock options

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

	September 30, 2015	
Volatility	47.35	%
Dividends	$ -	
Risk-free interest rates	0.99	%
Term (years)	3.00	

Restricted Stock Units ("RSUs")

At September 30, 2016, the Company has issued restricted stock units ("RSUs") for the potential issuance of shares of the Company's common stock for the purpose of aligning executives and employees of the Company and for the purpose of compensation for serving as members of the Board of Directors of the Company and for the purposes of retaining qualified personnel at compensation levels that otherwise would not be available should the company have been required to pay certain salaries in cash only. Certain of the RSUs were issued to members of the board of directors of the Company ("Board RSUs"); certain RSUs were issued to the executive officers of the Company ("Executive RSUs"); certain RSUs were issued to employees of the Company ("Employee RSUs"); and certain RSUs were issued to employees of The Fresh Diet ("FD RSUs").

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

At September 30, 2016, the following Executive RSUs were outstanding: a total of 1,137,072 RSUs were vested; 600,000 RSUs will vest on December 31, 2016; and 800,000 RSUs will vest on July 1, 2017. An additional 125,000

RSUs will vest contingent upon the attainment of a stock price of $2.00 per share for 20 straight trading days, and an additional 175,000 RSUs will vest contingent upon the attainment of a stock price of $3.00 per share for 20 straight trading days. The Company estimated that the stock-price goals of the Company's stock price closing above $2.00 per share for 20 straight days have a 90% likelihood of achievement, and these RSUs were valued at 90% of their face value; the Company also estimated that the likelihood of the Company's stock closing above $3.00 per share for 20 straight days is 70%, and these RSUs were valued at 70% of their face value

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

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

Table of Contents

RSUs expense during the three and nine months ended September 30, 2016 and 2015 are summarized in the table below:

	Three Months Ended September 30,	
	2016	2015
RSUs expense – Continuing operations	$190,692	$753,633
RSUs expense – Discontinued operations	-	374,536
Total	$190,692	$1,128,169

	Nine Months Ended September 30,	
	2016	2015
RSUs expense – Continuing operations	$658,709	$1,551,775
RSUs expense – Discontinued operations	813,908	1,735,444
Total	$1,472,617	$3,287,219

Table of Contents

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

FORWARD LOOKING STATEMENTS

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

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

The costs and potential liabilities arising from lawsuits which may be brought against us with respect to our current and past business activities,

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.

Table of Contents

Critical Accounting Policy and Estimates

Use of Estimates in the Preparation of Financial Statements

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

Doubtful Accounts Receivable

The Company maintained an allowance in the amount of $56,371 for doubtful accounts receivable at September 30, 2016, and $29,429 at September 30, 2015. 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.

Income Taxes

The Company has a history of losses, and as such has recorded no liability for income taxes. Until such time as the Company begins to provide evidence that a continued profit is a reasonable expectation, management will not determine that there is a basis for accruing an income tax liability. These estimates have been accurate in the past.

Background

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

On May 18, 2012, the Company executed a Stock Purchase Agreement to acquire all of the issued and outstanding shares of Artisan Specialty Foods, Inc., an Illinois corporation ("Artisan"), from its owner, Mr. David Vohaska. The purchase price was $1.2 million, with up to another $300,000 (with a fair value of $131,000) payable in the event certain financial milestones were met over the next one or two years. Those milestones have been met. The purchase price was primarily financed via a loan from Alpha Capital in the principal amount of $1,200,000. The loan was repaid in November 2013 via the issuance of a loan from Fifth Third Bank which has been paid in full. Prior to the acquisition, Artisan was a supplier and had sold products to the Company.

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

On August 15, 2014, pursuant to a merger agreement (the "Fresh Diet Merger Agreement"), the Company acquired The Fresh Diet, Inc. ("The Fresh Diet" or "FD") through a reverse triangular merger as the registrant created a subsidiary corporation (FD Acquisition Corp) that merged with and into FD with FD being the surviving corporation and becoming a wholly-owned subsidiary of the Company. The purchase price consisted of 10,000,000 shares of the Company's common stock valued at $14,000,000. The majority of FD's current liabilities consisted of approximately $3.8 million of deferred revenues and approximately $2.1 million in short term commercial loans and there were additional ordinary course of business expenses such as trade payables, payroll and sales taxes which varied from month to month. In addition, it had some long term obligations the bulk of which consisted of interest free loans from FD's former shareholders in the amount of approximately $2.2 million which were not due for three years. Prior to the merger FD had purchased an immaterial amount of product from the Company. FD operated as an independent subsidiary subject to oversight of its board of directors and the Company's President and CEO. Effective February 23, 2016, the Company closed a transaction to sell 90% of our ownership in FD to New Fresh Co., LLC, a Florida limited liability company controlled by the former founder of FD who was appointed Interim CEO of FD on February 9, 2016. The consideration to Innovative Food Holdings consisted primarily of a restructuring of our loans, which includes the ability to convert to additional amounts of FD under certain circumstances. The Company considers the ultimate collection of these notes to be doubtful, and they have been fully reserved on the Company's balance sheet at September 30, 2016. There is no continuing cash inflows or outflows from or to the discontinued operations.

