INNOVATIVE FOOD HOLDINGS INC
Form 10QSB
August 21, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington D. C. 20549

FORM 10-QSB

x Quarterly report pursuant to Section 13 or 15(d) of the Securities and Exchange Act of 1934.

For the quarterly period ended June 30, 2006

o 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 Small Business Issuer as Specified in its Charter)

FLORIDA	20-1167761
(State of or Other Jurisdiction of Incorporation or Organization)	(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 Issuer Exchange Act during the past 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 x **NO** o

Indicate by check mark whether the issuer is a shell company (as defined in Regulation 12b-2 of the Exchange Act).

YES o **NO** x

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:

111,686,537Common Shares as of August 4, 2006

Transitional Small Business Disclosure Format:

YES o **NO** x

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INNOVATIVE FOOD HOLDINGS, INC.

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PART I - FINANCIAL STATEMENTS

Innovative Food Holdings, Inc. and Subsidiary
Consolidated Balance Sheet

		UNAUDITED 30-Jun 2006		AUDITED 31-Dec 2005
ASSETS				
Current Assets				
Cash	$	4,827	$	34,063
Accounts receivable		359,159		439,341
Loan Receivable		419,302		186,745
Inventory		5,201		4,281
Prepaid Expenses		18,658		1,507
Total Current Assets		807,147		665,937
Property and equipment - at cost, net of accumulated depreciation and amortization		84,403		87,368
	$	891,550	$	753,305
LIABILITIES AND STOCKHOLDERS' DEFICIENCY				
Curent Liabilities				
Accounts payable	$	621,767	$	419,030
Accrued taxes and expenses		68,904		229,479
Accrued interest payable		147,805		108,312
Accrued bonus payable				6,000
Loan payable bank		24,247		24,247
Convertible notes payable-current maturities				464,000
Convertible debentures payable		184,105		107,749
Total Current Liabilities		1,046,828		1,358,817
Notes & loans payable		710,190		110,000
Loans payable stockholders				2,758
Stockholders' Deficiency				
Common stock authorized 500,000,000				
111,686,537 issued and outstanding		11,169		10,474
Preferred stock authorized 10,000,000, none issued		-		
Additional paid-in capital		2,273,151		2,233,223
Paid-in-capital-warrants		294,101		289,164
Accumulated deficit		(3,443,889)		(3,251,131)
		(865,468)		(718,270)

	$ 891,550	$ 753,305

The accompanying notes are an integral part of the financial statements

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Innovative Food Holdings, Inc. and Subsidiary
Consolidated Statements of Operations
Unaudited

	Three months ended June 30, 2006	Three months ended June 30, 2005	Six months ended June 30, 2006	Six months ended June 30, 2005
Revenues				
Sales	$ 1,825,309	$ 1,281,850	$ 3,448,451	$ 2,385,647
Other income	43,580	43,964	61,484	110,542
	1,868,889	1,325,814	3,509,935	2,496,189
Costs and expenses				
Cost of goods sold	1,394,282	1,034,733	2,659,376	1,961,455
Selling expenses	249,194	202,675	446,064	393,962
General and administrative expenses	246,156	210,467	469,648	355,492
	1,889,632	1,447,875	3,575,088	2,710,909
Loss before other income (expense) and provision for income taxes	(20,743)	(122,061)	(65,153)	(214,720)
Other income (expense):				
Interest expense	(24,593)	(19,748)	(48,330)	(35,657)
Amortization of discount on debentures	(33,634)		(79,386)	-
	(58,227)	(19,748)	(127,716)	(35,657)
Income/Loss before income taxes expense	(78,970)	(141,809)	(192,869)	(250,377)
Income tax expense	-	-	-	-
NET LOSS	$ (78,970)	$ (141,809)	$ (192,869)	$ (250,377)
Loss per share - basic and diluted	$ (0.0007)	$ (0.0018)	$ (0.0017)	$ (0.0031)

The accompanying notes are an integral part of the financial statements.

