

BARFRESH FOOD GROUP INC.  
Form 10-K  
April 02, 2018

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-K**

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2017

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**Commission File Number: 000-55131**

**BARFRESH FOOD GROUP INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of

incorporation or organization)

**27-1994406**

(I.R.S. Employer

Identification No.)

**8383 Wilshire Blvd., Suite 750, Beverly Hills, California**

(Address of principal executive offices)

**90211**

(Zip Code)

**310-598-7113**

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: **None**

Securities registered under Section 12(g) of the Act: **Common Stock, \$0.000001 par value**

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [ ] No [X]

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] No [ ]

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

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

Large Accelerated filer       Accelerated filer       Non-accelerated filer       Smaller reporting company

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates (excluding voting shares held by officers and directors) as of June 30, 2017 was \$37,903,472.

As of March 8, 2018, there were 118,701,577 outstanding shares of common stock of the registrant.

**BARFRESH FOOD GROUP INC.**

**FORM 10-K**

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## **CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS AND INFORMATION**

This Annual Report on Form 10-K (“Annual Report”), the other reports, statements, and information that we have previously filed or that we may subsequently file with the Securities and Exchange Commission (“SEC”) and public announcements that we have previously made or may subsequently make include, may include, incorporate by reference or may incorporate by reference certain statements that may be deemed to be forward-looking statements. The forward-looking statements included or incorporated by reference in this Annual Report and those reports, statements, information and announcements address activities, events or developments that Barfresh Food Group Inc., a Delaware corporation (hereinafter referred to as “we”, “us”, “our”, “Company” or “Barfresh”) expects or anticipates will or may occur in the future. Any statements in this document about expectations, beliefs, plans, objectives, assumptions or future events or performance are not historical facts and are forward-looking statements. These statements are often, but not always, made through the use of words or phrases such as “may”, “should”, “could”, “predict”, “potential”, “believe”, “likely result”, “expect”, “will continue”, “anticipate”, “seek”, “estimate”, “intend”, “plan”, “projection”, “would”, “outlook” and other expressions. Accordingly, these statements involve estimates, assumptions and uncertainties, which could cause actual results to differ materially from those expressed in them. Any forward-looking statements are qualified in their entirety by reference to the factors discussed throughout this document. All forward-looking statements concerning economic conditions, rates of growth, rates of income or values as may be included in this document are based on information available to us on the dates noted, and we assume no obligation to update any such forward-looking statements.

Management cautions that forward-looking statements are qualified by their terms and/or important factors, many of which are outside of our control, involve a number of risks, uncertainties and other factors that could cause actual results and events to differ materially from the statements made, including, but not limited to, the following risk factors. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance, or achievements.

Certain risks and uncertainties could cause actual results or outcomes to differ materially from those expressed in any forward-looking statements made by us, and you should not place undue reliance on any such forward-looking statements. Actual results or outcomes may differ materially from those expressed in any forward-looking statements made by us, and you should not place undue reliance on any such forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made and we do not undertake any obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for us to predict which will arise. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. See “Risk Factors” set forth in Item 1A.

## **PART I**

### **Item 1. Business.**

#### **Business Overview**

Barfresh is a leader in the creation, manufacturing and distribution of ready to blend frozen beverages. The current portfolio of products includes smoothies, shakes and frappes. Products are packaged in two distinct formats. The Company's original single serve format features portion controlled and ready to blend beverage ingredient packs or "beverage packs". The beverage packs contain all of the solid ingredients necessary to make the beverage, including the base (either sorbet, frozen yogurt or ice cream), real fruit pieces, juices and ice – five ounces of water are added before blending. The Company's bulk "Easy Pour" format also contains all of the solid ingredients necessary to make the beverage, packaged in gallon containers in a concentrated formula that is mixed "one to one" with water. The Company has recently launched a "no sugar added" version of the bulk "Easy Pour" format that is specifically targeted for the USDA national school meal program, including the School Breakfast Program, the National School Lunch Program, and Smart Snacks in Schools Program.

Domestic and international patents and patents pending are owned by Barfresh, as well as related trademarks for all of the single serve products. Patent rights have been granted in 13 jurisdictions including the United States. In addition, the Company has purchased all of the trademarks related to the patented products.

The Company conducts sales through several channels, including National Accounts, Regional Accounts, and Broadline Distributors. Barfresh's primary broadline distribution arrangement is through an exclusive nationwide agreement with Sysco Corporation ("Sysco"), the U.S.'s largest broadline distributor, which was entered into during July 2014, and renewed for an additional two year term on October 2, 2017.

During 2016 and 2017 the Company announced that it had signed supply agreements with several of the major global on-site foodservice operators. On March 8, 2018, the Company announced that it had signed a new supply agreement with one of the largest of these foodservice operators, for exclusive distribution of four of Barfresh's single serve sku's to approximately one thousand food service locations. Distribution of product to these locations through SYSCO will begin during April of 2018. This new agreement, marks the culmination of successful in market tests conducted at several locations, and makes Barfresh's blended beverages available across many of the most attractive locations of the customer's diverse customer base.

The Company also sells to broadline distributors that supply products to the food services market place. Effective July 2, 2014, the Company entered into an exclusive agreement with Sysco Merchandising and Supply Chain Services, Inc. for resale by the Sysco Corporation (“Sysco”) to the foodservice industry of the Company’s ready-to-blend smoothies, shakes and frappes. Pursuant to that agreement, all Barfresh products are included in Sysco’s national core selection of beverage items, making Barfresh its exclusive single-serve, pre-portioned beverage provider. The agreement is mutually exclusive; however, Barfresh may also sell the products to other foodservice distributors, but only to the extent required for such foodservice distributors to service multi-unit chain operators with at least 20 units and where Sysco is not such multi-unit chain operator’s nominated distributor for our products. On October 2, 2017, the Sysco agreement was extended for an additional two year period, and expanded to cover bulk easy pour products, on a non-exclusive basis.

On October 26, 2015, Barfresh signed a five year agreement with PepsiCo North America Beverages, a division of PepsiCo, to become its exclusive sales representative within the food service channel to present Barfresh’s line of ready-to-blend smoothies and frozen beverages throughout the United States and Canada. Through this agreement, Barfresh’ products are included as part of PepsiCo’s offerings to its significant customer base. The agreement facilitates access to potential National customer accounts, through introductions provided by PepsiCo’s one-thousand plus person foodservice sales team. Barfresh products have become part of PepsiCo’s customer presentations at national trade shows and similar venues.

Barfresh utilizes contract manufacturers to manufacture all of its products in the United States. Production lines are currently operational at two locations. The first location is in Salt Lake City, which currently produces both bulk easy pour and single serve products. Annual production capacity with this contract manufacturer is 14 million units per year. The second location is with Yarnell Operations, LLC., a subsidiary of Shulze and Burch, located in Arkansas. The Yarnell's agreement, which was signed during February, 2016, and secures the capacity to ramp up to an incremental production capacity of 100 million units. Yarnell's location enhances the company's ability to efficiently move product throughout the supply chain to destinations in the eastern United States, home to many of the country's large foodservice outlets.

Our corporate office is located at 8383 Wilshire Blvd., Suite 750, Beverly Hills, CA 90211. Our telephone number is (310) 598-7113 and our website is [www.barfresh.com](http://www.barfresh.com).

### **Corporate History and Background**

The Company, which was incorporated in Delaware on February 25, 2010, was originally formed to produce movies. As the result of the reverse merger, more fully described below, the Company is now engaged in the manufacturing and distribution of ready to blend beverages, particularly, smoothies, shakes and frappes.

### **Reorganization and Recapitalization**

During January, 2012, the Company entered into a series of transactions pursuant to which Barfresh Inc., a Colorado corporation ("Barfresh NV"), was acquired, spun-out prior operations to the former principal shareholder, completed a private offering of securities for an aggregate purchase price of approximately \$999,998, conducted a four for one forward stock split and changed the name of the Company. The following describes the steps of this reorganization:

*Acquisition of Barfresh NV.* We acquired all of the outstanding capital stock of Barfresh NV in exchange for the issuance of 37,333,328 shares of our \$0.000001 par value common stock pursuant to a Share Exchange Agreement between us, our former principal shareholder, Barfresh NV and the former shareholders of Barfresh NV. As a result of this transaction, Barfresh NV became our wholly owned subsidiary and the former shareholders of Barfresh NV became our controlling shareholders.

*Spinout of prior business.* Immediately prior to the acquisition of Barfresh NV, we spun-out our previous business operations to a former officer, director and principal shareholder, in exchange for all of the shares of our common stock held by that person. Such shares were cancelled immediately following the acquisition.



*Financing transaction.* Immediately following the acquisition of Barfresh, we sold an aggregate of 1,333,332 shares of our common stock and five-year warrants to purchase 1,333,332 shares of common stock at a per share exercise price of \$1.50 in a private offering for gross proceeds of \$999,998, less expenses of \$26,895.

*Change of name.* Subsequent to the merger, we changed the name of the Company from Moving Box Inc. to Barfresh Food Group Inc.

*Forward stock split.* Subsequent to the merger, we conducted a four for one forward stock split of the Company's common stock.

## **Products**

The Company's products are made in two formats. The first is in portion controlled single serving beverage ingredient packs, suitable for smoothies, shakes and frappes that can also be utilized for cocktails and mocktails. These packs contain all of the ingredients necessary to make a smoothie, shake or frappe, including the ice. Simply add water, empty the packet into a blender, blend and serve. The second format is the bulk "Easy Pour" format. The Company's bulk "Easy Pour" format also contains all of the solid ingredients necessary to make the beverage, packaged in gallon containers in a concentrated formula that is mixed "one to one" with water.



The following flavors are available as part of our standard portfolio of single serve products:

Some of the key benefits of the products for the end consumers that drink the products include:

From as little as 150 calories (per serving)

Real fruit in every smoothie

Dairy free options

Kosher approved

Gluten Free

### **Customer Marketing Material**

A wide range of consumer marketing materials has been created to assist customers in selling blended beverages.

### **Research and Development**

The Company incurred research and development expenses for the year ended December 31, 2017 in the amount of \$574,989 and for the year ended December 31, 2016 in the amount of \$432,146. The increase in Research and Development expenses was primarily attributable to commissioning of new production lines at our contract manufacturer facilities, and increased activity in creating unique flavors for potential customers in our national account pipeline.

### **Competition**

There is significant competition in the smoothie market at both the consumer purchasing level and also the product level.

The competition at the consumer level is primarily between specialized juice bars (e.g. Jamba Juice) and major fast casual and fast food restaurant chains (such as McDonalds). Barfresh does not compete specifically at this level but intends to supply its product to customers that fall within these segments to enable them to compete for consumer demand.

There may also be new entrants to the smoothie market that may alter the current competitor landscape.

The existing competition from a product perspective can be separated into three categories:

Specialized juice bar products: The product is made in-store and each ingredient is added separately.