Table of Contents

Transactions With a Major Customer

Transactions with a major customer and related economic dependence information is set forth immediately below and above in Note 2 to the Condensed Consolidated Financial Statements and also in our Annual Report on Form 10-K for the year ended December 31, 2015 (1) following our discussion of Liquidity and Capital Resources, (2) Concentrations of Credit Risk in Note 17 to the Consolidated Financial Statements, and (3) as the fourth item under Risk Factors.

Relationship with U.S. Foods

We have historically sold the majority of our products through a distributor relationship between FII and U.S. Foods, a leading broadline distributor. These sales amounted to $6,546,697 (72% of total sales) and $5,761,640 (72% of total sales) for the three months ended September 30, 2016 and 2015, respectively; and $18,352,407 (72% of total sales) and $15,927,510 (72% of total sales) for the nine months ended September 30, 2016 and 2015, respectively. On January 26, 2015 we executed a contract between Food Innovations, Inc., our wholly-owned subsidiary, and U.S. Foods. The term of the Agreement is from January 1, 2015 through December 31, 2016 and provides for up to three (3) automatic annual renewals thereafter if no party gives the other 30 days' notice of its intent not to renew.

RESULTS OF OPERATIONS

Prior year balances have been recast to reflect the sale of 90% of our interest in The Fresh Diet, Inc. in February 2016. Results of discontinued operations are excluded from the accompanying results of operations for all periods presented, unless otherwise noted. See Note 3 – discontinued operations in the accompanying notes to consolidated financial statements.

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

Three Months Ended September 30, 2016 Compared to Three Months Ended September 30, 2015

Revenue

Revenue increased by $1,068,671 or approximately 13% to $9,094,443 for the three months ended September 30, 2016 from $8,025,772 in the prior year.

We continue to assess the potential of new revenue sources from the manufacture and sale of proprietary food products and additional sales channel opportunities in both the foodservice and consumer space and will implement that strategy if, based on our analysis, we deem it beneficial to us.

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

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

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

Cost of goods sold

Our cost of goods sold for the three months ended September 30, 2016 was $6,404,185, an increase of $732,471 or approximately 13% compared to cost of goods sold of $5,671,714 for the three months ended September 30, 2015. The increase was due primarily to an increase in sales during the period. Cost of goods sold is made up of the following expenses for the three months ended September 30, 2016: cost of goods of specialty, meat, game, cheese, seafood, poultry and other sales categories in the amount of $4,648,891; and shipping, delivery, handling, and purchase allowance expenses in the amount of $1,755,294. Total gross margin was approximately 29.6% of sales in 2016, compared to approximately 29.3% of sales in 2015. The increase in gross margins from 2015 are primarily attributable to variation in product and revenue mix across our various selling channels.

Table of Contents

In 2016, we continued to price our products in order to gain market share, optimize gross profit dollars and increase the number of our end users. We were successful in both increasing sales and increasing market share. We currently expect, if market conditions and our product revenue mix remain constant, that our cost of goods sold will either remain stable or possibly improve slightly.

Selling, general, and administrative expenses
Selling, general, and administrative expenses decreased by $697,876 or approximately 29% to $1,702,425 during the three months ended September 30, 2016 compared to $2,400,301 for the three months ended September 30, 2015. During the three months ended September 30, 2016 the decrease in selling, general, and administrative expenses was mainly associated with a decrease in share based compensation of $567,962.

Interest expense, net
Interest expense, net of interest income, decreased by $102,030 or approximately 46% to $121,226 during the three months ended September 30, 2016, compared to $223,256 during the three months ended September 30, 2015. The decrease was due to a decrease of $105,855 in amortization of the discount on notes payable during the period. Approximately 25% or $30,367 of the interest expense was accrued or paid interest on the company's notes payable; approximately 75% or $92,509 of the interest was a non-cash GAAP accounting charge associated with the amortization of the discounts on the Company's notes payable. The Company also had $1,650 of interest income during the period.

