

INNOVATIVE FOOD HOLDINGS INC  
Form 10-Q  
July 31, 2008

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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 March 31, 2008

Transition report pursuant to Section 13 or 15(d) of the Exchange Act for the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number: 0-9376

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

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

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

1923 Trade Center Way  
Naples, Florida 34109  
(Address of Principal Executive Offices)

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

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceeding 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 issuer 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 equity, as of the latest practicable date:

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171,787,638 Common Shares (post-reverse split) outstanding as of April 14, 2008

Transitional Small Business Disclosure Format:

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

Smaller reporting company

(Do not check if a smaller reporting company)

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Table of Contents

INNOVATIVE FOOD HOLDINGS, INC.  
INDEX TO FORM 10-Q

	Page
PART I. FINANCIAL INFORMATION	
Item 1. <u>Condensed Consolidated Financial Statements (unaudited)</u>	3
<u>Condensed Consolidated Balance Sheet</u>	3
<u>Condensed Consolidated Statements of Operations</u>	4
<u>Condensed Consolidated Statements of Cash Flows</u>	5
<u>Notes to the Consolidated Financial Statements</u>	6
Item 2. <u>Management's Discussion and Analysis (including cautionary statement)</u>	18
Item 4T. <u>Controls and Procedures</u>	21
PART II. OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	22
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	22
Item 3. <u>Defaults Upon Senior Securities</u>	22
Item 4. <u>Submission of Matters to a Vote of Securities Holders</u>	22
Item 5. <u>Other Information</u>	22
Item 6. <u>Exhibits</u>	22
<u>Signatures</u>	23

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Table of Contents

Innovative Food Holdings, Inc.  
Condensed Consolidated Balance Sheet

	March 31, 2008	December 31, 2007
(unaudited)		
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 29,540	\$ 74,610
Accounts receivable net	163,400	243,148
Interest receivable	7,147	7,147
Loan receivable, net	285,000	285,000
Prepaid expenses	3,815	7,030
<b>Total current assets</b>	<b>488,902</b>	<b>616,935</b>
Property and equipment, net	73,807	83,823
<b>Total assets</b>	<b>\$ 562,709</b>	<b>\$ 700,758</b>
<b>LIABILITIES AND (DEFICIENCY IN) STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 625,787	\$ 765,614
Accrued interest, net	347,404	316,058
Accrued interest - related parties, net	149,902	142,621
Notes payable , current portion, net of discount	699,436	927,870
Notes payable - related parties, current portion, net of discount	291,500	278,000
Warrant liability	1,199,159	580,648
Conversion option liability	1,324,053	612,429
Penalty for late registration of shares	661,676	330,840
<b>Total current liabilities</b>	<b>5,298,917</b>	<b>3,954,080</b>
Note payable	14,291	16,083
<b>Total liabilities</b>	<b>5,313,208</b>	<b>3,970,163</b>
<b>(Deficiency in) stockholder's equity</b>		
<b>Common stock, \$0.0001 par value; 500,000,000 shares authorized</b>		
181,787,638 shares issued and 171,787,638 shares outstanding at March 31, 2008 and December 31, 2007	18,179	18,179
Additional paid-in capital	794,089	737,462
Accumulated deficit	(5,562,767)	(4,025,046)
<b>Total (deficiency in) stockholder's equity</b>	<b>(4,750,499)</b>	<b>(3,269,405)</b>
<b>Total liabilities and (deficiency in) stockholders' equity</b>	<b>\$ 562,709</b>	<b>\$ 700,758</b>

See notes to condensed consolidated financial statements.

Table of Contents

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

	For the Three Months Ended March 31 2008	For the Three Months Ended March 31 2007
Revenue	\$ 1,603,378	\$ 1,600,199
Cost of goods sold	1,286,893	1,145,222
Gross margin	316,485	454,977
Selling, General and administrative expenses	331,077	399,891
Total operating expenses	331,077	399,891
Operating loss	(14,592)	55,086
Other (income) expense:		
Interest (income) expense	116,394	76,274
Cost of penalty for late registration of shares	-	37,432
Change in fair value of warrant liability	364,271	(29,829)
Change in fair value of conversion option liability	711,624	113,003
(Gain) loss from marking to market - registration penalty	330,840	(27,184)
Total other (income) expense	1,523,129	169,696
Loss before income taxes	(1,537,721)	(114,610)
Income tax expense	-	-
Net loss	\$ (1,537,721)	\$ (114,610)
Loss per share - basic (post reverse-splits)	\$ (0.01)	\$ (0.00)
Weighted average shares outstanding - basic and diluted (post reverse-splits)	181,787,638	148,524,217

See notes to condensed consolidated financial statements.

Table of Contents

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

	For the Three Months Ended March 31 2008	For the Three Months Ended March 31 2007
Cash flows from operating activities:		
Net loss	\$ (1,537,721)	\$ (114,610)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	10,016	14,898
Amortization of discount on notes payable and interest on notes payable	77,714	13,500
Cost of penalty due to late registration of shares	-	37,432
Change in fair value of warrant liability	364,271	(29,829)
Change in fair value of conversion option liability	711,624	113,003
(Gain) loss from marking to market-penalty	330,836	(27,184)
Changes in assets and liabilities:		
Accounts receivable, net	79,748	148,876
Prepays	-	8,355
Accounts payable and accrued expenses	(79,985)	(231,017)
Net cash used in operating activities	(43,497)	(66,576)
Cash flows from investing activities:		
Acquisition of property and equipment	-	(6,989)
Net cash used in investing activities	-	(6,989)
Cash flows from financing activities:		
Principal payments on debt	(1,573)	(1,675)
Net cash used in financing activities	(1,573)	(1,675)
Increase in cash and cash equivalents	(45,070)	(75,240)
Cash and cash equivalents at beginning of period	74,610	118,518
Cash and cash equivalents at end of period	\$ 29,540	\$ 43,278
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$ -	\$ -
Taxes	\$ -	\$ -
Revaluation of conversion option liability	\$ 711,624	\$ 1,130,063

Revaluation of warrant liability	\$ 364,271	\$ (29,829)
Cost of penalty for late registration of shares	\$ -	\$ 37,432
Revaluation of penalty for late registration of shares	\$ 330,836	\$ (27,184)
Cancellation of shares of common stock	\$ -	\$ 557
Issuance of warrants for the extension of notes payable	\$ 254,240	\$ -

See notes to condensed consolidated financial statements.



Table of Contents

INNOVATIVE FOOD HOLDINGS, INC  
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED  
MARCH 31, 2008  
(Unaudited)

1. BASIS OF PRESENTATION AND NATURE OF BUSINESS OPERATIONS

Basis of Presentation

The accompanying unaudited consolidated financial statements of Innovative Food Holdings, Inc., and Food Innovations, Inc. ("FII"), its wholly-owned subsidiary (collectively, the "Company" or "IVFH") have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. They do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for a complete financial statement presentation. U.S. accounting principles also contemplate continuation of the Company as a going concern.

Acquisition and Corporate Restructure

We were initially formed in September 1979 as Alpha Solarco Inc., a Colorado corporation. From September 1979 through February 2004, we were either inactive or involved in discontinued business ventures. In February 2003 we changed our name to Fiber Application Systems Technology, Ltd.

On January 26, 2004, through a share exchange, the shareholders of Food Innovations, Inc. ("FII") converted 10,000 shares (post-reverse split) of FII common stock outstanding into 25,000,000 shares (post-reverse split) of IVFH. On January 29, 2004, in a transaction known as a reverse acquisition, the shareholders of Innovative Food Holdings, Inc. ("IVFH") exchanged 25,000,000 shares (post-reverse split) of IVFH for 25,000,000 shares (post-reverse split) of Fiber Application Systems (formerly known as Alpha Solarco) ("Fiber"), a publicly-traded company. The shareholders of IVFH thus assumed control of Fiber, and Fiber changed its name to IVFH. The 25,000,000 shares (post-reverse split) of IVFH are shown on the Company's balance sheet at December 31, 2003 as shares outstanding. These shares are shown at their par value of \$2,500 as a decrease of additional paid-in capital at the acquisition date of January 29, 2004. There were 157,037 shares (post-reverse split) outstanding in Fiber at the time of the reverse acquisition; the par value of these shares, or \$16, was transferred from additional paid-in capital at the time of the reverse acquisition.

2. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Business Activity

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

Interim Financial Information

The accompanying unaudited interim 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. Certain information and footnote disclosures normally included in audited financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. Accordingly, these interim financial statements should be read in conjunction with the Company's financial statements and related notes as contained in form 10-KSB for the year ended December 31, 2007. In the opinion of management, the interim 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 months ended March 31, 2008 are not necessarily indicative of the results of operations to be expected for the full year.

#### Reclassification

Certain reclassifications have been made to conform prior periods' data to the current presentation. These reclassifications had no effect on reported income.

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC  
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED  
MARCH 31, 2008  
(Unaudited)

Going Concern

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Company as a going concern. However, the Company has reported a net loss of \$1,537,721 for the three months ended March 31, 2008. The Company also had an accumulated deficit of \$5,562,767 and a working capital deficiency of \$4,810,015 as of March 31, 2008.

The Company cannot be certain that anticipated revenues from operations will be sufficient to satisfy its ongoing capital requirements. Management's belief is based on the Company's operating plan, which in turn is based on assumptions that may prove to be incorrect. If the Company's financial resources are insufficient the Company may require additional financing in order to execute its operating plan and continue as a going concern. The Company cannot predict whether this additional financing will be in the form of equity or debt, or be in another form. The Company may not be able to obtain the necessary additional capital on a timely basis, on acceptable terms, or at all. In any of these events, the Company may be unable to implement its current plans for growth, 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.

Management plans to take the following steps that it believes will be sufficient to provide the Company with the ability to continue as a going concern. Management intends to raise financing through the sale of its stock or debt instruments in private placements to individual investors. Management may raise funds in the public markets, though there currently are no plans to do so. Management believes that with this financing, the Company will be able to generate additional revenues that will allow the Company to continue as a going concern. This will be accomplished by hiring additional personnel and focusing sales and marketing efforts on the distribution of product through key marketing channels currently being developed by the Company. The Company also intends to pursue the acquisition of certain strategic industry partners where appropriate.

Revenue Recognition

The Company recognizes revenue upon shipment of the product from the vendor. Shipping and handling costs incurred by the Company are included in cost of goods sold.

For revenue from product sales, the Company recognizes revenue in accordance with Staff Accounting Bulletin ("SAB") No. 104, "Revenue Recognition," which superseded SAB No. 101, "Revenue Recognition in Financial Statements." SAB No. 104 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) collectibility 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 collectibility 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. SAB No. 104 incorporates Emerging Issues Task Force ("EITF") No.

00-21, "Multiple-Deliverable Revenue Arrangements." EITF No. 00-21 addresses accounting for arrangements that may involve the delivery or performance of multiple products, services and/or rights to use assets. The effect of implementing EITF No. 00-21 on the Company's consolidated financial position and results of operations was not significant. This issue addresses determination of whether an arrangement involving more than one deliverable contains more than one unit of accounting and how the arrangement consideration should be measured and allocated to the separate units of accounting. EITF No. 00-21 became effective for revenue arrangements entered into in periods beginning after September 15, 2003. For revenue arrangements occurring on or after August 1, 2003, the Company revised its revenue recognition.

#### Income Taxes

The Company accounts for income taxes using the liability method. Under the liability method, deferred income taxes are determined based on differences between the financial reporting and tax bases of assets and liabilities. They are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company is required to adjust its deferred tax liabilities in the period when tax rates or the provisions of the income tax laws change. Valuation allowances are established to reduce deferred tax assets to the amounts expected to be realized.

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC  
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED  
MARCH 31, 2008  
(Unaudited)

## Disclosures about Fair Value of Financial Instruments

The carrying amounts of the Company's financial instruments, which include accounts receivable and accounts payable, approximate fair value at March 31, 2008.

## Inventories

The Company does not currently maintain any material amount of inventory.

## Stock-Based Compensation

On January 1, 2006 the company adopted Statement of Financial Accounting Standards No. 123 (revised 2004) "Share-Based Payment" ("SFAS 123 (R), which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors including employee stock options and employee stock purchases related to a Employee Stock Purchase Plan based on the estimated fair values. SFAS 123 (R) supersedes the company's previous accounting under Accounting Principles Board Opinion No.25, "Accounting for Stock Issued to Employees" for the periods beginning fiscal 2006.

The company adopted SFAS 123(R) using the modified prospective transition method, which required the application of the accounting standard as of January 1, 2006. The company's Consolidated Financial Statements as of and for twelve months Ended September 30, 2006 reflect the impact of SFAS 123(R). In accordance with the modified prospective transition method, the company's Consolidated Financial Statements for the prior periods have not been restated to reflect, and do not include the impact of SFAS 123 (R). Stock based compensation expense recognized under SFAS 123(R) for the three months ended March 31, 2008 was \$0.

Stock-based compensation expense recognized during the period is based on the value of the portion of share-based payment awards that is ultimately expected to vest during the period.

A summary of option activity as of March 31, 2008, and changes during the periods then ended are presented below:

	Number of Shares	Weighted Average Exercise Price
Options outstanding at December 31, 2007	15,500,000	\$ 0.021
Granted	20,000,000	0.007
Exercised	-	-
Cancelled / Expired	-	-
Options outstanding at March 31, 2008	35,500,000	\$ 0.013
Exercisable	15,300,000	\$ 0.015
Not exercisable	20,200,000	\$ 0.012

Aggregate intrinsic value of options outstanding and options exercisable at March 31, 2008, was \$0. Aggregate intrinsic value represents the difference between the company's closing stock price on the last trading day of the fiscal period, which was \$0.006 (post-reverse split) at March 31, 2008, and the exercise price multiplied by the number of options outstanding. As of March 31, 2008 total unrecognized stock-based compensation expense related to non-vested stock options was \$157,404. The total fair value of options vested was \$0 for the three month periods ended March 31, 2008, and 2007.

#### Earnings (Loss) per Common Share

The Company computes earnings per share under SFAS 128. Net loss per common share is computed by dividing net loss by the weighted average number of shares of common stock and dilutive common stock equivalents outstanding during the year. Dilutive common stock equivalents consist of shares issuable upon conversion of convertible notes and the exercise of the Company's stock options and warrants (calculated using the treasury stock method).

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC  
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED  
MARCH 31, 2008  
(Unaudited)

## Management Estimates

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## Comprehensive Income

The Company has no items of other comprehensive income (loss) for the three months ended March 31, 2008.

## 3. PER SHARE INFORMATION

The Company computes earnings per share under Financial Accounting Standard No.128, "Earnings Per Share" (SFAS 128). Net loss per common share is computed by dividing net loss by the weighted average number of shares of common stock and dilutive common stock equivalents outstanding during the year. Dilutive common stock equivalents consist of shares issuable upon conversion of convertible notes and the exercise of the Company's stock options and warrants (calculated using the treasury stock method).

## 4. ACCOUNTS RECEIVABLE

At March 31, 2008, accounts receivable consists of:

	March 31, 2008
Accounts receivable from customers	\$ 173,400
Allowance for doubtful accounts	(10,000)
Accounts receivable, net	\$ 163,400

## 5. LOAN RECEIVABLE

The balance of loan receivable consisted of a loan to Pasta Italiana, Inc. in the amount of \$360,000 as of March 31, 2008. These notes bear interest in the amount of 8% per annum. These notes matured on August 24, 2006. At March 31, 2008, the Company has reserved \$75,000 of the loan receivable. The Company stopped accruing interest income on this note at December 31, 2005. At March 31, 2008, interest receivable is \$7,147.