Innovative Food Holdings Inc. and Subsidiary
Consolidated Statements of Cash Flows
Unaudited

	Six months ended June, 2006		2005	
Cash flows from operating activities				
Net loss	$	(192,869)	$	(250,377)
Adjustments to reconcile net loss to net cash used in operating activities				
Depreciation		25,794		25,642
Amortization on discount on debentures		79,386		
Changes in operating assets and liabilities				
Accounts receivable		80,182		7,199
Inventory		(921)		4,664
Prepaid expenses		(17,151)		(84,564)
Loan Receivable		(232,557)		-
Accounts payable		202,737		(72,011)
Accrued taxes and expenses		(126,970)		28,223
Net cash used in operating activities		(182,369)		(341,225)
Cash flows from investing activities				
Acquisition of property and equipment		(22,829)		30,795
Net cash (used in) provided by investing activities		(22,829)		30,795
Cash flows from financing activities				
Proceeds from issuance of long-term-debt		-		452,000
Payment of loan payable bank		-		(46,521)
Payment of loans from stockholders		(2,758)		(3,227)
Debentures issed from stock conversion		178,720		-
Net cash provided by financing activities		175,962		402,252
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(29,236)		91,822
Cash and cash equivalents at beginning of period		34,063		28,011
Cash and cash equivalents at end of period	$	4,827	$	119,833
Supplemental cash flow disclosures:				
Interest Paid	$	665	$	-
Income taxes paid	$	-	$	-

The accompanying notes are an integral part of the financial statements.

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Innovative Food Holdings and Subsidiary
Period Ended June 30, 2006 Earnings Per Share

	Income (numerator)	Number of Shares outstanding	Amount per share
Net Loss	(192,869)		
Less: Preferred stock dividends	0		
Basic EPS			
Loss available to common stockholders	(192,869)	111,686,537	($0.002)
Effects of Dilutive Securities			
Options to purchase common stock			
8% convertible notes		388,313,463	
Warrants			
Diluted EPS			
Loss available to common stockholders adjusted for the effects of assumed exercise of options and conversion of notes	(192,869)	500,000,000	($0.000)

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INNOVATIVE FOOD HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1: Basis of Presentation

The accompanying Consolidated Condensed Financial Statements of Innovative Food Holdings, Inc. and subsidiary (collectively, the "Company") have been prepared in accordance with accounting principles generally accepted for interim financial statement presentation and in accordance with the instructions to Form 10-QSB and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted for complete financial statement presentation. In the opinion of management, all adjustments for a fair statement of the results of operations and financial position for the interim periods presented have been included. All such adjustments are of a normal recurring nature. This financial information should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2005. There have been no changes in significant accounting policies since December 31, 2005.

NOTE 2: Nature of Activities and Significant Accounting Policies

Nature of Business: Innovative Food Holdings Inc. is the parent Company of Food Innovations Inc., of which it owns 100%. The activities of the business are accounted for by the equity method. The parent/subsidiary relationship commenced in February 2004. Food Innovations, Inc. is in the business of providing premium white tablecloth restaurants with the freshest, origin specific perishable products direct from its network of vendors to the back door within 48 hours.

Basis of Presentation: The Consolidated Financial Statements reflect the operations of Food Innovations Inc., a provider of wholesale, origin specific perishable and specialty products as a continuing operation.

A summary of the Company's significant accounting policies follows:

Accounting estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Principles of Consolidation: The Consolidated Financial Statements include the accounts of Innovative Food Holdings Inc., and its operating subsidiary, which is wholly owned. All intercompany balances and transactions have been eliminated in consolidation.

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.

Cash and cash equivalents: For purpose of reporting cash flows, the Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Concentration of credit risk: Financial instruments, which potentially subject the Company to concentrations of credit risk, consist of cash and accounts receivable. The Company places its cash with high quality financial institutions because at times it may exceed the FDIC $100,000 insurance limit.

Trade receivables: Trade receivables are carried at the original charge amount less any estimated amount made for doubtful receivables, if any, based on a review of all outstanding amounts on a quarterly basis. Management determines the allowance for doubtful accounts, by identifying troubled accounts and by using historical experience applied to an aging of accounts. Trade receivables are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded when received. The accounts receivable were assigned as security in February 2005.

Inventories: A small amount of inventory is held at cost.

Property and Equipment: Property and equipment is stated at cost. Depreciation is computed based on estimated useful lives of office equipment 5 years; computer equipment and software 3 years, using the straight-line method and the declining balance method.

Income Taxes: Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carry forwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

NOTE 3: Per Share Information

In accordance with SFAS No. 128, “Earnings Per Share”, basic net income per common share (“Basic EPS”) is computed by dividing the net income attributable to common shareholders by the weighted-average number of common shares and dilutive common share equivalents and convertible securities then outstanding. SFAS No. 128 requires the presentation of both Basic EPS and Diluted EPS on the face of the Company’s Consolidated Statements of Operations.