Net income from continuing operations
For the reasons above, the Company had net income from continuing operations for the three months ended September 30, 2016 of $866,607, which is an increase of $1,130,706 compared to a net loss of ($264,099) during the three months ended September 30, 2015. The income for the three months ended September 30, 2016 includes a total of $375,513 in non-cash charges, including amortization of intangible assets in the amount of $50,567, depreciation expense of $37,807, charges for non-cash compensation in the amount of $195,630, and amortization of the discount on notes payable in the amount of $92,509. The income for the three months ended September 30, 2015 included a total of $1,055,483 in non-cash charges, including amortization of intangible assets in the amount of $75,788, depreciation expense of $17,739, charges for non-cash compensation in the amount of $763,592, and amortization of the discount on notes payable in the amount of $198,364.

Nine Months Ended September 30, 2016 Compared to Nine Months Ended September 30, 2015

Revenue
Revenue increased by $3,176,741 or approximately 14% to $25,413,011 for the nine months ended September 30, 2016 from $22,236,270 in the prior year.

We continue to assess the potential of new revenue sources from the manufacture and sale of proprietary food products and additional sales channel opportunities in both the foodservice and consumer space and will implement that strategy if, based on our analysis, we deem it beneficial to us.

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

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

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

Cost of goods sold

Our cost of goods sold for the nine months ended September 30, 2016 was $17,979,553, an increase of $2,313,412 or approximately 15% compared to cost of goods sold of $15,666,141 for the nine months ended September 30, 2015. Cost of goods sold is made up of the following expenses for the nine months ended September 30 2016: cost of goods of specialty, meat, game, cheese, seafood, poultry and other sales categories in the amount of $12,866,371; and shipping, delivery, handling, and purchase allowance expenses in the amount of $5,113,182. Total gross margin was approximately 29.3% of sales in 2016, compared to approximately 29.5% of sales in 2015. The slight decrease in gross margins from 2015 are primarily attributable to variation in product and revenue mix across our various selling channels.

Table of Contents

In 2016, we continued to price our products in order to gain market share, optimize gross profit dollars and increase the number of our end users. We were successful in both increasing sales and increasing market share. We currently expect, if market conditions and our product revenue mix remain constant, that our cost of goods sold will either remain stable or possibly improve slightly.

Selling, general, and administrative expenses

Selling, general, and administrative expenses decreased by $1,157,870 or approximately 18% to $5,245,178 during the nine months ended September 30, 2016 compared to $6,403,048 for the nine months ended September 30, 2015. During the nine months ended September 30, 2016, the decrease in selling, general, and administrative expenses was mainly associated with a decrease in share based compensation of $967,377.

Interest expense, net

Interest expense, net of interest income, decreased by $78,060 or approximately 18% to $365,764 during the nine months ended September 30, 2016, compared to $443,824 during the nine months ended September 30, 2015. The decrease was due primarily to a decrease of $119,151 in the amortization of the discount on notes payable during the period. Approximately 25% or $93,041 of the interest expense was accrued or paid interest on the company's notes payable; approximately 75% or $277,527 of the interest was a non-cash GAAP accounting charge associated with the amortization of the discounts on the Company's notes payable. The Company also had $4,804 of interest income during the period.

Net income from continuing operations

For the reasons above, the Company had net income from continuing operations for the nine months ended September 30, 2016 of $1,822,516, which is an increase of $2,093,859 compared to a net loss of ($271,343) during the nine months ended September 30, 2015. The income for the nine months ended September 30, 2016 includes a total of $1,253,239 in non-cash charges, including amortization of intangible assets in the amount of $182,201, depreciation expense of $120,018, charges for non-cash compensation in the amount of $673,523, and amortization of the discount on notes payable in the amount of $277,527. The loss for the nine months ended September 30, 2015 included a total of $2,357,146 in non-cash charges, including amortization of intangible assets in the amount of $227,364, depreciation expense of $46,310, charges for non-cash compensation in the amount of $1,686,794, and amortization of the discount on notes payable in the amount of $396,678.

Liquidity and Capital Resources at September 30, 2016

As of September 30, 2016, the Company had current assets of $5,008,918, consisting of cash and cash equivalents of $2,139,096; trade accounts receivable, net, of $1,875,886; inventory of $925,150; and other current assets of $68,786. Also at September 30, 2016, the Company had current liabilities of $3,713,651, consisting of accounts payable and accrued liabilities of $1,566,202 (of which $0 was payable to related parties); accrued interest of $623,771; current portion of notes payable of $1,259,028; note payable to a related party of $164,650; and amount due under revolving credit facilities of $100,000.

During the nine months ended September 30, 2016, the Company had cash provided by operating activities of $1,563,446. This consisted of the Company's consolidated net income of $6,269,795, reduced by gain on sale of discontinued operations of $7,201,196, and increased by stock based compensation in the amount of $1,702,431 (including $1,028,908 charged to discontinued operations); amortization of discount on notes payable of $277,527; depreciation and amortization of $409,228; and increase in allowance for bad debt of $11,963. The Company's cash position also increased by $93,698 as a result of changes in the components of current assets and current liabilities.