## 6. PROPERTY AND EQUIPMENT

A summary of property and equipment at March 31, 2008, is as follows:

	March 31, 2008
Computer equipment	\$ 288,229
Furniture and fixtures	63,564

	351,793
Less accumulated depreciation and amortization	(277,986)
Total	\$ 73,807

Depreciation and amortization expense amounted to \$10,016, and \$14,898, respectively, for the three months ended March 31, 2008 and 2007.



Table of Contents

INNOVATIVE FOOD HOLDINGS, INC  
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED  
MARCH 31, 2008  
(Unaudited)

## 7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at March 31, 2008:

	March 31, 2008
Accounts payable and accrued expenses	\$ 625,787

## 8. ACCRUED INTEREST

At March 31, 2008 the Company has the following accrued interest on its balance sheet:

	Gross	Discount	Net
Non-related parties	\$ 347,404	\$ -	\$ 347,44
Related parties	149,902	-	149,902
Total	\$ 497,306	\$ -	\$ 497,306

Accrued interest on some of the Company's notes payable is convertible into common stock of the Company at a price of \$0.005 per share (post-reverse split) (note 9). There is a beneficial conversion feature embedded in this convertible accrued interest. The Company is amortizing this beneficial conversion feature over the life of the related party notes payable. During the three months ended March 31, 2008, and 2007 the amounts of \$38,627 and \$35,385 were credited to additional paid-in capital as a discount on accrued interest.

## 9. NOTES PAYABLE AND NOTES PAYABLE TO RELATED PARTIES

At March 31, 2008, the Company has outstanding notes payable in the aggregate amount of \$1,238,280.

During the three months ended March 31, 2008, the Company issued 43,200,000 warrants to purchase additional shares of common stock to two investors for consideration for extending the maturity date of some of the notes payable. The value of the warrants in the amount of \$254,240 was taken as a discount to the notes payable. During the three months ended March 31, 2008, the warrants are amortized on a straight-line basis over the one year extension of the notes maturity date, as a result the amount of \$21,187 was expensed.

Notes payable and notes payable to related parties at March 31, 2008, consist of the following:

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC  
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED  
MARCH 31, 2008  
(Unaudited)

March 31, 2008

Convertible note payable in the original amount of \$350,000 to Alpha Capital Aktiengesellschaft (“Alpha Capital”), dated February 25, 2005. This note consists of \$100,000 outstanding under a previous note payable which was cancelled on February 25, 2005, and \$250,000 of new borrowings. We did not meet certain of our obligations under the loan documents relating to this issuance. These lapses include not reserving the requisite number of treasury shares, selling subsequent securities without offering a right of first refusal, not complying with reporting obligations, not having our common shares quoted on the OTC:BB and not timely registering certain securities. This note is entered technical default status on May 16, 2005. The note originally carried interest at the rate of 8% per annum, and is due in full on February 24, 2007. Upon default, the note’s interest rate increased to 15% per annum, and the note became immediately due. The note is convertible into common stock of the Company at a conversion price of \$0.005 per share (post-reverse split). A beneficial conversion feature in the amount of \$250,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2005. Accrued interest is convertible into common stock of the Company at a conversion price of \$0.005 per share (post-reverse split). During the twelve months ended December 31, 2006 the note holder converted \$5,000 into shares of common stock. During the twelve months ended December 31, 2006 the holder of the note converted \$27,865 of accrued interest into common stock. This note is in default at March 31, 2008. Interest in the amount of \$12,902 and \$12,760 was accrued on this note during the three months ended March 31, 2008, and 2007, respectively.

\$ 345,000

Convertible note payable in the original amount of \$100,000 to Joel Gold, a board member and related party, dated October 12, 2004. The note bears interest at the rate of 8% per annum, and was due in full on October 12, 2006. The note is convertible by the holder into common stock of the Company at a conversion price of \$0.005 per share (post-reverse split). A beneficial conversion feature in the amount of \$100,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2004. Accrued interest is convertible by the holder into common stock of the Company at maturity of the note at a price of \$0.005 per share (post-reverse split). During the twelve months

25,000

ended December 31, 2006, \$75,000 of the principal amount was converted into common stock. Interest in the amount of \$499 and \$493 was accrued on this note during the three months ended March 31, 2008, and 2007, respectively. This note is in default at March 31, 2008.

Convertible note payable in the amount of \$85,000 to Briquette Investments, Ltd, dated March 11, 2004. The note bears interest at the rate of 8% per annum, and is due in Full on March 11, 2006. The note is convertible into common stock of the Company at a conversion of \$0.005 per share (post-reverse split). A beneficial conversion feature in the amount of \$85,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2004. Accrued interest is convertible by the holder into common stock of the Company at a price of \$0.005 per share (post-reverse split). During the twelve months ended December 31, 2005, the note holder converted \$44,000 of the note payable into common stock. During the twelve months ended December 31, 2007, the Company made a \$3,000 cash payment on the principal amount of the note. Interest in the amount of \$758 and \$749 was accrued on this note during the three months ended March 31, 2008, and 2007, respectively. This note is in default at March 31, 2008.

38,000

Convertible note payable in the amount of \$80,000 to Brown Door, Inc., dated March 11, 2004. The note bears interest at the rate of 8% per annum, and was due in full on March 11, 2006. The note is convertible into common stock of the Company at a conversion of \$0.005 per share (post-reverse split). A beneficial conversion feature in the amount of \$80,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2004. Accrued interest is convertible by the holder into common stock of the Company at maturity of the note at a price of \$0.005 per share (post-reverse split). Interest in the amount of \$1,596 and \$1,597 was accrued on this note during each of the three months ended March 31, 2008, and 2007, respectively. This note is in default at March 31, 2008.

80,000

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC  
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED  
MARCH 31, 2008  
(Unaudited)

<p>Convertible note payable in the amount of \$50,000 to Whalehaven Capital Fund, Ltd. (“Whalehaven Capital”) dated February 25, 2005. We did not meet certain of our obligations under the loan documents relating to this issuance. These lapses include not reserving the requisites numbers of treasury shares, selling subsequent securities without offering a right of first refusal, not complying with reporting obligations, not having our common shares quoted on the OTC:BB and not timely registering certain securities. This note is in technical default as of May 16, 2005. The note originally carried interest at the rate of 8% per annum, and was due in Full on February 24, 2007. Upon default, the note’s interest rate increased to 15% per annum, and the note became due immediately. The note is convertible into common stock of the Company at a conversion of \$0.005 per share (post-reverse split). A beneficial conversion feature in the amount of \$50,000 was recorded as a discount to the note, and was amortized to interest expense during the three months ended March 31, 2005. Accrued interest is convertible into common stock of the Company at a price of \$0.005 per share (post-reverse split). During the twelve months ended December 31, 2006, \$10,000 of principal and \$589 of accrued interest into shares of common stock Interest in the amount of \$1,497 and \$1,480 was accrued on this note during the three months ended March 31, 2008 and 2007, respectively. This note is in default at March 31, 2008.</p>	40,000
<p>Convertible note payable in the amount of \$50,000 to Oppenheimer &amp; Co., / Custodian for Joel Gold IRA, a related party, dated March 14, 2004. The note bears interest at the rate of 8% per annum, and was due in full on October 12, 2006. The note is convertible into common stock of the Company at a conversion of \$0.005 per share (post-reverse split). A beneficial conversion feature in the amount of \$50,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2005. Accrued interest is convertible into common stock of the Company at a price of \$0.005 per share (post-reverse split). Interest in the amount of \$998 and \$987 was accrued on this note during each of the three months ended March 31, 2008, and 2007. This note is in default at March 31, 2008.</p>	50,000
<p>Convertible note payable in the original amount of \$30,000 to Huo Hua dated May 9, 2005. The note bears interest at the rate of 8% per annum, and was due in full on October 12, 2006. The note is convertible into common stock of the Company at a conversion of \$0.005 per share (post-reverse split). A beneficial conversion feature in the amount of \$30,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2005.</p>	20,000

Accrued interest is convertible into common stock of the Company at a price of \$0.005 per share(post-reverse split) During the twelve months ended December 31, 2006, the note holder converted \$10,000 of principal into common stock. Interest in the amount of \$399 and \$395 was accrued on this note during the three months ended March 31, 2008, and 2007. This note is in default at March 31, 2008.