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS

Some of the matters discussed in this section contain forward-looking statements and information relating to us that are based on the current beliefs and expectations of management, as well as assumptions made by and information currently available to us. When used in this section, and elsewhere in this Form 10-QSB, the words "anticipate", "believe", "estimate", “should” and "expect" and similar expressions, as they relate to us are intended to identify forward-looking statements. Such statements reflect the current views of our management with respect to future events and are subject to certain risks, uncertainties and assumptions, which could cause the actual results to differ materially from those reflected in the forward-looking statements.

Cautionary Statements

The following are cautionary statements made pursuant to the Private Securities Litigation Reform Act of 1995 in order for the Company to avail itself of the “safe harbor” provisions of the Reform Act. The discussions and information in this document may contain both historical and forward-looking statements. To the extent that the document contains forward-looking statements regarding the financial condition, operating results, business prospects or any other aspect of the Company, please be advised that the Company’s actual financial condition, operating results and business performance may differ materially from that projected or estimated by the Company in forward-looking statements. The differences may be caused by a variety of factors, including but not limited to adverse economic conditions, loss of a material contract, inability to attract prospective new customers or retain existing customers resulting in a declining revenue base, intense competition including entry of new competitors and services, adverse federal, state and local government regulation, unexpected costs and operating deficits, lower sales and revenues than forecast, default on leases or other indebtedness, loss of supplies, price increases for capital, supplies and materials, inadequate capital and/or inability to raise financing, the risk of litigation and administrative proceedings involving the Company and its employees, higher than anticipated labor costs, the possible acquisition of new businesses that result in operating losses or that do not perform as anticipated, resulting in unanticipated losses, the possible fluctuation and volatility of the Company’s operating results and financial condition, adverse publicity and news coverage, inability to carry out marketing and sales plans, loss of key executives, changes in interest rates, inflationary factors, and other specific risks that may be alluded to in this or in other reports issued by the Company. In addition to the above, specific risk factors relating to our business are contained in our Annual Report on Form 10-KSB for the year ended December 31, 2005

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.

RESULTS OF OPERATIONS

Our sales for the three months ended June 30, 2006 and 2005 were $1,868,888 and $1,325,814 respectively. Management believes that this increase of approximately 41% was primarily due to the increase in the number of divisions of US Foodservice (“USF”) through which our products were sold and increased awareness in the market place of the service we provide.

The following table sets forth for the periods indicated the percentage of net revenues represented by the certain items reflected in our statement of operations:

Quarter ended June 30,	**Three Months Ended**		**Six Months Ended**	
	2006	2005	2006	2005
Net Revenue	100%	100%	100%	100%
Cost of Goods Sold	(74.60%)	(78.04%)	(75.77%)	(78.58%)
Gross Margin	25.39%	21.95%	24.23%	21.42%
Selling, general and administrative expenses	(26.50%)	(31.16%)	(26.09%)	(30.02%)
Interest & amortization expense	(3.06%)	(1.49%)	(3.60%)	(1.42%)
Net Loss	(4.17%)	(10.70%)	(5.46%)	(10.03%)

The following is a discussion of our financial condition and results of operations for the quarters ended June 30, 2006 and 2005. 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.

Quarter Ended June 30, 2006 Compared to Quarter Ended June 30, 2005

Revenue increased by $543,074, or 41%, to $1,868,889 for the quarter ended June 30, 2006 from $1,325,814 in the prior year. The substantial portion of the increase was attributable to increases in sales of specialty products and cheeses to our product offerings and the addition of two new Chefs in the customer service/sales department has increased sales within each region of US Foods resulting in overall top line growth and increased awareness within the market place of the services we have to offer.

Our cost of revenues during the quarters ended June 30, 2006 and 2005 are primarily comprised of (1) cost of goods sold (74.60% and 78.04%, respectively), (2) selling expenses (13.33% and 15.29%, respectively), and (3) general and administrative expenses (13.17% and 15.87%, respectively).

Consolidated gross margin as a percentage of net revenue was 25.39% during the quarter ended June 30, 2006, compared to 21.95% in the quarter ended June 30, 2005, representing an absolute percentage point increase of 2.96%. This increase was primarily due to ongoing product analysis and pricing restructuring.

Selling expenses increased by approximately $46,519, or 22.29%, from approximately $202,675 to approximately $249,194 for the quarters ended June 30, 2005 and 2006, respectively. The increase was attributable to an increase in earned commissions as related to the staff and sales increase.