Syrup based products: The fruit puree is supplied in bulk and not portion controlled for each smoothie. These types of products still require the addition of juice, milk or water and/or yogurt and ice. While there are a number of competitors for this style of product, the two dominant competitors are Island Oasis and Minute Maid.

Portion pack products: These products contain only the fruit and yogurt and require the addition of juice or milk and ice. The two dominant competitors are General Mills' Yoplait Smoothies and Inventure Group's Jamba Smoothies.

The Company believes that its single serve products afford a very significant competitive advantage based on ease of use, portion control, premium quality, and minimal capital investment required to enable a customer to begin to carry Barfresh beverage products. The Company also believes that its bulk "Easy Pour" product represents an attractive alternative delivery method for customers that serve high volume locations, where speed of service over extended periods is a critical requirement. The Company has recently launched a "no sugar added" version of the bulk "Easy Pour" format that is specifically targeted for the USDA national school meal program, including the School Breakfast Program, the National School Lunch Program, and Smart Snacks in Schools Program.

## **Intellectual Property**

Barfresh owns the domestic and intellectual property rights to its products' sealed pack of ingredients used in its single serve products.

In November 2011, the Company acquired patent applications filed in the United States (Patent Application number 11/660415) and Canada (Patent Application number 2577163) from certain related parties. The United States patent was originally filed on December 4, 2007 and it was granted during August of 2017. The Canadian patent was originally filed on August 16, 2005 and it was granted on May 27, 2014.

On October 15, 2013, the Company acquired all of the related international patent rights, which were filed pursuant to the Patent Cooperation Treaty, have been granted in 13 jurisdictions and are pending in the remainder of the jurisdictions that have signed the PCT. In addition, the Company purchased all of the trademarks related to the patented products.

### **Governmental Approval and Regulation**

The Company is not aware of the need for any governmental approvals of its products.

The Company utilizes contract manufacturers. Before entering into any manufacturing contracts, the Company determines that the manufacturer meets all government requirements.

## **Environmental Laws**

The Company does not believe that it will be subject to any environmental laws, either state or federal. Any laws concerning manufacturing will be the responsibility of the contract manufacturer.

## **Employees**

The Company currently has 30 employees and 3 consultants. There are currently 20 employees and 1 consultant selling our products. We have recently restructured our sales force, eliminating 18 full time positions over a twelve month period, while at the same time expanding our brokerage network.

## **Research and Development**

The Company incurred research and development expenses for the year ended December 31, 2017, in the amount of \$574,989, and for the year ended December 31, 2016 in the amount of \$432,146. The increase in Research and Development expenses was primarily attributable to commissioning of new production lines at our contract manufacturer facilities, and increased activity in creating unique flavors for potential customers in our national account pipeline.

## **Item 1A. Risk Factors**

An investment in the Company's securities involves significant risks, including the risks described below. The risks included below are not the only ones that the Company faces. Additional risks presently unknown to us or that we currently consider immaterial or unlikely to occur could also impair our operations. If any of the risks or uncertainties described below or any such additional risks and uncertainties actually occur, our business, prospects, financial condition or results of operations could be negatively affected.

### **Risks Related to Our Business**

***We have a history of operating losses***

We have a history of operating losses and may not achieve or sustain profitability. These operating losses have been generated while we market to potential customers. We cannot guarantee that we will become profitable. Even if we achieve profitability, given the competitive and evolving nature of the industry in which we operate, we may be unable to sustain or increase profitability and our failure to do so would adversely affect the Company's business, including our ability to raise additional funds.

***A worsening of economic conditions or a decrease in consumer spending may adversely impact our ability to implement our business strategy.***

Our success depends to a significant extent on discretionary consumer spending, which is influenced by general economic conditions and the availability of discretionary income. There is no certainty regarding economic conditions in the United States, and credit and financial markets and confidence in economic conditions could deteriorate at any time. Accordingly, we may experience declines in revenue during economic turmoil or during periods of uncertainty. Any material decline in the amount of discretionary spending, leading cost-conscious consumers to be more selective in restaurants visited, could have a material adverse effect on our revenue, results of operations, business and financial condition.



***The challenges of competing with the many food services businesses may result in reductions in our revenue and operating margins.***

We compete with many well-established companies, food service and otherwise, on the basis of taste, quality and price of product offered, customer service, atmosphere, location and overall guest experience. Our success depends, in part, upon the popularity of our products and our ability to develop new menu items that appeal to consumers across all four day parts. Shifts in consumer preferences away from our products, our inability to develop new menu items that appeal to consumers across all day parts, or changes in our menu that eliminate items popular with some consumers could harm our business. We compete with other smoothie and juice bar retailers, specialty coffee retailers, yogurt and ice cream shops, bagel shops, fast-food restaurants, delicatessens, cafés, take-out food service companies, supermarkets and convenience stores. Our competitors change with each of the four day parts, ranging from coffee bars and bakery cafés to casual dining chains. Many of our competitors or potential competitors have substantially greater financial and other resources than we do, which may allow them to react to changes in the market quicker than we can. In addition, aggressive pricing by our competitors or the entrance of new competitors into our markets, could reduce our revenue and operating margins. We also compete with other employers in our markets for workers and may become subject to higher labor costs as a result of such competition.

***Fluctuations in various food and supply costs, particularly fruit and dairy, could adversely affect our operating results.***

Supplies and prices of the various ingredients that we are going to use to can be affected by a variety of factors, such as weather, seasonal fluctuations, demand, politics and economics in the producing countries.

These factors subject us to shortages or interruptions in product supplies, which could adversely affect our revenue and profits. In addition, the prices of fruit and dairy, which are the main ingredients in our products, can be highly volatile. The fruit of the quality we seek tends to trade on a negotiated basis, depending on supply and demand at the time of the purchase. An increase in pricing of any fruit that we are going to use in our products could have a significant adverse effect on our profitability. We cannot assure you that we will be able to secure our fruit supply.

***Our business depends substantially on the continuing efforts of our senior management and other key personnel, and our business may be severely disrupted if we lose their services.***

Our future success heavily depends on the continued service of our senior management and other key employees. If one or more of our senior executives is unable or unwilling to continue to work for us in his present position, we may have to spend a considerable amount of time and resources searching, recruiting, and integrating a replacement into

our operations, which would substantially divert management's attention from our business and severely disrupt our business. This may also adversely affect our ability to execute our business strategy.

***Our senior management's limited experience managing a publicly traded company may divert management's attention from operations and harm our business.***

With the exception of our Chief Financial Officer, our senior management team has relatively limited experience managing a publicly traded company and complying with federal securities laws, including compliance with recently adopted disclosure requirements on a timely basis. Our management will be required to design and implement appropriate programs and policies in responding to increased legal, regulatory compliance and reporting requirements, and any failure to do so could lead to the imposition of fines and penalties and harm our business.

***We may be unable to attract and retain qualified, experienced, highly skilled personnel, which could adversely affect the implementation of our business plan.***

Our success depends to a significant degree upon our ability to attract, retain and motivate skilled and qualified personnel. As we become a more mature company in the future, we may find recruiting and retention efforts more challenging. If we do not succeed in attracting, hiring and integrating excellent personnel, or retaining and motivating existing personnel, we may be unable to grow effectively. The loss of any key employee, including members of our senior management team, and our inability to attract highly skilled personnel with sufficient experience in our industries could harm our business.

***Product liability exposure may expose us to significant liability.***

We may face an inherent business risk of exposure to product liability and other claims and lawsuits in the event that the development or use of our technology or prospective products is alleged to have resulted in adverse effects. We may not be able to avoid significant liability exposure. Although we believe our insurance coverage to be adequate, we may not have sufficient insurance coverage, and we may not be able to obtain sufficient coverage at a reasonable cost. An inability to obtain product liability insurance at acceptable cost or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of our products. A product liability claim could hurt our financial performance. Even if we ultimately avoid financial liability for this type of exposure, we may incur significant costs in defending ourselves that could hurt our financial performance and condition.

***Our inability to protect our intellectual property rights may force us to incur unanticipated costs.***

Our success will depend, in part, on our ability to obtain and maintain protection in the United States and internationally for certain intellectual property incorporated into our products. Our intellectual property rights may be challenged, narrowed, invalidated or circumvented, which could limit our ability to prevent competitors from marketing similar solutions that limit the effectiveness of our patent protection and force us to incur unanticipated costs. In addition, existing laws of some countries in which we may provide services or solutions may offer only limited protection of our intellectual property rights.

***Our products may infringe the intellectual property rights of third parties, and third parties may infringe our proprietary rights, either of which may result in lawsuits, distraction of management and the impairment of our business.***

As the number of patents, copyrights, trademarks and other intellectual property rights in our industry increases, products based on our technology may increasingly become the subject of infringement claims. Third parties could assert infringement claims against us in the future. Infringement claims with or without merit could be time consuming, result in costly litigation, cause product shipment delays or require us to enter into royalty or licensing agreements. Royalty or licensing agreements, if required, might not be available on terms acceptable to us, or at all. We may initiate claims or litigation against third parties for infringement of our proprietary rights or to establish the validity of our proprietary rights. Litigation to determine the validity of any claims, whether or not the litigation is resolved in our favor, could result in significant expense to us and divert the efforts of our technical and management personnel from productive tasks. If there is an adverse ruling against us in any litigation, we may be required to pay substantial damages, discontinue the use and sale of infringing products and expend significant resources to develop non-infringing technology or obtain licenses to infringing technology. Our failure to develop or license a substitute technology could prevent us from selling our products.

***If securities or industry analysts do not publish research, or publish inaccurate or unfavorable research, about our business, our share price and trading volume could decline.***

The trading market for our common stock may be impacted, in part, by the research and reports that securities or industry analysts publish about our business or us. There can be no assurance that analysts will cover us, continue to cover us or provide favorable coverage. If one or more analysts downgrade our stock or change their opinion of our stock, our share price may decline. In addition, if one or more analysts cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which could cause our share price or trading volume to decline.

***We will continue to incur increased costs as a result of operating as a public company, and our management will be required to devote substantial time to compliance initiatives and corporate governance practices.***

As a public company, we will continue to incur significant legal, accounting and other expenses. The Sarbanes-Oxley Act of 2002, the Dodd-Frank Wall Street Reform and Consumer Protection Act and other applicable securities rules and regulations impose various requirements on public companies, including establishment and maintenance of effective disclosure and financial controls and corporate governance practices. Our management and other personnel will need to continue to devote a substantial amount of time to these compliance initiatives. Moreover, these rules and regulations will increase our legal and financial compliance costs and make some activities more time-consuming and costly.

We cannot predict or estimate the amount of additional costs we may incur to continue to operate as a public company, nor can we predict the timing of such costs. These rules and regulations are often subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies which could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices.