Convertible note payable in the amount of \$25,000 to Joel Gold a board member and related party, dated January 25, 2005. The note bears interest at the rate of 8% per annum, and is due in full on January 25, 2007. The note is convertible into common stock of the Company at a conversion of \$0.025 per share. A beneficial conversion feature in the amount of \$25,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2005. Accrued interest is convertible into common stock of the Company at a price of \$0.025 per share. Interest in the amount of \$499 and \$493, was accrued on this note during the three months ended March 31, 2008, and 2007. This note is in default at March 31, 2008.

25,000

Convertible note payable in the amount of \$25,000 to The Jay & Kathleen Morren Trust dated January 25, 2005. The note bears interest at the rate of 6% per annum, and is due in full on January 25, 2007. The note is convertible into common stock of the Company at a conversion of \$0.005 per share (post-reverse split). A beneficial conversion feature in the amount of \$25,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2005. Accrued interest is convertible into common stock of the Company at a price of \$0.005 per share (post-reverse split) Interest in the amount of \$373 was accrued on this note during the three months ended March 31, 2008, and 2007. This note is in default at March 31, 2008.

25,000

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC  
 NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THE THREE MONTHS ENDED  
 MARCH 31, 2008  
 (Unaudited)

Convertible note payable in the amount of \$10,000 to Lauren M. Ferrone, a relative of a board member and related party, dated October 12, 2004. The note bears interest at the rate of 8% per annum, and was originally due in full on October 12, 2005. On February 25, 2005, an amendment to the convertible notes was signed which extended the term, which resulted in a new maturity date of October 12, 2006. The note is convertible into common stock of the Company at a conversion of \$0.01 per share (post-reverse split). A beneficial conversion feature in the amount of \$10,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2004. Accrued interest is convertible into common stock of the Company at a price of \$0.01 per share (post-reverse split). Interest in the amount of \$200 and \$369, was accrued on this note during the three months ended March 31, 2008, and 2007. This note is in default at March 31, 2008. 10,000

Convertible note payable in the amount of \$10,000 to Richard D. Ferrone, a relative of a board member and related party, dated October 12, 2004. The note bears interest at the rate of 8% per annum, and was originally due in full on October 12, 2005. On February 25, 2005, an amendment to the convertible notes was signed which extended the term, which resulted in a new maturity date of October 12, 2006. The note is convertible into common stock of the Company at a conversion of \$0.01 per share (post-reverse split). A beneficial conversion feature in the amount of \$10,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2004. Accrued interest is convertible into common stock of the Company at a price of \$0.01 per share (post-reverse split). Interest in the amount of \$200 and \$197 was accrued on this note during the three months ended March 31, 2008, and 2007. This note is in default at March 31, 2008. 10,000

Convertible note payable in the amount of \$10,000 to Christian D. Ferrone, a relative of a board member and related party, dated October 12, 2004. The note bears interest at the rate of 8% per annum, and was originally due in full on October 12, 2005. On February 25, 2005, an amendment to the convertible notes was signed which extended the term, which resulted in a new maturity date of October 12, 2006. The note is convertible into common stock of the Company at a conversion of \$0.01 per share (post-reverse split). A beneficial conversion feature in the amount of \$10,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2004. Accrued interest is 10,000

convertible into common stock of the Company at a price of \$0.01 per share (post-reverse split). Interest in the amount of \$200 and \$197 was accrued on this note during the three months ended March 31, 2008, and 2007. This note is in default at March 31, 2008.

Convertible note payable in the amount of \$10,000 to Andrew I. Ferrone, a relative of a board member and related party, dated October 12, 2004. The note bears interest at the rate of 8% per annum, and was originally due in full on October 12, 2005. On February 25, 2005, an amendment to the convertible notes was signed which extended the term, which resulted in a new maturity date of October 12, 2006. The note is convertible into common stock of the Company at a conversion of \$0.01 per share (post-reverse split). A beneficial conversion feature in the amount of \$10,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2004. Accrued interest is convertible into common stock of the Company at a price of \$0.01 per share (post-reverse split). Interest in the amount of \$200 and \$197 was accrued on this note during the three months ended March 31, 2008, and 2007. This note is in default at March 31, 2008.

10,000

Convertible note payable in the amount of \$8,000 to Adrian Neilan dated March 11, 2004. The note bears interest at the rate of 8% per annum, and is due in full on October 12, 2006. The note is convertible into common stock of the Company at a conversion of \$0.005 per share (post-reverse split). A beneficial conversion feature in the amount of \$8,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2004.. Accrued interest is convertible into common stock of the Company at a price of \$0.005 per share (post-reverse split). Interest in the amount of \$159 and \$157 was accrued on this note during the each of the three months ended March 31, 2008, and 2007. This note is in default at March 31, 2008.

8,000

Convertible note payable in the amount of \$5,000 to Matthias Mueller dated March 11, 2004. The note bears interest at the rate of 8% per annum, and was due in full on October 12, 2006. The note is convertible into common stock of the Company at a conversion of \$0.005 per share (post-reverse split). A beneficial conversion feature in the amount of \$5,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2005. Accrued interest is convertible into common stock of the Company at a price of \$0.005 per share (post-reverse split). Interest in the amount of \$100 and \$99 was accrued on this note during the each of the three months ended March 31, 2008, and 2007. This note is in default at March 31, 2008.

5,000

Convertible note payable in the amount of \$120,000 to Alpha Capital dated August 25, 2005. We did not meet certain of our obligations under the loan documents relating to this issuance. These lapses include not reserving the requisite number of treasury shares, selling

120,000

subsequent securities without offering a right of first refusal, not complying with reporting obligations, not having our common shares quoted on the OTC:BB and not timely registering certain securities. This note is in technical default as of November 13, 2005. The note originally carried interest at the rate of 8% per annum, and was due in full on August 25, 2007. Upon default, the note's interest rate increased to 15% per annum and the note became immediately due. The note is convertible into common stock of the Company at a conversion of \$0.005 per share (post-reverse split). A beneficial conversion feature in the amount of \$120,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2005. Accrued interest is convertible into common stock of the Company at a price of \$0.005 per share (post-reverse split). Interest in the amount of \$4,488 and \$4,439 was accrued on this note during the three months ended March 31, 2008, and 2007. This note is in default at March 31, 2008.



Table of Contents

INNOVATIVE FOOD HOLDINGS, INC  
 NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THE THREE MONTHS ENDED  
 MARCH 31, 2008  
 (Unaudited)

Convertible note payable in the amount of \$30,000 to Whalehaven Capital dated August 25, 2005. We did not meet certain of our obligations under the loan documents relating to this issuance. These lapses include not reserving the requisite number of treasury shares, selling subsequent securities without offering a right of first refusal, not complying with reporting obligations, not having our common shares quoted on the OTC:BB and not timely registering certain securities. This note was in technical default as of November 13, 2006. The note originally carried interest at the rate of 8% per annum, and was due in full on August 25, 2007. Upon default, the note's interest rate increased to 15% per annum and the note became immediately due. The note is convertible into common stock of the Company at a conversion of \$0.005 per share (post-reverse split). A beneficial conversion feature in the amount of \$30,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2005. Accrued interest is convertible into common stock of the Company at a price of \$0.005 per share (post-reverse split). Interest in the amount of \$1,122 and \$1,109 was accrued on this note during the three months ended March 31, 2008 and 2007, respectively. This note is in default at March 31, 2008. 30,000

Convertible note payable in the original amount of \$25,000 to Asher Brand, dated August 25, 2005. We did not meet certain of our obligations under the loan documents relating to this issuance. These lapses include not reserving the requisite number of treasury shares, selling subsequent securities without offering a right of first refusal, not complying with reporting obligations, not having our common shares quoted on the OTC:BB and not timely registering certain securities. This note was in technical default as of November 13, 2006. The note originally carried interest at the rate of 8% per annum, and was due in full on August 25, 2007. Upon default, the note's interest rate increased to 15% per annum and the note became immediately due. The note is convertible into common stock of the Company at a conversion of \$0.005 per share (post-reverse split). A beneficial conversion feature in the amount of \$25,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2005. Accrued interest is convertible into common stock of the Company at a price of \$0.005 per share (post-reverse split). Interest in the amount of \$860 and \$851 was accrued on this note during the three months ended March 31, 2008 and 2007, respectively. During the three months ended March 31, 2007, the holder of the note 23,000

converted \$2,000 of principal and \$3,667 of accrued interest into common stock. This note is in default at March 31, 2008.