The Company had cash used in investing activities of $480,994 for the nine months ended September 30, 2016, which consisted of $470,482 cash disposed in the sale of discontinued operations, and $10,512 for the acquisition of property and equipment. The Company had cash used in financing activities of $1,080,645 for the nine months ended September 30, 2016, consisting of borrowings on revolving credit facilities of $805,959, offset by payments made on revolving credit facilities of $841,831; principal payments on notes payable of $1,021,829, principal payments on capital leases of $8,094, and payments for the repurchase of common stock in the amount of $14,850.

The Company had a net working capital of $1,295,267 as of September 30, 2016. We generated positive cash flow from operating activities of $1,563,446 for the nine months ended September 30, 2016. We generated negative cash flow from operations during the year ended December 31, 2015, which includes the results of The Fresh Diet. 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.

Table of Contents

In February 2016, we completed the sale of The Fresh Diet to New Fresh Co., LLC, a Florida limited liability company controlled by the former founder of FD. See Note 3.

In August 2016, we entered into a term loan agreement with Fifth Third Bank, and transferred the amount of $1,200,000 from our line of credit with Fifth Third Bank into this Term Loan Agreement. The line of credit with Fifth Third Bank was then renewed for an additional year. See Note 12.

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

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

2016 Plans

During 2016, 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, explore potential acquisition opportunities and continue 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, to leverage our existing foodservice and consumer customer base.

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

Off-Balance Sheet Arrangements

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

Inflation

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

RISK FACTORS

The Company's business and success is subject to numerous risk factors as detailed in its Annual Report on Form 10-K for the year ended December 31, 2015 which is available at no cost at www.sec.gov.

Table of Contents

ITEM 4 - CONTROLS AND PROCEDURES

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

(a) Evaluation of disclosure controls and procedures

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

(b) Changes in internal control over financial reporting

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

Table of Contents

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, the Company may be involved in various lawsuits and legal proceedings which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business.

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

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

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information

None.

Table of Contents

Item 6. Exhibits

3.1	Articles of Incorporation (incorporated by reference to exhibit 3.1 of the Company's annual report on Form 10-KSB for the year ended December 31, 2004 filed with the Securities and Exchange Commission on September 28, 2005).
3.2	Amended Bylaws of the Company (incorporated by reference to exhibit 3.2 of the Company's annual report Form 10-K for the year ended December 31, 2010 filed with the Securities and Exchange Commission on March 16, 2011).
4.1	Form of Convertible Note (incorporated by reference to exhibit 4.1 of the Company's annual report on Form 10-KSB for the year ended December 31, 2004 filed with the Securities and Exchange Commission on September 28, 2005).
4.2	Form of Convertible Note (incorporated by reference to exhibit 4.2 of the Company's annual report on Form 10-KSB for the year ended December 31, 2004 filed with the Securities and Exchange Commission on September 28, 2005).
4.3	Form of Warrant - Class A (incorporated by reference to exhibit 4.3 of the Company's annual report on Form 10-KSB for the year ended December 31, 2004 filed with the Securities and Exchange Commission on September 28, 2005).
4.4	Form of Warrant - Class B (incorporated by reference to exhibit 4.4 of the Company's annual report on Form 10-KSB for the year ended December 31, 2004 filed with the Securities and Exchange Commission on September 28, 2005).
4.5	Form of Warrant - Class C (incorporated by reference to exhibit 4.5 of the Company's annual report on Form 10-KSB for the year ended December 31, 2004 filed with the Securities and Exchange Commission on September 28, 2005).
4.6	Secured Convertible Promissory Note dated December 31, 2008 in favor of Alpha Capital Anstalt (incorporated by reference to exhibit 10.1 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 7, 2009).
4.7	Class B Common Stock Purchase Warrant dated December 31, 2008 in favor of Alpha Capital Anstalt (incorporated by reference to exhibit 10.2 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 7, 2009).
4.8	Subscription Agreement between the Registrant and Alpha Capital Anstalt dated December 31, 2008 (incorporated by reference to exhibit 10.3 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 7, 2009).
4.9	Amendment, Waiver, and Consent Agreement effective January 1, 2009 between the Registrant and Alpha Capital Anstalt (incorporated by reference to exhibit 10.4 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 7, 2009).
31.1	Section 302 Certification
31.2	Section 302 Certification

32.1	Section 906 Certification
32.2	Section 906 Certification
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

Table of Contents

SIGNATURES

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

SIGNATURE	TITLE	DATE
/s/ Sam Klepfish Sam Klepfish	Chief Executive Officer	November 14, 2016
/s/ John McDonald John McDonald	Principal Financial Officer	November 14, 2016