***We have identified material weaknesses in our internal control over financial reporting. If we fail to maintain an effective system of internal control over financial reporting, we may not be able to accurately report our financial results or prevent fraud.***

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, or Section 404, we are required to furnish a report by our management on our internal control over financial reporting. As such, our management has conducted this evaluation and, as of December 31, 2017, identified the following material weakness in the Company's internal control over financial reporting:

**Inadequate Segregation of Duties:** We have an inadequate number of personnel to properly implement certain control procedures related to segregation of duties.

Management has concluded that our disclosure controls and procedures are not effective. Effective internal control over financial reporting is necessary to provide reliable financial reports and effectively prevent fraud. If we cannot provide reliable financial reports or prevent fraud, our operating results could be harmed. We will need to continue to dedicate internal resources, potentially engage outside consultants and adopt a detailed work plan to modify and document the adequacy of internal control over financial reporting, continue steps to improve control processes as appropriate, validate through testing that controls are functioning as documented and implement a continuous reporting and improvement process for internal control over financial reporting. Continued identification of one or more material weaknesses in our internal control over financial reporting could result in an adverse reaction in the financial markets due to a loss of confidence in the reliability of our financial statements.

***Failure to comply with the United States Foreign Corrupt Practices Act could subject us to penalties and other adverse consequences.***

As a Delaware corporation, we are subject to the United States Foreign Corrupt Practices Act, which generally prohibits United States companies from engaging in bribery or other prohibited payments to foreign officials for the purpose of obtaining or retaining business. Some foreign companies, including some that may compete with our Company, may not be subject to these prohibitions. Corruption, extortion, bribery, pay-offs, theft and other fraudulent practices may occur from time-to-time in countries in which we conduct our business. However, our employees or other agents may engage in conduct for which we might be held responsible. If our employees or other agents are found to have engaged in such practices, we could suffer severe penalties and other consequences that may have a material adverse effect on our business, financial condition and results of operations.

#### **Risks Related to Ownership of Our Common Stock**

***Our common stock is quoted on the OTCQB, which may have an unfavorable impact on our stock price and liquidity.***

Our common stock is quoted on the OTCQB, which is a significantly more limited trading market than the New York Stock Exchange, or the NASDAQ Stock Market. The quotation of the Company's shares on the OTCQB may result in a less liquid market available for existing and potential shareholders to trade shares of our common stock, could depress the trading price of our common stock and could have a long-term adverse impact on our ability to raise capital in the future.

***There is limited liquidity on the OTCQB, which may result in stock price volatility and inaccurate quote information.***

When fewer shares of a security are being traded on the OTCQB, volatility of prices may increase and price movement may outpace the ability to deliver accurate quote information. Due to lower trading volumes in shares of our common stock, there may be a lower likelihood of one's orders for shares of our common stock being executed, and current prices may differ significantly from the price one was quoted at the time of one's order entry.

***If we are unable to adequately fund our operations, we may be forced to voluntarily file for deregistration of our common stock with the SEC.***

Compliance with the periodic reporting requirements required by the SEC consumes a considerable amount of both internal, as well external, resources and represents a significant cost for us. If we are unable to continue to devote adequate funding and the resources needed to maintain such compliance, while continuing our operations, we could be forced to deregister with the SEC. After the deregistration process, our common stock would only be tradable on the “Pink Sheets” and could suffer a decrease in or absence of liquidity.

***Because we became public by means of a “reverse merger”, we may not be able to attract the attention of major brokerage firms.***

Additional risks may exist since we became public through a “reverse merger”. Securities analysts of major brokerage firms may not provide coverage of us since there is little incentive to brokerage firms to recommend the purchase of our common stock. We cannot assure you that brokerage firms will want to conduct any secondary offerings on behalf of our Company in the future.

***Future sales of our common stock in the public market could lower the price of our common stock and impair our ability to raise funds in future securities offerings.***

Future sales of a substantial number of shares of our common stock in the public market, or the perception that such sales may occur, could adversely affect the then prevailing market price of our common stock and could make it more difficult for us to raise funds in the future through a public offering of our securities.

***Our common stock is thinly traded, so you may be unable to sell at or near asking prices or at all if you need to sell your shares to raise money or otherwise desire to liquidate your shares.***

Currently, the Company’s common stock is quoted in the OTCQB and future trading volume may be limited by the fact that many major institutional investment funds, including mutual funds, as well as individual investors follow a policy of not investing in OTCQB stocks and certain major brokerage firms restrict their brokers from recommending OTCQB stocks because they are considered speculative, volatile and thinly traded. The OTCQB market is an inter-dealer market much less regulated than the major exchanges and our common stock is subject to abuses, volatility and shorting. Thus, there is currently no broadly followed and established trading market for the Company’s

common stock. An established trading market may never develop or be maintained. Active trading markets generally result in lower price volatility and more efficient execution of buy and sell orders. Absence of an active trading market reduces the liquidity of the shares traded there.

The trading volume of our common stock has been and may continue to be limited and sporadic. As a result of such trading activity, the quoted price for the Company's common stock on the OTCQB may not necessarily be a reliable indicator of its fair market value. Further, if we cease to be quoted, holders would find it more difficult to dispose of our common stock or to obtain accurate quotations as to the market value of the Company's common stock and as a result, the market value of our common stock likely would decline.

*Our common stock is subject to price volatility unrelated to our operations.*

The market price of our common stock could fluctuate substantially due to a variety of factors, including market perception of our ability to achieve our planned growth, quarterly operating results of other companies in the same industry, trading volume in our common stock, changes in general conditions in the economy and the financial markets or other developments affecting the Company's competitors or the Company itself. In addition, the OTCQB is subject to extreme price and volume fluctuations in general. This volatility has had a significant effect on the market price of securities issued by many companies for reasons unrelated to their operating performance and could have the same effect on our common stock.



***We are subject to penny stock regulations and restrictions and you may have difficulty selling shares of our common stock.***

Our common stock is currently quoted on the OTCQB. Our common stock is subject to the requirements of Rule 15(g)-9, promulgated under the Securities Exchange Act as long as the price of our common stock is below \$5.00 per share. Under such rule, broker-dealers who recommend low-priced securities to persons other than established customers and accredited investors must satisfy special sales practice requirements, including a requirement that they make an individualized written suitability determination for the purchaser and receive the purchaser's consent prior to the transaction. The Securities Enforcement Remedies and Penny Stock Reform Act of 1990, also requires additional disclosure in connection with any trades involving a stock defined as a penny stock. Generally, the Commission defines a penny stock as any equity security not traded on a national exchange that has a market price of less than \$5.00 per share. The required penny stock disclosures include the delivery, prior to any transaction, of a disclosure schedule explaining the penny stock market and the risks associated with it. Such requirements could severely limit the market liquidity of the securities and the ability of purchasers to sell their securities in the secondary market.

***Because we do not intend to pay dividends, shareholders will benefit from an investment in our common stock only if it appreciates in value.***

We have never declared or paid any cash dividends on our preferred stock or common stock. For the foreseeable future, it is expected that earnings, if any, generated from our operations will be used to finance the growth of our business, and that no dividends will be paid to holders of the Company's common stock. As a result, the success of an investment in our common stock will depend upon any future appreciation in its value. There can be no guarantee that our common stock will appreciate in value.

***The price of our common stock may become volatile, which could lead to losses by investors and costly securities litigation.***

The trading price of our common stock is likely to be highly volatile and could fluctuate in response to factors such as:

actual or anticipated variations in our operating results;

announcements of developments by us or our competitors;

announcements by us or our competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments;

adoption of new accounting standards affecting the our industry;

additions or departures of key personnel;

introduction of new products by us or our competitors;

sales of our common stock or other securities in the open market; and

other events or factors, many of which are beyond our control.

The stock market is subject to significant price and volume fluctuations. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been initiated against such a company. Litigation initiated against us, whether or not successful, could result in substantial costs and diversion of our management's attention and Company resources, which could harm our business and financial condition.

***Investors may experience dilution of their ownership interests because of the future issuance of additional shares of our common stock.***

We intend to continue to seek financing through the issuance of equity or convertible securities to fund our operations. In the future, we may also issue additional equity securities resulting in the dilution of the ownership interests of our present shareholders. We may also issue additional shares of our common stock or other securities that are convertible into or exercisable for our common stock in connection with hiring or retaining employees, future acquisitions or for other business purposes. The future issuance of any such additional shares of common stock will result in dilution to our shareholders and may create downward pressure on the trading price of our common stock.

*Provisions in our corporate charter documents and under Delaware law could make an acquisition of our company, which may be beneficial to our stockholders, more difficult and may prevent attempts by our stockholders to replace or remove our current management.*

Provisions in our certificate of incorporation and our bylaws may discourage, delay or prevent a merger, acquisition or other change in control of our company that stockholders may consider favorable, including transactions in which you might otherwise receive a premium for your shares. These provisions could also limit the price that investors might be willing to pay in the future for shares of our common stock, thereby depressing the market price of our common stock. In addition, because our board of directors is responsible for appointing the members of our management team, these provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors. In addition, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which prohibits a person who owns in excess of 15% of our outstanding voting stock from merging or combining with us for a period of three years after the date of the transaction in which the person acquired in excess of 15% of our outstanding voting stock, unless the merger or combination is approved in a prescribed manner.

## **Item 2. Properties.**

Our principal executive offices are located at 8383 Wilshire Blvd., Suite 750, Beverly Hills, CA 90211. Beginning in September, 2016, We leased this office space pursuant to a sub-lease with the primary tenant for \$10,997 per month, increasing to \$11,327 per month as of November 1, 2017. As of March 1, 2018, We lease the same office space pursuant to a direct lease for \$14,488 a month through March 31, 2019.

## **Item 3. Legal Proceedings.**

Neither the Company nor its subsidiaries are party to or have property that is the subject of any material pending legal proceedings. We may be subject to ordinary legal proceedings incidental to our business from time to time that are not required to be disclosed under this Item 1.

## **Item 4. Mine Safety Disclosures.**

Not applicable.

## **PART II**

### **Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

#### **Market Information**

Our common stock is currently traded on the OTCQB under the symbol "BRFH". Our common stock had been quoted on the OTC Bulletin Board since July 27, 2011 under the symbol MVBX. Effective February 29, 2012, our symbol changed to BRFH based on the forward split and name change. On March 21, 2012, our common stock was delisted to Pink Sheets. On January 21, 2014, we registered our common stock under Section 12(g) of the Exchange Act. The following table sets forth the range of high and low bid quotations for the applicable period. These quotations as reported by the OTCQB reflect inter-dealer prices without retail mark-up, markdown or commissions and may not necessarily represent actual transactions.

| <b>Financial Quarter Ended</b> | <b>Bid Quotation</b> |             |
|--------------------------------|----------------------|-------------|
|                                | High<br>(\$)         | Low<br>(\$) |
| December 31, 2017              | 0.70                 | 0.52        |
| September 30, 2017             | 0.82                 | 0.52        |
| June 30, 2017                  | 0.82                 | 0.57        |
| March 31, 2017                 | 0.83                 | 0.52        |
| December 31, 2016              | 0.83                 | 0.56        |
| September 30, 2016             | 0.76                 | 0.55        |
| June 30, 2016                  | 0.86                 | 0.55        |
| March 31, 2016                 | 0.91                 | 0.72        |

## Holders

At March 8, 2018, there were 118,701,577 shares of our common stock outstanding. Our shares of common stock are held by 100 stockholders of record. The number of record holders was determined from the records of our transfer agent and does not include beneficial owners of common stock whose shares are held in the names of various security brokers, dealers and registered clearing agencies.