Convertible note payable in the original amount of \$25,000 to Momona Capital, dated August 25, 2005. We did not meet certain of our obligations under the loan documents relating to this issuance. These lapses include not reserving the requisite number of treasury shares, selling subsequent securities without offering a right of first refusal, not complying with reporting obligations, not having our common shares quoted on the OTC:BB and not timely registering certain securities. This note was in technical default at November 13, 2005. The note originally carried interest at the rate of 8% per annum, and was due in full on August 25, 2007. Upon default, the note's interest rate increased to 15% per annum and the note became immediately due. The note is convertible into common stock of the Company at a conversion of \$0.005 per share (post-reverse split). A beneficial conversion feature in the amount of \$25,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2005. Accrued interest is convertible into common stock of the Company at a price of \$0.005 per share (post-reverse split). Interest in the amount of \$860 and \$851 was accrued on this note during the three months ended March 31, 2008 and 2006. During the twelve months ended December 31, 2007, the holder of the note converted \$2,000 of principal and \$3,667 of accrued interest into common stock. This note is in default at March 31, 2008.

23,000

Convertible note payable in the amount of \$10,000 to Lane Ventures dated August 25, 2005. We did not meet certain of our obligations under the loan documents relating to this issuance. These lapses include not reserving the requisite number of treasury shares, selling subsequent securities without offering a right of first refusal, not complying with reporting obligations, not having our common shares quoted on the OTC:BB and not timely registering certain securities. This note was in technical default at November 13, 2005. The note originally carried interest at the rate of 8% per annum, and was due in full on August 25, 2007. Upon default, the note's interest rate increased to 15% per annum and the note became immediately due. The note is convertible into common stock of the Company at a conversion of \$0.005 per share (post-reverse split). A beneficial conversion feature in the amount of \$10,000 was recorded as a discount to the note, and was amortized to interest expense during the twelve months ended December 31, 2005. Accrued interest is convertible into common stock of the Company at a price of \$0.005 per share (post-reverse split). Interest in the amount of \$224 and \$221 was accrued on this note during the three months ended March 31, 2008 and 2007, respectively. During the twelve months ended December 31, 2007, the holder of the note converted \$4,000 of principal and \$1,467 of accrued interest into common stock. This note is in default at March 31, 2008.

6,000

Note payable in the amount of \$120,000 to Alpha Capital, dated February 7, 2006. The originally carried interest at the rate of 15% per annum, and was originally due in full on February 7, 2007. The Company is not in compliance with various terms of this note, including making timely payments of interest, and this note was in technical default at May 8, 2006. At this time, the interest rate increased to 20% and the note became immediately due and payable. During the year ended December 31, 2007, the Company extended the due dates of the notes one month to October 31, 2007, at the same time the Company added a convertibility feature, allowing the note holders to convert the notes and accrued interest into common stock of the company at a rate of \$0.005 per share. During the three months ended March 31, 2008, the Company extended the note one year, to March 4, 2009. Interest in the amount of \$5,983 and \$5,917 was accrued on this note during the three months ended March 31, 2008 and 2007.

120,000

Note payable in the amount of \$30,000 to Whalehaven Capital dated February 7, 2006. The note originally carried interest at the rate of 15% per annum, and was due in full on February 7, 2007. The Company is not in compliance with various terms of this note, including making timely payments of interest, and this note was in technical default at May 8, 2006. At this time, the interest rate increased to 20% and the note became immediately due and payable. During the year ended December 31, 2007, the Company extended the due dates of the notes one month to October 31, 2007, at the same time the Company added a convertibility feature, allowing the note holders to convert the notes and accrued interest into common stock of the company at a rate of \$0.005 per share. During the three months ended March 31, 2008, the Company extended the note one year, to March 4, 2009. Interest in the amount of \$1,122 and \$1,109 was accrued on this note during the three months ended March 31, 2008 and 2007.

30,000

Note payable in the amount of \$75,000 to Michael Ferrone, dated August 2, 2004. The note bears interest at the rate of 8% per annum, and was due in full on February 2, 2005. Interest in the amount of \$1,497 and \$1,513, was accrued on this note during the three months ended March 31, 2008 and 2007, respectively. This note is in default at March 31, 2008.

75,000

Note payable in the amount of \$10,000 to Alpha Capital, dated May 19, 2006. The note bears interest at the rate of 15% per annum, and was due in full on November 19, 2006. During the year ended December 31, 2007, the Company extended the due dates of the notes one month to October 31, 2007, at the same time the Company added a convertibility feature, allowing the note holders to convert the notes and accrued interest into common stock of the company at a rate of \$0.005 per share. During the three months ended March 31, 2008, the Company extended the due date of the

10,000

notes for one year to March 4, 2009. Interest in the amount of \$499 and \$493 was accrued on this note during the three months ended March 31, 2008 and 2007.

14

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Table of Contents

INNOVATIVE FOOD HOLDINGS, INC  
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED  
MARCH 31, 2008  
(Unaudited)

Seventeen convertible notes payable in the amount of \$4,500 each to Sam Klepfish, the Company's Chief Executive Officer and a related party, dated the first of every month starting on November 1, 2006. Pursuant to the Company's employment agreement with Mr. Klepfish, the amount of \$4,500 in salary is accrued each month to a note payable. These notes bear interest at a rate of 8% per annum. These notes and accrued interest are convertible into common stock as a rate of \$0.005 per share. Interest in the aggregate amount of \$1,392 and \$347 was accrued on these notes during the three months ended March 31, 2008 and 2007.	76,500
Three convertible notes payable in the amount of \$1,500 each to a consultant. These notes do not bear interest. The notes are convertible into shares of the Company common stock at a price of \$0.005 per share.	4,500
Note payable in the original amount of \$25,787 to Microsoft Corporation dated May 3, 2006. The note bears interest at the rate of 9.7% per annum, and is payable in 60 monthly payments of \$557 beginning October 1, 2006. Negative interest in the amount of \$499 was capitalized to this note during the three months ended March 31, 2008.	\$ 19,280
	\$ 1,238,280
Less: discount to note payable	(233,053)
	\$ 1,005,227
Less: Current maturities	(990,936)
Long-term portion	\$ 14,291
Total Non-related parties	\$ 713,727
Total related parties	291,500
	\$ 1,005,227

On March 12, 2008, we executed amendments to restructure an aggregate of \$150,000 of senior secured notes which were due February 7, 2007. The amendments extended the due date of the notes to March 4, 2009 and were in consideration of our issuance of an aggregate of: 30 million Class A warrants exercisable at \$0.0115 per share, 7.5 million Class B warrants exercisable at \$0.011 per share, and 3 million Class C warrants exercisable at \$0.005 per share. All of these warrants have essentially similar terms to the warrants we issued to such investors on February 24, 2005, except that the underlying common stock does not have registration rights.

On March 12, 2008, we also extended, to March 4, 2009, the due date of an additional \$10,000 note that was due November 19, 2006 in consideration of adding a convertibility feature, at a conversion price of \$0.005 per share, to the note and the issuance of 2 million Class A warrants exercisable at \$0.0115 per share, 500,000 Class B warrants exercisable at \$0.011 per share, and 200,000 Class C warrants exercisable at \$0.005 per share. All of these warrants have essentially similar terms to the warrants we issued to such investors on February 24, 2005, except that the underlying common stock does not have registration rights.