General and Administrative expenses ("G&A") increased by approximately $35,689, or 16.96%, when comparing G&A of approximately $246,156 and $210,467 for the quarters ended June 30, 2006 and 2005, respectively. The increase was primarily attributable to the hiring of a V.P. of Sales in January, 2006 for potential retail opportunities and the implementation of a benefit plan for the employees and management in June of 2005.

We continuously evaluate the collectibility of trade receivables by reviewing such factors as deterioration of the results of operations and the financial condition or bankruptcy filings of our customers. As a result of this review process, we record bad debt provisions to adjust the carrying amount of the receivables to their realizable value. Provisions for bad debts are also recorded resulting from the review of other factors, including (a) length of time the receivables are past due, (b) historical experience and (c) other factors obtained during collection efforts. If the circumstances relating to any specific customers change adversely, our provision for bad debts would be changed accordingly.

Other Income

Other Income was virtually unchanged between the two quarters ended June 30, 2006 and June 30, 2005.

Liquidity and Capital Resources

As of June 30, 2006 the Company had cash on hand of $4,827, a decrease of $29,236 over December 31, 2005. During the quarter ended June 30, 2006, $10,000 was received from an investor in return for a Note Payable at 10% p.a. The funds were loaned to Pasta Italiana Inc.(“Pasta”). Cash used in operating activities during the quarter was $172,369

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. No such expenditures have been made in the quarter ended June 30, 2006. As indicated in the unaudited financial statements included in this filing, our revenues for the quarter have increased again marking the sixth straight quarter in which revenues have increased and our loss from operations was reduced to $20,000 continuing a second quarter trend of reduced losses.

Under current operating plans and assumptions, management believes that projected cash flows from operations and available cash resources will be insufficient to satisfy our anticipated cash requirements for the next twelve months. We anticipate that we will require approximately $250,000 to fund our continued operations for the next twelve months depending on revenue from operations. Although management believes it will be able to raise capital to continue operations, there can be no assurance that financing will be available in amounts or on terms acceptable to us, if at all. If we are unable to obtain additional financing, we will likely be required to curtail our marketing and development plans which would have a negative impact on revenues which, if not reversed, could result in causing us to possibly cease our operations.

During the quarter, our option to acquire Pasta expired. As of August 9, 2006, Pasta owes us an aggregate of $356,000, which amount increases daily at the rate of $144.19. We are attempting to collect on this debt and if successful, we will use the funds to pay off certain debts and as working capital.

Our contract with our primary customer, Next Day Gourmet, L.P., a wholly-owned subsidiary of US Foods, representing approximately 90% of our revenues, is due to expire in September. We have initiated discussion with representatives of US Foods to extend the contract on essentially the same terms as the current contract. We believe that we will be successful in this endeavor, but if not, the loss of US Foods as a customer will have a materially adverse impact on our revenues, cash flows and business prospects. At this time we can give no assurances that we will be successful in extending the contract.

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.

Risk Factors

Risk factors relating to our business are contained in our Annual Report on Form 10-KSB for the year ended December 31, 2005. We direct your attention to the risks described therein and especially, but without limitation, to the risk factor describing our relationship with Next Day Gourmet, L.P. and US Foods and the adverse consequences to us if the contract expires on September 11, 2006.

ITEM 3 - CONTROLS AND PROCEDURES

(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.

(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 15-d-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.

PART II. - OTHER INFORMATION

Item 1. Legal Proceedings

NONE

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

No equity securities were sold during the quarter ended June 30, 2006. The increase in shares issued was the result of a partial conversion of two convertible notes for 2,094,500 shares, 350,000 shares issued to a member of the board of directors for services rendered and 900,000 shares issued to two employees as a bonus for services rendered during 2005.

Item 3. Defaults Upon Senior Securities

NONE

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

NONE

Item 5. Other Information

In December, 2005 we filed a registration statement with the S.E.C. to register shares of common stock underlying convertible securities owned by certain of our investors. The S.E.C. responded with comments to the filing and we are in the process of addressing those comments. As a result of the comments, we expect to file Quarterly Reports for the first three quarters of 2004 and made some amendments to certain of our filings.

Item 6. Exhibits

31.1 Section 302 Certification
31.2 Section 302 Certification
32.1 Section 906 Certification
32.2 Section 906 Certification

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
Sam Klepfish /s/ Sam Klepfish	Interim President	August 18, 2006
Carol Houston /s/ Carol Houston	Principal Financial Officer	August 18, 2006

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