## Dividends

We have never declared or paid a cash dividend. Any future decisions regarding dividends will be made by our board of directors. We currently intend to retain and use any future earnings for the development and expansion of our business and do not anticipate paying any cash dividends in the foreseeable future. Our board of directors has complete discretion on whether to pay dividends. Even if our board of directors decides to pay dividends, the form, frequency and amount will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that the board of directors may deem relevant.

## Recent Sales of Unregistered Securities

There were no sales of equity securities during the period covered by this Annual Report that were not registered under the Securities Act that were not included in a Quarterly Report on Form 10Q or a Current Report on Form 8K.

**Purchases of Equity Securities by the Company**

There were no purchases of equity securities made by the Company in the period covered by this report.

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

The following table provides information, as of December 31, 2017, with respect to equity securities authorized for issuance under our equity compensation plans:

| Plan Category  | Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a) | Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b) | Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in Column (a))(c) |
|--|---|---|--|
| Equity compensation plans approved by security holders     | 6,715,419   | \$ 0.63   | 8,084,581  |
| Equity compensation plans not approved by security holders | -   | \$ -  | -  |
| <b>TOTAL</b>   | <b>6,715,419</b>  | <b>\$ 0.63</b>  | <b>8,084,581</b>   |

## **Transfer Agent**

Our transfer agent, Action Stock Transfer, is located at 2469 E. Fort Union Blvd, Suite 214, Salt Lake City, Utah 84121, and its telephone number is (801) 274-1088.

## **Item 6. Selected Financial Data.**

Not applicable because we are a smaller reporting company.

## **Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.**

*The information and financial data discussed below is derived from the audited financial statements of Barfresh for its fiscal year ended December 31, 2017 and for the fiscal year ended December 31, 2016. The financial statements of Barfresh were prepared and presented in accordance with generally accepted accounting principles in the United States. The information and financial data discussed below is only a summary and should be read in conjunction with the historical financial statements and related notes of Barfresh contained elsewhere in this Annual Report. This discussion and analysis may contain forward-looking statements based on assumptions about our future business. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors. See “Cautionary Note Regarding Forward Looking Statements” above for a discussion of forward-looking statements and the significance of such statements in the context of this Annual Report.*

Barfresh is a leader in the creation, manufacturing and distribution of ready to blend frozen beverages. The current portfolio of products includes smoothies, shakes and frappes. Products are packaged in two distinct formats. The Company’s original single serve format features portion controlled and ready to blend beverage ingredient packs or “beverage packs”. The beverage packs contain all of the solid ingredients necessary to make the beverage, including the base (either sorbet, frozen yogurt or ice cream), real fruit pieces, juices and ice – five ounces of water are added before blending. The Company’s bulk “Easy Pour” format also contains all of the solid ingredients necessary to make the beverage, packaged in gallon containers in a concentrated formula that is mixed “one to one” with water. The Company has recently launched a “no sugar added” version of the bulk “Easy Pour” format that is specifically targeted for the USDA national school meal program, including the School Breakfast Program, the National School Lunch Program, and Smart Snacks in Schools Program.

Domestic and international patents and patents pending are owned by Barfresh, as well as related trademarks for all of the single serve products. Patent rights have been granted in 13 jurisdictions including the United States. In addition, the Company has purchased all of the trademarks related to the patented products.

The Company conducts sales through several channels, including National Accounts, Regional Accounts, and Broadline Distributors. Barfresh's primary broadline distribution arrangement is through an exclusive nationwide agreement with Sysco Corporation ("Sysco"), the U.S.'s largest broadline distributor, which was entered into during July 2014, and renewed for an additional two year term on October 2, 2017.

During 2016 and 2017 the Company announced that it had signed supply agreements with several of the major global on-site foodservice operators. On March 8, 2018, the Company announced that it had signed a new supply agreement with one of the largest of these foodservice operators, for exclusive distribution of four of Barfresh's single serve sku's to approximately one thousand food service locations. Distribution of product to these locations through SYSCO will begin during April of 2018. This new agreement marks the culmination of successful in market tests conducted at several locations, and makes Barfresh's blended beverages available across many of the most attractive locations of the customer's diverse customer base.



The Company also sells to broadline distributors that supply products to the food services market place. Effective July 2, 2014, the Company entered into an exclusive agreement with Sysco Merchandising and Supply Chain Services, Inc. for resale by the Sysco Corporation (“Sysco”) to the foodservice industry of the Company’s ready-to-blend smoothies, shakes and frappes. Pursuant to that agreement, all Barfresh products are included in Sysco’s national core selection of beverage items, making Barfresh its exclusive single-serve, pre-portioned beverage provider. The agreement is mutually exclusive; however, Barfresh may also sell the products to other foodservice distributors, but only to the extent required for such foodservice distributors to service multi-unit chain operators with at least 20 units and where Sysco is not such multi-unit chain operator’s nominated distributor for our products. On October 2, 2017, the Sysco agreement was extended for an additional two year period, and expanded to cover bulk easy pour products, on a non-exclusive basis.

On October 26, 2015, Barfresh signed a five year agreement with PepsiCo North America Beverages, a division of PepsiCo, to become its exclusive sales representative within the food service channel to present Barfresh’s line of ready-to-blend smoothies and frozen beverages throughout the United States and Canada. Through this agreement, Barfresh’ products are included as part of PepsiCo’s offerings to its significant customer base. The agreement facilitates access to potential National customer accounts, through introductions provided by PepsiCo’s one-thousand plus person foodservice sales team. Barfresh products have become part of PepsiCo’s customer presentations at national trade shows and similar venues.

Barfresh utilizes contract manufacturers to manufacture all of the products in the United States. Production lines are currently operational at two locations. The first location is in Salt Lake City, which currently produces both bulk easy pour and single serve products. Annual production capacity with this contract manufacturer is 14 million units per year. The second location is with Yarnell Operations, LLC., a subsidiary of Shulze and Burch, located in Arkansas. The Yarnell’s agreement, which was signed during February, 2016, and secures the capacity to ramp up to an incremental production capacity of 100 million units. Yarnell’s location enhances the company’s ability to efficiently move product throughout the supply chain to destinations in the eastern United States, home to many of the country’s large foodservice outlets.

The Company currently has 30 employees and 3 consultants. There are currently 20 employees and 1 consultant selling our products. We have recently restructured our sales force, eliminating 18 full time positions over a twelve month period, while at the same time expanding our brokerage network.

### **Critical Accounting Policies**

Our financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”).

## **Revenue Recognition**

We recognize revenue when there is persuasive evidence of an arrangement, delivery has occurred or services have been rendered, the sales price is determinable, and collection is reasonably assured. Revenue is recorded net of provisions for discounts and promotion allowances. Our products are sold on various terms. Our credit terms, which are established in accordance with local and industry practices, typically require payment within 30 days of delivery. We recognize revenue upon receipt of our products by our distributors and retail accounts, in accordance with written sales terms, net of provisions for discounts or allowances. Allowances for returns and discounts are made on a case-by-case basis. Historically, neither returns nor discounts have been material.

## **Share-based Compensation**

We account for share-based employee compensation plans under the fair value recognition and measurement provisions in accordance with applicable accounting standards, which require all share-based payments to employees, including grants of stock options and restricted stock units (RSUs), to be measured based on the grant date fair value of the awards, with the resulting expense generally recognized on a straight-line basis over the period during which the employee is required to perform service in exchange for the award.

## Results of Operations

### *Results of Operation for the Twelve Months Ended December 31, 2017 as Compared to the Twelve Months Ended December 31, 2016*

#### Revenue and Cost of Revenue

Revenue for 2017 was \$1,997,012 as compared to \$1,457,499 in 2016, an increase of 37%. Our business grew through the continuing expansion of our business relationship with Sysco Corporation (“Sysco”), a major broad line food distributor. We began shipping to Sysco in July 2014, and by early 2016 had our products in all 72 of Sysco’s Operating Companies. Our business also grew as a result of the introduction of our Bulk Easy Pour product during early 2017.

Cost of revenue for 2017 was \$1,085,575 as compared to \$772,827 in 2016. Our gross profit was \$911,437 or 46%, for 2017 and \$684,672 or 47% for 2016. We anticipate that our gross profit percentage will improve in the future, as our business gains scale and as we expand our manufacturing operations.

#### Operating Expenses

Our operations during 2017 were directed towards increasing sales and creating and finalizing customized flavors for potential customers. The increase in our business relationship with Sysco, and the expansion of our product offerings to include Bulk Easy Pour, drove an increase in our selling, marketing, and general and administrative expenses. During the fourth quarter of 2016, and during the fourth quarter of 2017, we re-aligned our sales force to a more efficient model, by increasing the number of dedicated sales brokers that represent our products, and reducing the number of sales force employees.

Primarily as a result of re-aligning our sales force, general and administrative expenses decreased from \$10,415,933 in 2016 to \$9,492,094 in 2017, a decrease of \$923,839, or 9%.

Following is a breakdown of our selling, marketing and general and administrative expenses for 2017 and 2016.

|                                  | Twelve<br>months<br>ended<br>December<br>31, 2017 | Twelve<br>months<br>ended<br>December<br>31, 2016 | Change        |       |
|----------------------------------|---|---|---------------|-------|
| Personnel costs                  | \$4,260,946                                       | \$5,560,502                                       | \$(1,299,556) | (23)% |
| Stock based compensation/options | 1,360,688   | 1,133,149   | 227,539       | 20 %  |
| Legal and professional fees      | 465,737   | 425,781   | 39,956        | 9 %   |
| Travel                           | 422,284   | 605,920   | (183,636)     | (30)% |
| Rent                             | 142,572   | 96,151  | 46,421        | 48 %  |
| Marketing and selling            | 696,253   | 730,142   | (33,889)      | (5)%  |
| Consulting fees                  | 203,721   | 242,668   | (38,947)      | (16)% |
| Director fees                    | 206,296   | 165,227   | 41,069        | 25 %  |
| Research and development         | 574,989   | 432,146   | 142,843       | 33 %  |
| Shipping Expense and storage     | 619,871   | 407,247   | 212,624       | 52 %  |
| Other expenses                   | 538,737   | 617,000   | (78,262)      | (13)% |
|                                  | \$9,492,094                                       | \$10,415,933                                      | \$(923,838)   | (9)%  |

Personnel cost represents the cost of employees including salaries, employee benefits, car allowances, and employment taxes, and continues to be our largest expense. Personnel costs decreased 23%, or \$1,299,556, from \$5,560,502 in 2016 to \$4,260,946 in 2017. During the fourth quarters of 2016 and 2017, we re-aligned our sales force to a more efficient model, by increasing the number of dedicated sales brokers that represent our products, and reducing the number of sales force employees. When taking into consideration start dates for new employees, and separation dates for those employees who left our workforce, we had 43 full time equivalent employees during 2016. At December 31, 2017, we had 30 full time employees, as compared to 34 at December 31, 2016. We do not anticipate any significant change in personnel during 2018.