On January 22, 2008, we extended, to December 31, 2009, the due date of a \$75,000 note previously extended to March 31, 2008 in consideration of adding a convertibility feature, at a conversion price of \$0.005 per share, to the note.

#### Accounting for Conversion Options Embedded in Convertible Notes and Convertible Interest

The Company has certain convertible notes payable which contain embedded beneficial conversion features. Through August 2005, the beneficial conversion features of these convertible notes were accounted for by the equity method, whereby the intrinsic value of the beneficial conversion features were considered discounts to the notes. These discounts were immediately amortized to interest expense. During September 2005, the number of shares of the Company's common stock issued and issuable exceeded the number of shares of common stock the Company had authorized, and this triggered a change in the manner in which the Company accounts for these beneficial conversion features. In accordance with Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities, as amended ("SFAS 133"), the debt features provision contained in the terms governing the Notes are not clearly and closely related to the characteristics of the Notes. Accordingly, the features qualified as embedded derivative instruments at September 30, 2005 and because they do not qualify for any scope exception within SFAS 133, they were required by SFAS 133 to be accounting for separately from the debt instrument and recorded as derivative financial instruments. In September 2005, the Company valued the beneficial conversion features of its notes payable using the Black-Scholes valuation method, and arrived at an aggregate value of \$12,528,662. Pursuant to Emerging Issues Task Force Issue 00-19 "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock" ("EITF 00-19") "If a contract is reclassified from permanent or temporary equity to an asset or a liability, the change in fair value of the contract during the period the contract was classified as equity should be accounted for as an adjustment to stockholders' equity." Accordingly, during the year ended December 31, 2005, the Company charged the amount of \$12,445,576 to stockholders' equity. \$5,665,290 of this amount was charged to additional paid-in capital, which brought the balance of additional paid-in capital to \$0. The remainder, or \$6,780,286, was charged to accumulated deficit. During subsequent periods, the conversion option liability will be revalued, and any change in value charged to operations. At March 31, 2008, the conversion option liability was valued at \$1,324,053. The revaluation resulted in a loss during the three months ended March 31, 2008, of \$711,624.

The Company valued these embedded conversion options using the Black-Scholes option pricing model with the following assumptions:

	Risk Free Interest Rate	Expected Dividend Yield	Expected Option Life	Volatility
March 31, 2008	3.50%	-	10	213.70%

#### 10. RELATED PARTY TRANSACTIONS

The Company engaged in the following transactions with related parties:

Three months ended March 31, 2008:

The Company issued 3 convertible notes payable in the amount of \$4,500 each (a total of \$13,500) for additional salary due to the Company's Chief Executive Officer.

Table of Contents

INNOVATIVE FOOD HOLDINGS, INC  
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED  
MARCH 31, 2008  
(Unaudited)

## Common Stock

During the three months ended March 31, 2008, the Company had the following transactions:

The Company recorded a discount to the accrued convertible interest on notes payable in the amount of \$38,627 during the three months ended March 31, 2008. This amount was charged to additional paid-in capital during the three months ended March 31, 2008.

The company recorded a discount to the convertible notes payable in the amount of \$18,000 during the three months ended March 31, 2008. This amount was charged to additional paid-in capital during the three months ended March 31, 2008.

## Warrants

During the three months ended March 31, 2008, the Company issued 43,200,000 five-year warrants to investors to purchase additional shares of common stock at prices ranging from \$0.005 to \$0.0115 per share. These warrants were issued for consideration for extending the maturity date of certain convertible notes payable.

The following table summarizes the warrants outstanding at March 31, 2008 (post reverse-split):

Range of exercise prices	Number of shares outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price of outstanding warrants	Number of shares exercisable
\$ 0.0005	139,700,000	1.99	\$ 0.005	139,700,000
\$ 0.0110	18,500,000	3.49	\$ 0.110	18,500,000
\$ 0.0115	74,000,000	3.49	\$ 0.115	74,000,000
	232,200,000	2.59	\$	232,200,000

Transaction involving warrants are summarized as follows:

	Number of Shares	Weighted Average Exercise Price
Warrants exercisable at December 31, 2007	189,000,000	\$ 0.027
Granted	43,200,000	0.011
Exercised	-	-
Cancelled / Expired	-	-

Warrants exercisable at March 31, 2008	232,200,000	\$	0.024
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#### Options

On December 31, 2007, the Company issued 20,000,000 options to purchase additional shares of common stock at a price of \$0.007 per share for services to be provided during the year ended December 31, 2008. The options were granted 5,000,000 options to each of the Company's three directors, and 5,000,000 to the Company's president. These shares vest on December 31, 2008.



Table of Contents

INNOVATIVE FOOD HOLDINGS, INC  
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED  
MARCH 31, 2008  
(Unaudited)

The following table summarizes the options outstanding at March 31, 2008:

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
\$ 0.005	15,000,000	3.64	\$ 0.005	15,000,000	\$ 0.005
0.007	20,000,000	5.00	0.007	-	0.007
0.500	500,000	1.13	0.500	300,000	0.500
	35,00,000	4.37		15,300,000	\$ 0.015

	Number of Shares	Weighted Average Exercise Price
Options outstanding at December 31, 2007	15,500,000	\$ 0.021
Granted	20,000,000	0.007
Exercised	-	-
Cancelled / Expired	-	-
Options outstanding at March 31, 2008	35,500,000	\$ 0.013
Exercisable	15,300,000	\$ 0.015
Not exercisable	20,200,000	\$ 0.012

#### Accounting for Warrants and Freestanding Derivative Financial Instruments

The Company accounts for the issuance of common stock purchase warrants and other freestanding derivative financial instruments in accordance with the provisions of EITF 00-19. Based on the provisions of EITF 00-19, the Company classifies, as equity, any contracts that (i) require physical settlement or net-share settlement or (ii) gives the Company a choice of net-cash settlement or settlement in its own shares (physical settlement or net-share settlement). The Company classifies as assets or liabilities any contract that (i) require net-cash or (ii) give the counterparty a choice of net-cash settlement in shares (physical or net-share settlement).

The fair value of these warrants is determined utilizing the Black-Scholes valuation model. Through August 2005, these warrants were accounted for by the equity method, whereby the fair value of the warrants was charged to additional paid-in capital. During September, 2005, the number of shares of the Company's common stock issued and issuable exceeded the number of shares of common stock the Company had authorized, and this triggered a change in the manner in which the Company accounts for these warrants and the Company began to account for these warrants utilizing the liability method. Pursuant to EITF 00-19, "If a contract is reclassified from permanent or temporary equity to an asset or a liability, the change in fair value of the contract during the period the contract was classified as

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

The accounting guidance shows that the warrants and options which are a derivative liability should be revalued each reporting period. The recorded value of such warrants can fluctuate significantly based on fluctuations in the market value of the underlying securities of the issuer of the warrants and options, as well as in the volatility of the stock price during the term used for observation and the term remaining for warrants and options. During the three months ended March 31, 2008, the Company recognized a loss of \$364,267 for the increase in the fair value of the warrant liability and recorded this gain in operations during the three months ended March 31, 2008. The fair value of these instruments was estimated at March 31, 2008, using the Black-Scholes option pricing model with the following assumptions: risk free interest rate: 3.50%; expected dividend yield: 0%; expected option life: 5 years; and volatility: 194.5%.

#### Insufficient Authorized but Unissued Shares of Common Stock

The Company has a potential obligation to issue 666,055,000 shares of common stock upon the conversion of convertible notes and accrued interest, warrants and penalty shares issuable at March 31, 2008. The Company had 171,787,638 shares of common stock outstanding at March 31, 2008 and 500,000,000 shares of common stock authorized at March 31, 2008. The Company has exceeded its shares authorized by 337,842,638 at March 31, 2008.