Stock based compensation is used as an incentive to attract new employees and to compensate and retain existing employees. Stock based compensation includes stock issued and stock options granted to employees and certain non-employees, increased \$227,539 (20%) from \$1,133,149 in 2016 to \$1,360,688 in 2017 IN PART TO offset SALARY REDUCTIONS. The fair value of the stock grants is based on the trading value of our shares on the date of the grants and are being amortized over applicable vesting periods. We anticipate making additional grants in the future.

Legal and professional fees, which include accounting and legal services, increased \$39,956 (9%) from \$425,781 in 2016 to \$465,737 in 2017. We anticipate legal fees related to ongoing legal compliance to remain comparable in 2018.

Travel and entertainment expenses decreased \$183,636 (30%) from \$605,920 in 2016 to \$422,284 in 2017. The decrease is due to the re-alignment of our sales force and the related decrease in the number of personnel traveling on company business.

Rent expense increased \$46,421 from \$96,151 in 2016 to \$142,572 in 2017. Rent expense is primarily incurred for our Headquarters location in Beverly Hills, California. During September of 2016 we relocated our Headquarters location to larger sub-leased premises in Beverly Hills, where the monthly rent of \$10,997, increased to \$11,327 on November 1, 2017. We have entered into a direct lease on the same premises beginning on March 1, 2018, expiring March 31, 2019, at a monthly rent of \$14,488.

Marketing and selling expenses decreased \$33,889 (5%), from \$730,142 in 2016, to \$696,253 in 2017. Lower marketing and selling expenses were primarily due to lower personnel expense and lower sample expense.

Consulting fees decreased from \$242,668 in 2016 to \$203,721 in 2017, a decrease of \$38,947 or 16%. We anticipate consulting costs to continue to decline during 2018.

Director fees for 2017 were \$206,296 as compared with \$165,227 in 2016. The increase is primarily due to the full year effect of an increase of the number of our directors during the second half of 2016. We currently pay our non-employee directors \$50,000 per year. These fees can either be paid in cash, or in stock or stock options, at the election of the director.

The Company incurred research and development expenses for the year ended December 31, 2017, in the amount of \$574,989 and for the year ended December 31, 2016 in the amount of \$432,146. During the quarter ended September

30, 2016, we re-classified certain personnel expenses that had previously been included in personnel expense, to Research and Development. These expenses relate primarily to the services performed by our Director of Manufacturing and Product Development, and supporting consultant expenses. The re-classification is shown in both the current period and the prior period. The increase in Research and Development expenses was primarily attributable to increased activity in creating unique flavors for potential customers in our national account pipeline. We anticipate this cost continuing in future periods, at an increased rate as compared with 2017.

Shipping and storage expense increased \$212,624 (52%), from \$407,247 in 2016 to \$619,871 in 2017. Shipping and storage expense as a percentage of revenue increased from 28% in 2016 to 31% in 2017. The higher expense in 2017 is due to a number of factors, including the continued movement of inventory to new forward warehouse as the company expanded its business into Canada, and building of inventory levels in preparation for expected national account launch in early 2018.

Other expenses consist of ordinary operating expenses such as office, telephone, insurance, and other similar expenses. These expenses directly correlate to our overall business activity. We expect these expenses to continue to increase during 2018 as our business grows.

Operating loss was \$8,911,540 in 2017, and \$9,939,875 in 2016.

Interest expense was zero in 2017, as compared with \$250,850 in 2016. Interest expense for 2016 relates to \$2,670,000 of convertible debt that was issued during September of 2015, the majority of which was converted to equity during the first quarter of 2016. The stated interest rate on the convertible debt issued during September of 2015 was 10%.

Net loss was \$8,911,540 in 2017, and \$10,190,725 in 2016.

### **Liquidity and Capital Resources**

As of December 31, 2017, we had a working capital surplus of \$1,774,719, as compared with a working capital surplus of \$8,751,702 at December 31, 2016. The reduction in working capital surplus is primarily due to the reduction in cash raised from investing activities, partially offset by a reduction of cash used in operations, and a significant increase in inventory levels.

During the twelve month period ended December 31, 2017, we used cash of \$7,334,239 in operations, \$535,196 for the purchase of equipment, net of sales of equipment, and \$29,179 for patents and trademarks

Our liquidity needs will depend on how quickly we are able ramp up sales, as well as our ability to control and reduce variable operating expenses, and to continue to control and reduce fixed overhead expense.

During 2016 we issued 28,277,329 shares of our common stock (“Shares”) and warrants to purchase 14,033,438 Shares (“Warrants”) for aggregate gross proceeds to the Company of \$18,812,690. Of these total amounts 24,598,674 Shares were issued for cash of \$16,457,150; 3,502,327 Shares were issued for Conversion of Debt in the amount of \$2,242,692; and 176,328 Shares were issued in settlement of debt in the amount of \$112,849. Of the total 14,033,438 Warrants issued during 2016, 3,877,186 are priced at \$1.00; 7,812,500 are priced at \$0.88, and 2,343,752 are priced at \$0.75. The 2016 financing activity occurred in three separate private placements with accredited investors. In the first transaction, we issued 7,754,373 Shares and five year Warrants priced at \$1.00 to purchase up to 3,877,186 Shares, for aggregate gross proceeds to the Company of \$6,203,498. The first transaction consists of two components: a new equity raise in the amount of \$3,570,000 and the conversion into common equity of \$2,633,498 of principal and interest of convertible promissory notes previously issued during the fourth quarter of 2016. In the second transaction, we sold 4,687,504 Shares and five year Warrants priced at \$.75 to purchase up to 2,343,752 Shares, for aggregate gross proceeds to the Company of \$3,000,000. In the third transaction we sold 15,625,000 Shares, and five year Warrants priced at \$.88 to purchase up to 7,812,500 shares for aggregate gross proceeds to the Company of \$10,000,000. During 2016 we also converted \$52,613 of debt into 210,455 shares of stock, related to a note that was settled for most investors during 2015.

We did not issue any additional securities or debt during 2017.

On February 14, 2018, we announced the private placement of convertible notes with gross proceeds of \$4.1 million. The closing shall be no later than five (5) business days after receipt of notice from the Company that it has achieved certain milestones establishing significant sales to national accounts. One milestone is that the Company shall have entered into a material agreement or series of related agreements with a national account for the sale of its products into approximately 1,000 new locations. This first milestone was achieved on March 8, 2018. The other milestone is that the Company shall have entered into a material agreement or series of related agreements with a national account for the sale of its products into approximately 2,500 new locations.

Upon achievement of the first milestone, 60% of the principal amount of the convertible notes will be available to the Company, with the balance of 40% upon achievement of the second milestone. The Company intends to use the proceeds from this financing to fund the manufacture of inventory, to purchase equipment, and for general corporate purposes.



The convertible notes are unsecured and have (i) a two-year term, (ii) a 10% annual coupon to be paid in cash or stock at the Company's discretion at a conversion price equal to 85% of the average closing bid prices of the Common Stock over the twenty (20) consecutive trading day period immediately preceding the payment date, but in no event lower than sixty cents (\$0.60) per share of Common Stock. The investor's may elect to convert their principal into common stock at a conversion price equal to the lower of: (i) \$0.88 per share of Common Stock, or (ii) 85% of the average closing bid prices of the Common Stock over the twenty (20) consecutive trading day period immediately preceding the date of investor's election to convert; but in no event lower than \$0.60 per share of Common Stock. Investors also received warrant coverage of 25% of the number of shares that would be issuable upon a full conversion of the principal amount at an average of the twenty consecutive trading day period immediately preceding the applicable closing date. If any principal amount remains outstanding after the one-year anniversary of the closing, investors will be granted an additional warrant with identical terms. The warrants are exercisable for a period of three years for cash at the greater of 120% of the closing price or \$0.70 per share of common stock. On March 5, 2018, the Company issued a Promissory Note to an existing investor, in the amount of \$250,000. The unsecured note bears interest at 12%, and has a 6 month term Proceeds are being used to fund the short term working capital needs of the Company. The Company plans to refinance this note upon maturity.

Our operations to date have been financed by the sale of securities, the issuance of convertible debt and the issuance of short-term debt, including related party advances. If we are unable to generate sufficient cash flow from operations with the capital raised we will be required to raise additional funds either in the form of EQUITY or in the form of debt. There are no assurances that we will be able to generate the necessary capital to carry out our current plan of operations.

We lease office space under a non-cancellable operating sub-lease, which expired February 28, 2018, and we have entered into a direct lease for the same premises covering the period March 1, 2018 to March 31, 2019. The aggregate minimum requirements under the non-cancellable sub-lease and direct lease as of December, 31 2017 is \$210,992.

### **Off-Balance Sheet Arrangements**

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

### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk.**

Not applicable because we are a smaller reporting company.

**Item 8. Financial Statements and Supplementary Data.**

Our consolidated financial statements are included beginning immediately following the signature page to this report. See Item 15 for a list of the consolidated financial statements included herein.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

None.

**Item 9A. Controls and Procedures.**

**Management's Annual Report on Internal Control over Financial Reporting**

**Disclosure Controls and Procedures**

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Securities and Exchange Act of 1934 Rules 13a-15(f). Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that the Company's disclosure controls and procedures were not effective as of December 31, 2017.

## **Management's Annual Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, for the Company.

Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of its management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Management recognizes that there are inherent limitations in the effectiveness of any system of internal control, and accordingly, even effective internal control can provide only reasonable assurance with respect to financial statement preparation and may not prevent or detect material misstatements. In addition, effective internal control at a point in time may become ineffective in future periods because of changes in conditions or due to deterioration in the degree of compliance with our established policies and procedures.

Our management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2017. The framework used by management in making that assessment was the criteria set forth in the document entitled "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 2013 which assessment identified material weaknesses in internal control over financial reporting. A material weakness is a control deficiency, or a combination of deficiencies in internal control over financial reporting that creates a reasonable possibility that a material misstatement in annual or interim financial statements will not be prevented or detected on a timely basis.