#### 11. PENALTY FOR LATE REGISTRATION OF SHARES

At March 31, 2008, the Company had a liability in the amount of \$661,676 for the issuance of 110,280,000 shares of the Company's common stock pursuant to a penalty calculation with regard to the late registration of shares underlying convertible notes payable. The Company reported a loss of \$330,840 and a gain of \$27,184 during the three months ended March 31, 2008 and 2007, respectively, representing the change in the fair value of these shares during the period.

#### 12. SUBSEQUENT EVENTS

Effective July 30, 2008, Mr. Ziakas resigned his position as our Chief Operating Officer and assumed the non-executive officer position of Vice President of Procurement. Mr. Ziakas' existing employment agreement has been terminated and he will continue working for us as an employee-at-will with an annual salary of \$105,000.

Effective on July 30, 2008, Mr. Justin Wiernasz, age 42, was promoted to the position of President. Mr. Wiernasz was the Executive Vice President of Marketing and Sales and Chief Marketing Officer of our operating subsidiary, Food Innovations, Inc. since May 2007 and the President of Food Innovations and our Chief Marketing Officer since December 2007. Prior thereto, he was at U.S. Foodservice, our largest customer for 13 years. From 2005 to 2007 he was the Vice President of Sales & Marketing, U.S. Foodservice Boston, and prior thereto, from 2003 to 2005 he was a National Sales Trainer at U.S. Foodservice Charleston SC, from 1996 to 2003 he was the District Sales Manager at U.S. Foodservice, Western Massachusetts and from 1993 to 1996 he was Territory Manager, U.S. foodservice, Northampton, Easthampton & Amherst, MA. Prior to that from 1989 to 1993 he was the owner and operator J.J.'s food and spirit, a 110 seat restaurant. Mr. Wiernasz signed an employment agreement dated May 18, 2007 that expires on September 13, 2008 pursuant to which he is currently compensated at an annual rate of \$120,000. The agreement also provides for the earning of a bonus of 10% of his salary, up to 50%, for each \$100,000 of incremental profits we make over the previous year. On January 22, 2008, our Board approved the grant of an aggregate of 3 restricted million shares, which vest immediately, and 5 million in options exercisable for five years at an exercise price of \$0.007 per share to Mr. Wiernasz, upon his appointment as President of Innovative Food Holdings, all of which vest on December 31, 2008, provided Mr. Wiernasz is then still an employee.



Table of Contents

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS

FORWARD LOOKING STATEMENTS

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 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 3a51-1 under the Exchange Act) during the three year period preceding the date(s) on which those forward looking statements were first made, except to the extent otherwise specifically provided by rule, regulation or order of the Securities and Exchange Commission. We caution readers that certain important factors may affect our actual results and could cause such results to differ materially from any forward-looking statements which may be deemed to have been made in this Report or which are otherwise made by or on behalf of us. For this purpose, any statements contained in this report that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the generality of the foregoing, words such as "may", "will", "expect", "believe", "explore", "consider", "anticipate", "intend", "could", "estimate", "plan", "propose" or "continue" or the negative variations of those words or comparable terminology are intended to identify forward-looking statements. Factors that may affect our results include, but are not limited to, the risks and uncertainties associated with:

- Our ability to raise capital necessary to sustain our anticipated operations and implement our proposed business plan,
- Our ability to implement our proposed business plan,
- The ability to successfully integrate the operations of businesses we have acquired, or may acquire in the future, into our operations,
- Our ability to generate sufficient cash to pay our lenders and other creditors,
- Our ability to employ and retain qualified management and employees,
- Our dependence on the efforts and abilities of our current employees and executive officers,
- Changes in government regulations that are applicable to our client or anticipated business,
- Changes in the demand for our services,
- The degree and nature of our competition,
- Our lack of diversification of our business plan,
- The general volatility of the capital markets and the establishment of a market for our shares,
- Our ability to generate sufficient cash to pay our creditors, 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 natural disasters.



## Table of Contents

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

### Critical Accounting Policy and Estimates

Our Management's Discussion and Analysis section discusses our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, management evaluates its estimates and judgments, including those related to revenue recognition, accrued expenses, financing operations, and contingencies and litigation. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these Estimates under different assumptions or conditions. There are no significant accounting estimates inherent in the preparation of our financial statements.

### Background

The following discussion should be read in conjunction with the financial statements of the company and related notes included elsewhere in this Report and in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2007.

## RESULTS OF OPERATIONS

The following is a discussion of our financial condition and results of operations for the three months ended March 31, 2008 and 2007. This discussion may contain forward looking-statements that involve risks and uncertainties. Our actual 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 and our other public filings.

### Three Months Ended March 31, 2008 Compared to Three Months Ended March 31, 2007

#### Revenue

Revenue increased by \$3,179 or less than 1%, to \$1,603,378 for the three months ended March 31, 2008 from \$1,600,199 from the prior year. Sales increases in Seafoods, Meat and Game and Cheese were offset by sales decreases in Produce and Specialty lines. Sales returns and allowances were \$5,846 lower than in the comparable quarter in 2007.

#### Cost of goods sold

Cost of goods sold was \$1,286,893 for the three months ended March 31, 2008, an increase of \$141,671 or approximately 12% compared to cost of goods sold of \$1,145,222 for the three months ended March 31, 2008. The increase in the cost of revenue was due to the introduction of our 3 day saver shipping program which increased our

shipping costs . Gross profit margin for the three months ended March 31, 2008 was approximately 20%, compared to gross profit margin of approximately 28% for the three months ended March 31, 2007. The increase in the cost of goods sold was due to the introduction of our 3 day saver shipping program which increased our shipping costs

#### Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased by \$68,810, or approximately 17%, to \$331,077 during the three months ended March 31, 2008 compared to \$399,891 for the three months ended March 31, 2007. The decrease was as a result of lower administrative costs and as a result of the recognition of FedEx legal and professional fees credits from prior periods. The primary components of selling, general, and administrative expenses for the three months ended March 31, 2008 were payroll and related costs of \$198,385; consulting fees of \$85,039; insurance costs of \$25,824; amortization and depreciation of \$10,016; and travel and entertainment of \$7,041.

#### Penalty for Late Registration of Shares

The Company has accrued a liability for failure to register certain shares issuable. At March 31, 2008, there were a total of 110,280,000 shares (post-reverse split) issuable pursuant to this penalty. This penalty has been fully accrued, and no additional accrual was made during the three months ended March 31, 2008. The amount of \$37,432 was accrued during the three months ended March 31, 2007. During the three months ended March 31, 2008 and 2007, the Company also marked to market the value of these 110,280,000 shares. This resulted in a loss of \$330,840 and a gain of \$27,184, respectively.

## Table of Contents

### Change in Fair value of Warrant Liability

At March 31, 2008, the Company had an accrued liability of \$1,199,159 representing the fair value of the warrants issued with the convertible notes. The Company recorded a loss of \$364,271 and a gain of \$29,829 during the three months ended March 31, 2008 and 2007, respectively, representing the change in the fair value of these warrants.

### Change in Fair value of the Conversion Option Liability

At March 31, 2008, the Company had an accrued liability of \$1,324,053, representing the fair value of the beneficial conversion feature of convertible notes payable. The Company recorded a loss of \$711,624 and \$113,003 during the three months ended March 31, 2008 and 2007, respectively, representing the change in the fair value of these options.

### Interest (Income) expense, net

Interest expense, net of interest income, increased by \$40,120, or approximately 53%, from \$76,274 during the three months ended March 31, 2007 to \$116,394 for the three months ended March 31, 2008. This increase was attributable primarily to the new issuances of convertible notes payable for services performed, and to the amortization of the discount associated with the beneficial conversion features of these notes.

### Net Loss

For the reasons stated above, net loss for the three months ended March 31, 2008 was \$1,537,721, an increase of \$1,423,111 or approximately 1,242% compared to a net loss of \$114,610, during the three months ended March 31, 2007. It is important to note that these losses are substantially the result of the application of various accounting rules as they apply to the Company, and that many of the charges made by the Company to value certain liabilities have no impact on our cash flows.

### Liquidity and Capital Resources

As of March 31, 2008, the Company had cash on hand of \$29,540, a decrease of \$45,070 from December 31, 2007. During the three months ended March 31, 2008, cash used by operating activities was \$43,497, consisting primarily of the net loss of \$1,537,721 offset by depreciation and amortization of \$10,016; amortization of the discount on notes payable and accrued interest of \$77,714; change in fair value of warrant liability of \$364,271; change in fair value of conversion option liability of \$711,624; loss from marking to market shares issuable due to penalty on late registration of shares of \$330,836; and changes in the components of working capital in the net amount of \$237. Cash used by financing activities was \$1,573, consisting of principal payments on notes payable.

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

Under current operating plans and assumptions, management believes that projected cash flows from operations and available cash resources may be insufficient to satisfy our anticipated cash requirements for at least the next twelve months. As we seek to increase our sales of perishables, as well as identify new and other consumer oriented products and services, we may use existing cash reserves, long-term financing, or other means to finance such diversification.

### Critical Accounting Policy and Accounting Estimate Discussion

In accordance with the Securities and Exchange Commission's (the "Commission") Release Nos. 33-8040; 34-45149; and FR-60 issued in December 2001, referencing the Commission's statement "regarding the selection and disclosure



by public companies of critical accounting policies and practices", we have set forth in Note 2 of the Notes to Consolidated Financial Statements what we believe to be the most pervasive accounting policies and estimates that could have a material effect on our results of operations and cash flows if general business conditions or individual customer financial circumstances change in an adverse way relative to the policies and estimates used in the attached financial statements or in any "forward looking" statements contained herein.

The Company's cash on hand may be insufficient to fund its planned operating needs. We continue to seek funding for working capital requirements, necessary equipment purchases, marketing costs, and other operations for the next year and foreseeable future by raising capital through the sale of equity and/or debt securities, issuing common stock in lieu of cash for services and by advances from shareholders.

We expect that any sale of additional equity securities or convertible debt will result in additional dilution to our stockholders. The Company can give no assurance that it will be able to generate adequate funds from operations, that funds will be available to us from debt or equity financing, or that if available, the company will be able to obtain such funds on favorable terms and conditions. If the company cannot secure additional funds it may have to reduce its operations be able to continue as a going concern. The Company currently has no definitive arrangements with respect to additional financing.

While we have raised capital to meet our working capital and financing needs in the past, additional financing may be required in order to meet our current and projected cash flow deficits from operations and development. We are seeking financing in the form of equity or debt in order to provide the necessary working capital. We currently have no commitments for financing. There is no guarantee that we will be successful in raising the funds required.

By adjusting our operations and development to the level of capitalization, management believes we have sufficient capital resources to meet projected cash flow deficits through the next twelve months. However, if thereafter, we are not successful in generating sufficient liquidity from operations or in raising sufficient capital resources, on terms acceptable to us, this could have a material adverse effect on our business, results of operations, liquidity and financial condition.

The independent auditors report on our December 31, 2007 financial statements states that our recurring losses raise substantial doubts about our ability to continue as a going concern.

Table of Contents

INFLATION

The impact of inflation on the costs of the Company, and the ability to pass on cost increases to its customers over time is dependent upon market conditions. The Company is not aware of any inflationary pressures that have had any significant impact on the Company's operations over the past quarter, and the Company does not anticipate that inflationary factors will have a significant impact on future operations.

OFF-BALANCE SHEET ARRANGEMENTS

The Company does not maintain off-balance sheet arrangements nor does it participate in non-exchange traded contracts requiring fair value accounting treatment.

RISK FACTORS

The Company's business and success is subject to numerous risk factors as detailed in its Annual Report on Form 10-KSB for the year ended December 31, 2007.

ITEM 4T - 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.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's reports in this annual report.



Table of Contents

PART II. - OTHER INFORMATION

Item 1. Legal Proceedings

None.

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

On March 12, 2008, we executed amendments to restructure an aggregate of \$150,000 of senior secured notes which were due February 7, 2007. The amendments extended the due date of the notes to March 4, 2009 and were in consideration of our issuance of an aggregate of: 30 million Class A warrants exercisable at \$0.0115 per share, 7.5 million Class B warrants exercisable at \$0.011 per share, and 3 million Class C warrants exercisable at \$0.005 per share. All of these warrants have essentially similar terms to the warrants we issued to such investors on February 24, 2005, except that the underlying common stock does not have registration rights.

On March 12, 2008, we also extended, to March 4, 2009, the due date of an additional \$10,000 note that was due November 19, 2006 in consideration of adding a convertibility feature, at a conversion price of \$0.005 per share, to the note and the issuance of 2 million Class A warrants exercisable at \$0.0115 per share, 500,000 Class B warrants exercisable at \$0.011 per share, and 200,000 Class C warrants exercisable at \$0.005 per share. All of these warrants have essentially similar terms to the warrants we issued to such investors on February 24, 2005, except that the underlying common stock does not have registration rights.

On January 22, 2008, we extended, to December 31, 2009, the due date of a \$75,000 note previously extended to March 31, 2008 in consideration of adding a convertibility feature, at a conversion price of \$0.005 per share, to the note.

Item 3. Defaults Upon Senior Securities

We are in default of \$978,000 of our outstanding notes payable. We did not meet certain of our obligations under the loan documents relating to this issuance. These lapses include not reserving the requisite number of treasury shares, selling subsequent securities without offering a right of first refusal, not complying with reporting obligations, not having our common shares quoted on the OTC:BB and not timely registering certain securities.

Item 4. Submission of Matters to a Vote of Securities Holders

None.

Item 5. Other Information

Effective July 30, 2008, Mr. Ziakas resigned his position as our Chief Operating Officer and assumed the non-executive officer position of Vice President of Procurement. Mr. Ziakas' existing employment agreement has been terminated and he will continue working for us as an employee-at-will with an annual salary of \$105,000.

New Executive Officer in 2008

Effective on July 30, 2008, Mr. Justin Wiernasz, age 42, was promoted to the position of President. Mr. Wiernasz was the Executive Vice President of Marketing and Sales and Chief Marketing Officer of our operating subsidiary, Food Innovations, Inc. since May 2007 and the President of Food Innovations and our Chief Marketing Officer since December 2007. Prior thereto, he was at U.S. Foodservice, our largest customer for 13 years. From 2005 to 2007 he

was the Vice President of Sales & Marketing, U.S. Foodservice Boston, and prior thereto, from 2003 to 2005 he was a National Sales Trainer at U.S. Foodservice Charleston SC, from 1996 to 2003 he was the District Sales Manager at U.S. Foodservice, Western Massachusetts and from 1993 to 1996 he was Territory Manager, U.S. foodservice, Northampton, Easthampton & Amherst, MA. Prior to that from 1989 to 1993 he was the owner and operator J.J.'s food and spirit, a 110 seat restaurant. Mr. Wiernasz signed an employment agreement dated May 18, 2007 that expires on September 13, 2008 pursuant to which he is currently compensated at an annual rate of \$120,000. The agreement also provides for the earning of a bonus of 10% of his salary, up to 50%, for each \$100,000 of incremental profits we make over the previous year. On January 22, 2008, our Board approved the grant of an aggregate of 3 restricted million shares and 5 million in options exercisable for five years at an exercise price of \$0.007 per share to Mr. Wiernasz, upon his appointment as President of Innovative Food Holdings, all of which vest on December 31, 2008, provided Mr. Wiernasz is then still an employee.

Item 6. Exhibits

31.1 Section 302 Certification

31.2 Section 302 Certification

32.1 Section 906 Certification

32.2 Section 906 Certification

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	July 31, 2008
/s/ John McDonald John McDonald	Principal Financial Officer	July 31, 2008

Table of Contents