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Securities and Exchange Act of 1934 Rules 13a-15(f). Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that the Company's disclosure controls and procedures were not effective as of December 31, 2017.

Management has identified the following material weakness in our internal control over financial reporting:

**Inadequate Segregation of Duties:** We have an inadequate number of personnel to properly implement internal controls over financial reporting.

Since the assessment of the effectiveness of our internal control over financial reporting did identify material weaknesses, management considers its internal control over financial reporting to be ineffective.

Management recognizes that there are inherent limitations in the effectiveness of any system of internal control, and accordingly, even effective internal control can provide only reasonable assurance with respect to financial statement preparation and may not prevent or detect material misstatements. In addition, effective internal control at a point in time may become ineffective in future periods because of changes in conditions or due to deterioration in the degree of compliance with our established policies and procedures.

Management believes that the material weakness set forth above did not have an effect on the reporting of our financial results.

In an effort to remediate the identified material weakness and enhance our internal control over financial reporting, we plan to engage additional financial personnel to help ensure that we are able to properly implement internal control procedures.

This report shall not be deemed to be filed for purposes of Section 18 of the Exchange Act, or otherwise subject to the liabilities of that section, and is not incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

### Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during the fourth quarter of the year ended December 31, 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

### Item 9B. Other Information.

None.

## PART III

### Item 10. Directors, Executive Officers and Corporate Governance.

#### Directors and Executive Officers

The following sets forth information about our directors and executive officers as of the date of this Report:

| <b>Name</b>           | <b>Age</b> | <b>Position</b>                                 |
|-----------------------|------------|---|
| Riccardo Delle Coste  | 37         | President, Chief Executive Officer and Chairman |
| Joseph S. Tesoriero   | 63         | Chief Financial Officer                         |
| Steven Lang           | 64         | Director  |
| Arnold Tinter         | 72         | Secretary and Director                          |
| Joseph M. Cugine      | 56         | Director  |
| Alice Elliot          | 60         | Director  |
| Alexander H. Ware     | 55         | Director  |
| Isabelle Ortiz-Cochet | 56         | Director  |

*Riccardo Delle Coste* has been the Chairman of our board of directors, President and Chief Executive Officer since January 10, 2012. He has also been the President and Chief Executive Officer of Barfresh Inc., a Nevada corporation

and our wholly owned subsidiary (“Barfresh NV”), since its inception. Mr. Delle Coste is the inventor of the patented technology and the creator of Barfresh. Mr. Delle Coste developed a unique system using controlled pre-packaged portions to deliver a freshly made smoothie that is quick, cost efficient, healthy and with no waste. In building the business, he is responsible for securing new business and maintaining key client relationships. He is also responsible for the development of new product from testing to full-scale production, establishment of the manufacturing facilities that have all necessary accreditations, technology development, product improvement and R&D with new product launches. Mr. Delle Coste also has over five years of investment banking experience. Mr. Delle Coste attended Macquarie University, Sydney, Australia while studying for a Bachelor of Commerce for 3.5 years but left to pursue business interests before receiving a degree.

*Qualifications:* Mr. Delle Coste has 17 years of experience within retail, hospitality and dairy manufacturing.

**Joseph S. Tesoriero** was appointed as Chief Financial Officer of the Company on May 18, 2015. Mr. Tesoriero has served as an independent director of Smart & Final Stores, Inc. (NYSE: SFS) since July of 2014, where he serves as Chairman of the Audit Committee and a member of the Nominating and Governance Committee. He was most recently engaged as a financial advisor for Dole Asia Holdings, Ltd. Pte., a Singapore based wholly owned subsidiary of Itochu Corporation of Japan, from April 2013 to October 2013. Prior to this consulting engagement, Mr. Tesoriero served as Executive Vice Present and Chief Financial Officer of Dole Food Company Inc. from February 2010 to April 2013, as its Vice President and Chief Financial Officer from August 2004 to February 2010 and as its Vice President of Tax from September 2002 to August 2004. Prior to joining Dole, Mr. Tesoriero was Senior Vice President of Tax of Global Crossing (1998-2002), Vice President of Tax of Coleman Camping Equipment (1997-1998), International Tax Attorney with Revlon Cosmetics (1989-1997) and Tax Attorney with IBM (1980-1988). Mr. Tesoriero began his career in 1978 as a Tax Associate with Haskins & Sells (now Deloitte Touche). Mr. Tesoriero holds a B.S. in Accounting from Villanova University, a J.D. from New York Law School and an LL.M. in Taxation from Boston University. He has been a member of the New York State Bar since 1978.

*Qualifications:* Mr. Tesoriero has over 30 years of experience in corporate finance leadership positions.

**Steven Lang** was appointed as Director of the Company on January 10, 2012. He has also served as Secretary of Barfresh NV since its inception. Prior to joining Barfresh NV, from 2003 to 2007, Mr. Lang was a director of Vericap Finance Limited, a company that specializes in providing advice to and investing in Australian companies with international growth potential. From 1990 to 1999, he served as a director of Babcock & Brown's Australian operations where he was responsible for international structured finance transactions. Mr. Lang received a Bachelor of Commerce and a Bachelor of Laws from the University of New South Wales in 1976 and a Master of Laws from the University of Sydney in 1984. He has been a member of the Institute of Chartered Accountants in Australia and was licensed to practice foreign law in New York.

*Qualifications:* Mr. Lang has over 35 years of experience in business, accounting, law and finance and served as Chairman of an Australian public company.

**Arnold Tinter** was appointed as Director, Chief Financial Officer and Secretary of the Company on January 10, 2012. Mr. Tinter resigned his position as Chief Financial Officer on May 18, 2015 served temporarily as Principal Accounting Officer. Mr. Tinter founded Corporate Finance Group, Inc., a consulting firm located in Denver, Colorado, in 1992, and is its President. Corporate Finance Group, Inc., is involved in financial consulting in the areas of strategic planning, mergers and acquisitions and capital formation. He has been the chief financial officer and a director of other public companies: From 2012 to 2016, LifeApps Digital Media Inc. and Arvana Inc. From 2006 to 2010 he was the chief financial officer of Spicy Pickle Franchising, Inc. In all of the companies his responsibilities included oversight of all accounting functions, including SEC reporting, strategic planning and capital formation. From May 2001 to May 2003, he served as chief financial officer of Bayview Technology Group, LLC, a privately held company that manufactured and distributed energy-efficient products. From May 2003 to October 2004, he also served as that company's chief executive officer. Prior to 1990, Mr. Tinter was chief executive officer of Source Venture Capital, a holding company with investments in the gaming, printing and retail industries. Mr. Tinter received a B.S. degree in Accounting in 1967 from C.W. Post College, Long Island University, and is licensed as a Certified Public Accountant in Colorado.

*Qualifications:* Mr. Tinter has over 40 years of experience as a Certified Public Accountant and a financial consultant. During his career he served as a director of numerous public companies.

**Joseph M. Cugine** was appointed as Director of the Company on July 29, 2014 and on April 27, 2015, was appointed president of our wholly owned subsidiary, Smoothie Inc. Mr. Cugine is the owner and president of Cugine Foods and JC Restaurants, a franchisee of Taco Bell and Pizza Hut in New York. He is also president and owner of Restaurant Consulting Group LLC. Prior to owning and operating his own firms, Mr. Cugine held a series of leadership roles with PepsiCo, lastly as chief customer officer and senior vice president of PepsiCo's Foodservice division. Mr. Cugine

also serves on the board of directors of The Chef's Warehouse, Inc., a publicly traded specialty food products distributor in the U.S., as well as Ridgefield Playhouse and R4 Technology. He received his B.S. degree from St. Joseph's University in Philadelphia.

*Qualifications:* Mr. Cugine's career in sales, marketing, operations and supply chain spans more than 25 years. He has extensive industry contacts and proven experience leading and advising numerous successful food distribution companies.

*Alice Elliot* was appointed as Director of the Company on October 15, 2014. Ms. Elliot is the founder and chief executive of The Elliot Group, a global retained executive search firm specializing in the hospitality, foodservice, retail and service sectors. For more than 20 years, Ms. Elliot has hosted the exclusive invitation only 'Elliot Leadership Conference.' She was a co-founder of 'The Elliot Leadership Institute,' a nonprofit organization dedicated to leadership development and advancement in the foodservice industry, and is known for her philanthropic and educational endeavors and contributions. Throughout her career, Ms. Elliot has received various industry honors, including the Trailblazer Award from the Women's Foodservice Forum and induction into the National Restaurant Association Educational Foundation's College of Diplomates. She was also recently named to the Nation's Restaurant News list of the 50 Most Powerful People in Foodservice.



*Qualifications:* Well recognized for the placement of senior-level executives at public and privately held restaurant organizations nationwide, Ms. Elliot is sought out for their intellectual and strategic thought leadership.

**Alexander H. Ware** was appointed as director of the company on July 13, 2016. Until recently, Mr. Ware served as the Executive Vice President & Chief Financial Officer of Buffalo Wild Wings since October 2016. Mr. Ware previously served as Executive Chairman of MStar Holding Corporation. Mr. Ware served as Interim Chief Executive Officer for MStar Holding Corporation in 2013. Prior to his time at MStar Holding Corporation, he served as a Senior Advisor and previously as Executive Vice President of Strategic Development of Pohlad Companies, a family office, from 2010 to 2015. Starting in 1994, he served in increasing capacities at PepsiCo, then PepsiAmericas, Inc. culminating as Executive Vice President & Chief Financial Officer from 2005 to 2010. Previously, he was Senior Associate at Booz Allen Hamilton, Inc. from 1990-1994. Mr. Ware received his Bachelor of Arts degree in Economics from Hampden-Sydney College and his Master of Business Administration from the Darden Graduate School of Business at University of Virginia. Mr. Ware currently serves on the board of MStar Holding Corporation and on the advisory board of Stonearch Capital.

*Qualifications:* Mr. Ware brings over 30 years of experience in leadership, strategic planning and business portfolio management.

**Isabelle Ortiz-Cochet** was appointed as director of the Company on December 16, 2016. She is the Chief Investment Officer for Unibel, parent company of Bel Group. Bel is an international France-based group, a world leader in branded cheese business, with brands such as Laughing Cow, Mini-Babybel or Boursin. In that position since January 2016, Ms. Ortiz-Cochet drives Unibel diversification strategy, and leads the investment portfolio development. She was previously VP Strategic Development at Bel Group from September 2013 to December 2015. From 2007 to 2013, based out of Bel's New York office, Ms. Ortiz-Cochet led the development of long term strategies in North and South America, as well as Marketing strategy in the region. Prior to that position, she held a number of leadership positions in marketing and global strategy at Bel out of the Paris office, at French, European and corporate levels. Isabelle began her career with Kimberly Clark in France. Isabelle earned a master degree from ESSEC Business School in France, and an executive MBA from HEC Business School, France.

Pursuant to the investor rights agreement between Barfresh and Unibel dated November 23, 2016, Unibel is entitled to appoint one director to the board of directors of Barfresh, which director is entitled to sit on each committee of the board of directors selected by the Unibel, unless Unibel has beneficial ownership of less than: (i) 75.0% of the Shares; and (ii) 5.0% of the company's issued and outstanding common stock. Unibel has designated Isabelle Ortiz-Cochet as its board designee. Barfresh has agreed to call shareholder meetings whenever necessary to ensure Unibel's designee is elected as a director. At any time that Unibel's designee is not a director, Unibel's designee will be entitled to be a board observer. Riccardo Delle Coste, Steven Lang and their respective affiliates have agreed to vote their shares in favor of Unibel's designee.

## **Employment Agreements**

On April 27, 2015, Smoothie, Inc. entered into an executive employment agreement with Riccardo Delle Coste, its Chief Executive Officer and director. Mr. Delle Coste is also the Chief Executive Officer and Chairman of the Company. Pursuant to the employment agreement, he will receive a base salary of \$350,000 and performance bonuses of 75% of his base salary based on mutually agreed upon performance targets. In addition, Mr. Delle Coste will receive up to an additional 500,000 performance options, on an annual basis. All options granted under the employment agreement are subject to the Company's 2015 Equity Incentive Plan.

On April 27, 2015, Smoothie, Inc. entered into an executive employment agreement with Joseph M. Cugine to serve as President of Smoothie, Inc. Pursuant to the employment agreement, Mr. Cugine will receive a base salary of \$300,000 and performance bonuses of 75% of his base salary based on mutually agreed upon performance targets. In addition, Mr. Cugine will receive 8-year options to purchase up to 600,000 shares of Barfresh, one-half vesting on each of the second and third anniversaries of the date of Mr. Cugine's employment agreement. In addition, he will receive up to an additional 500,000 performance options, on an annual basis. All options granted under the employment agreement are subject to the Company's 2015 Equity Incentive Plan.

The Company entered into an executive employment agreement with Joseph S. Tesoriero on May 18, 2015, pursuant to which he agreed to serve as Chief Financial Officer. Pursuant to the employment agreement, Mr. Tesoriero will receive a base salary of \$250,000 and performance bonuses of 75% of his base salary, based upon performance targets determined by the Board of Directors. In addition, Mr. Tesoriero was granted 350,000 shares of common stock of Barfresh and 8-year options to purchase up to 500,000 shares of common stock of Barfresh. One-half of each of the share and option grants vests on each of the second and third anniversaries of the date of commencement of Mr. Tesoriero's employment. Mr. Tesoriero will also receive 8-year performance options to purchase up to an additional 350,000 shares on an annual basis. All shares and options granted under the employment agreement are subject to the Company's 2015 Equity Incentive Plan.

### **Term of Office**

Directors are appointed for a one-year term to hold office until the next annual general meeting of shareholders or until removed from office in accordance with our bylaws. Our officers are appointed by our board of directors and hold office until the earlier of resignation or removal.

### **Director Independence**

We use the definition of "independence" standards as defined in the NASDAQ Stock Market Rule 5605(a)(2) provides that an "independent director" is a person other than an officer or employee of the company or any other individual having a relationship, which, in the opinion of the Company's board of directors, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. We have determined that four of our seven directors are independent, which constitutes a majority.

### **Board Committees**

We currently have an audit committee, a compensation committee and a nominating and governance committee. The members of the audit committee are Arnold Tinter, Steven Lang and Riccardo Delle Coste. The audit committee is primarily responsible for reviewing the services performed by our independent auditors and evaluating our accounting policies and our system of internal controls. Steven Lang is an independent member of the audit committee, as defined above. In the future we expect to have an audit committee comprised of all independent members. The members of the compensation committee are Arnold Tinter, Alice Elliot and Riccardo Delle Coste. The compensation committee is primarily responsible for reviewing and approving our salary and benefits policies (including stock options) and other compensation of our executive officers. The members of the nominating committee are Arnold Tinter, Alice Elliot and Steven Lang. The nominating and governance committee is primarily responsible for overseeing corporate governance

and for identifying, evaluating and recommending individuals to serve as directors of the company.

### **Legal Proceedings**

To the best of our knowledge, none of our executive officers or directors are parties to any material proceedings adverse to the Company, have any material interest adverse to the Company or have been subject to legal, administrative or judicial orders, proceedings or decrees required to be disclosed.

### **Code of Ethics**

Our Chief Executive Officer, and our Chief Financial Officer are bound by a Code of Ethics that complies with Item 406 of Regulation S-K of the Exchange Act.

### **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) requires our directors and executive officers and beneficial holders of more than 10% of our common stock to file with the SEC initial reports of ownership and reports of changes in ownership of our equity securities.

To our knowledge, based solely upon a review of Forms 3 and 4 and amendments thereto furnished to Barfresh under 17 CFR 240.16a-3(e) during our most recent fiscal year and Forms 5 and amendments thereto furnished to Barfresh with respect to our most recent fiscal year or written representations from the reporting persons, we believe that during the fiscal year ended December 31, 2017 our directors, executive officers and persons who own more than 10% of our common stock complied with all Section 16(a) filing requirements with the exception of the following:

Joseph Cugine, late filing of Form 4  
 Joseph Tesoriero, late filing of Form 4  
 Isabelle Ortiz-Cochet, late filing of Form 4  
 Alexander H. Ware, late filing of Form 4  
 Alice Elliot, late filing of Form 4  
 Steve Lang, late Form 4  
 Riccardo Delle Coste, late Form 4

### Item 11. Executive Compensation.

The following table summarizes all compensation for the fiscal years ending December 31, 2017 (“2017”) and December 31, 2016 (“2016”) received by our “Named Executive Officers”:

| Name and Principal Position   | Period | Salary (\$) | Bonus (1) (\$) | Stock Awards (\$) | Option Awards (\$) | Non-Equity Incentive Plan Compensation (\$) | Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$) | All Other Compensation (\$) | Total (\$)  |
|---|--------|-------------|----------------|-------------------|--------------------|---|--|-----------------------------|-------------|
| Riccardo Delle Coste, Chief Executive Officer                           | 2017   | 350,000(2)  | -              | -                 | 105,000(3)         |   |  | 10,800                      | (4) 455,000 |
|   | 2016   | 364,583     | 43,750         | 57,118 (5)        | 158,750(6)         |   |  | 11,700                      | (4) 624,201 |
| Joseph Cugine, President, Barfresh Corp. Inc. a wholly owned subsidiary | 2017   | 300,000(7)  |                | -                 | 105,000(8)         |   |  |                             | 405,000     |
|   | 2016   | 300,000     | 25,137         | 32,818 (9)        | 139,382(10)        |   |  |                             | 497,337     |
| Joseph Tesoriero, Chief Financial Officer                               | 2017   | 290,000(11) | -              |                   | 253,364(12)        |   |  |                             | 543,364     |
|   | 2016   | 290,000     | 19,488         | 25,443 (13)       | 95,646 (14)        |   |  |                             | 430,577     |



1. Represents discretionary bonuses for fiscal year 2015 that were paid during fiscal year 2016.
2. Of the salary earned, \$294,135 was paid and \$55,865 was deferred.
3. Represents a stock option grant 250,000 options shares issued 9/15/17 with an exercise price of \$0.55, which vest ratably over the next three years and are exercisable until 9/15/25.
4. Represents the car allowance paid to Mr. Delle Coste
5. Represents 121,527 shares of restricted stock valued the trading price on the date of grant. The shares were granted on 11/25/16 and vest ratably each year until 2019.  
  
Represents two stock option grants: (1) 250,000 options shares issued 5/25/2016, with an exercise price of \$0.61, which vest ratably over the next three years and are exercisable until 5/25/2024 and (2) 125,000 options issued on 11/25/2016, with an exercise price of \$0.72, which vest ratably over the next three years and are exercisable until 11/25/2024.
6. Of the salary earned, \$252,115 was paid and \$47,885 was deferred.
7. Represents a stock option grant 250,000 options shares issued 9/15/17 with an exercise price of \$0.55, which vest ratably over the next three years and are exercisable until 9/15/25.
8. Represents 69,825 shares of restricted valued the trading price on the date of grant. The shares were granted on 12/12/2016 and vest ratably each year until 2019.  
  
Represents two stock option grants: (1) 250,000 options shares issued 5/25/2016, with an exercise price of \$0.61, which vest ratably over the next three years and are exercisable until 5/25/2024 and (2) 125,000 options issued on 11/25/2016, with an exercise price of \$0.72, which vest ratably over the next three years and are exercisable until 11/25/2024.
9. Of the salary earned, \$243,711 was paid and \$46,289 was deferred.
10. Represents two stock option grants: (1) 300,000 options shares issued 7/5/17, with an exercise price of \$0.77, which vest ratably over the next three years and are exercisable until 7/5/2025 and (2) 175,000 options issued on 9/15/2017, with an exercise price of \$0.55, which vest ratably over the next three years and are exercisable until 9/5/25.
11. Represents 54,133 shares of restricted stock valued using the Black-Scholes pricing model. The shares were granted on 12/12/ 2016 and vest ratably until 2019.  
  
Represents two stock option grants: (1) 175,000 options issued on 5/25/2016, with an exercise price of \$0.61, which vest ratably over the next three years and are exercisable until 5/25/2024 and (2) 54,567 options issued on 11/25/2016, with an exercise price of \$0.72, which vest ratably over the next three years and are exercisable until 11/25/2024.
12. Of the salary earned, \$243,711 was paid and \$46,289 was deferred.
13. Represents two stock option grants: (1) 175,000 options issued on 5/25/2016, with an exercise price of \$0.61, which vest ratably over the next three years and are exercisable until 5/25/2024 and (2) 54,567 options issued on 11/25/2016, with an exercise price of \$0.72, which vest ratably over the next three years and are exercisable until 11/25/2024.
14. Of the salary earned, \$243,711 was paid and \$46,289 was deferred.

**Outstanding Equity Awards at Fiscal Year-End Table**

| Name                 | Option Awards   |     | Equity incentive awards:   |                            |                        | Stock Awards  |  |
|----------------------|---|-----|--|----------------------------|------------------------|---|--|
|                      | Number of securities underlying unexercised options (#) exercisable |     | Number of securities underlying unexercised unearned options (#) | Option exercise price (\$) | Option expiration date | Number of shares or units of stock that have not vested (#) | Market value of shares or units of stock that have not vested (\$) |
| Riccardo Delle Coste | 300,000   | (1) |  | 0.45                       | 1/21/20                |   |  |
|                      | 83,333  | (2) | 166,667  | 0.61                       | 5/25/24                |   |  |
|                      | 41,667  | (3) | 83,333   | 0.72                       | 11/25/24               |   |  |
|                      | 250,000   | (4) |  | 0.55                       | 9/15/25                |   |  |
|                      |   |     |  |                            |                        | 81,018  | 47,801   |
| Joseph Cugine        | 300,000   | (5) | 300,000  | 0.50                       | 5/1/23                 |   |  |
|                      | 83,333  | (2) | 166,667  | 0.61                       | 5/25/24                |   |  |
|                      | 27,930  | (3) | 42,124   | 0.72                       | 11/25/24               |   |  |
|                      | 250,000   | (4) |  | 0.55                       | 9/15/25                |   |  |
|                      |   |     |  |                            |                        | 546,550   | 322,465  |
| Joseph Tesoriero     | 250,000   | (5) | 250,000  | 0.82                       | 5/1/23                 |   |  |
|                      | 58,333  | (2) | 116,667  | 0.61                       | 5/25/24                |   |  |
|                      | 18,189  | (3) | 36,378   | 0.72                       | 11/25/24               |   |  |
|                      | 175,000   | (4) |  | 0.55                       | 9/15/25                |   |  |
|                      |   |     |  |                            |                        | 286,089   | 168,793  |

1. Fully vested.

2. Vest in equal increments on 5/25/2017, 5/25/2018 and 5/25/2019.

3. Vest in equal increments on 11/25/2017, 11/25/2018, and 11/25/2019.

4. Vest in equal increments on 9/15/18, 9/15/19, and 9/15/20.

5. Vest in equal increments on 5/1/2017 and 5/1/2018.

**Compensation of Directors**



The following table summarizes the compensation paid to our directors that were not employees for the fiscal year ended December 31, 2017. A director who is a Company employee does not receive any compensation for service as a director. The compensation received by directors that are employees of the Company is shown above in the summary compensation table. We reimburse all directors for expenses incurred in their capacity as directors.

| Name                     | Fees<br>Earned<br>or<br>Paid in<br>Cash<br>(\$) | Stock<br>Awards<br>(\$) | Option<br>Awards<br>(\$) | Non-Equity<br>Incentive Plan<br>Compensation<br>(\$) | Nonqualified<br>Deferred<br>Compensation<br>Earnings<br>(\$) | All Other<br>Compensation<br>(\$) | Total<br>(\$) |
|--------------------------|---|-------------------------|--------------------------|--|--|-----------------------------------|---------------|
| Arnold Tinter            | 50,000  |                         |                          |  |  | 70,000                            | (1) 120,000   |
| Steven Lang              |   |                         | 50,000                   | (2)  |  |                                   | 50,000        |
| Alice Elliot             |   |                         | 50,000                   | (3)  |  |                                   | 50,000        |
| Alex Ware                |   | 50,000                  | (4)                      |  |  |                                   | 50,000        |
| Isabelle<br>Ortiz-Cochet |   |                         | 50,000                   | (5)  |  |                                   | 50,000        |

(1) Represents consulting fees paid to Mr. Tinter.

(2) Mr. Lang elected to receive \$25,000 in cash and 40,843 Stock Options in lieu of cash.

(3) Ms. Elliot elected to receive 81,075 Stock Options in lieu of cash.

(4) Mr. Ware elected to receive 95,995 shares of Stock in lieu of cash.

(5) Ms. Ortiz-Cochet elected to receive Stock Options in lieu of cash.

### **Employment Agreements**

On April 27, 2015, The Company entered into an executive employment agreement with Riccardo Delle Coste, its Chief Executive Officer and director. Mr. Delle Coste is also the Chief Executive Officer and Chairman of the Company. Pursuant to the employment agreement, he will receive a base salary of \$350,000 and performance bonuses of 75% of his base salary based on mutually agreed upon performance targets. In addition, Mr. Delle Coste will receive up to an additional 500,000 performance options, on an annual basis. All options granted under the employment agreement are subject to the Company's 2015 Equity Incentive Plan.

On April 27, 2015, Smoothie entered into an executive employment agreement with Joseph M. Cugine to serve as President of Smoothie, Inc. Pursuant to the employment agreement, Mr. Cugine will receive a base salary of \$300,000 and performance bonuses of 75% of his base salary based on mutually agreed upon performance targets. In addition, Mr. Cugine will receive 8-year options to purchase up to 600,000 shares of Barfresh, one-half vesting on each of the second and third anniversaries of the date of Mr. Cugine's employment agreement. In addition, he will receive up to an additional 500,000 performance options, on an annual basis. All options granted under the employment agreement are subject to the Company's 2015 Equity Incentive Plan

The Company entered into an executive employment agreement with Joseph S. Tesoriero on May 18, 2015, pursuant to which he agreed to serve as Chief Financial Officer. Pursuant to the employment agreement, Mr. Tesoriero will receive a base salary of \$250,000 and performance bonuses of 75% of his base salary, based upon performance targets determined by the Board of Directors. In addition, Mr. Tesoriero was granted 350,000 shares of common stock of Barfresh and 8-year options to purchase up to 500,000 shares of common stock of Barfresh. One-half of each of the share and option grants vests on each of the second and third anniversaries of the date of commencement of Mr. Tesoriero's employment. Mr. Tesoriero will also receive 8-year performance options to purchase up to an additional 350,000 shares on an annual basis. All shares and options granted under the employment agreement are subject to the Company's 2015 Equity Incentive Plan.

### **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

## Security Ownership of Certain Beneficial Owners and Management

The following table sets forth certain information regarding our shares of common stock beneficially owned as of March 8, 2018 for (i) each shareholder known to be the beneficial owner of 5% or more of our outstanding shares of common stock, (ii) each named executive officer and director, and (iii) all executive officers and directors as a group. A person is considered to beneficially own any shares: (i) over which such person, directly or indirectly, exercises sole or shared voting or investment power, or (ii) of which such person has the right to acquire beneficial ownership at any time within 60 days through an exercise of stock options or warrants or otherwise. Unless otherwise indicated, voting and investment power relating to the shares shown in the table for our directors and executive officers is exercised solely by the beneficial owner or shared by the owner and the owner's spouse or children.

For purposes of this table, a person or group of persons is deemed to have "beneficial ownership" of any shares of common stock that such person has the right to acquire within 60 days of March 8, 2018. As of March 8, 2018, the Company had 118,701,577 shares of common stock outstanding. For purposes of computing the percentage of outstanding shares of our common stock held by each person or group of persons named above, any shares that such person or persons has the right to acquire within 60 days of March 8, 2018 is deemed to be outstanding, but is not deemed to be outstanding for the purpose of computing the percentage ownership of any other person. The inclusion herein of any shares listed as beneficially owned does not constitute an admission of beneficial ownership.

The following table sets forth certain information regarding our shares of common stock beneficially owned as of March 8, 2018, for (i) each shareholder known to be the beneficial owner of 5% or more of our outstanding shares of common stock, (ii) each named executive officer and director, and (iii) all executive officers and directors as a group. A person is considered to beneficially own any shares: (i) over which such person, directly or indirectly, exercises sole or shared voting or investment power, or (ii) of which such person has the right to acquire beneficial ownership at any time within 60 days through an exercise of stock options or warrants or otherwise. Unless otherwise indicated, voting and investment power relating to the shares shown in the table for our directors and executive officers is exercised solely by the beneficial owner or shared by the owner and the owner's spouse or children.

| Name and address of beneficial owner <sup>(1)</sup>  | Common Stock                              |                      |
|--|---|----------------------|
|  | Amount and nature of beneficial ownership | Percent of class o/s |
| Riccardo Delle Coste <sup>(2) (3) (4) (5) (6) (7)</sup>  | 20,585,085                                | 17.24 %              |
| Steven Lang <sup>(8) (9) (10) (11)</sup>   | 19,917,082                                | 16.71 %              |
| Joseph Tesoriero <sup>(12) (13) (14)</sup>   | 681,263                                   | 0.57 %               |
| Arnold Tinter <sup>(15) (16)</sup>   | 950,000                                   | 0.80 %               |
| Joe Cugine <sup>(17) (18) (19)</sup>   | 1,823,291                                 | 1.53 %               |
| Alice Elliot <sup>(20) (21) (22) (23) (24)</sup>   | 918,701                                   | 0.77 %               |
| Alexander Ware <sup>(25) (26) (27)</sup>   | 379,973                                   | 0.32 %               |
| Isabelle Ortiz-Cochet <sup>(28) (29)</sup><br>2 Allee De Longchamp Suresnes, France  | 112,809                                   | 0.09 %               |
| All directors and officers as a group (8 persons)  | 45,368,204                                | 37.32 %              |
| Unibel 2 Allee De Longchamp Suresnes, France 92150 <sup>(30)</sup>   | 23,437,500                                | 18.53 %              |
| IBEX Investors LLC (fka) Lazarus Investment Partners LLLP 3200 Cherry Creek South Drive Suite 670 Denver, CO 80209 <sup>(31)</sup> | 16,242,766                                | 13.27 %              |
| Wolverine Asset Management, LLC (“WAM”) 175 West Jackson Blvd. Suite 340 Chicago, IL 60604 <sup>(32) (33)</sup>                    | 6,501,600                                 | 5.39 %               |

<sup>1</sup> The address of those listed, except as noted is c/o Barfresh Food Group Inc., 8383 Wilshire Blvd., Beverly Hills, CA 90211.

<sup>2</sup> Mr. Delle Coste is the Chief Executive Officer, President and a Director of the Company.

<sup>3</sup> Includes 19,471,779 shares owned by R.D. Capital Holdings PTY Ltd. and of which Riccardo Delle Coste is deemed to be a beneficial owner.

<sup>4</sup> Includes 405,000 shares underlying options granted.

- 5 Includes 166,667 shares underlying warrants issued in connection with a promissory note the holder of which was R.D. Capital Holdings PTY Ltd. And of which Riccardo Delle Coste is deemed to be a beneficial owner.
- 6 Includes 25,000 shares underlying warrants issued in connection with a promissory note the holder of which was R.D. Capital Holdings PTY Ltd. and of which Riccardo Delle Coste is deemed to be a beneficial owner.
- 7 Includes 76,130 shares underlying warrants issued in connection with the purchase of common shares, the holder of which was R.D. Capital Holdings PTY Ltd. and of which Riccardo Delle Coste is deemed to be a beneficial owner.
- 8 Mr. Lang is a Director of the Company.
- 9 Includes 19,072,451 shares owned by Sidra Pty Limited of which Steven Lang is deemed to be a beneficial owner
- 10 Includes 356,990 shares underlying options granted
- 11 Includes 282,646 shares underlying warrants issued in connection with a promissory note the holder of which is Sidra PTY Limited
- 12 Mr. Tesoriero is the Chief Financial Officer of the Company.
- 13 Includes 308,333 shares underlying options granted.
- 14 Includes 76,629 shares underlying warrants issued in connection with a promissory note and conversion thereof.
- 15 Mr. Tinter is the Secretary and a Director of the Company
- 16 Includes 150,000 shares underlying options granted
- 17 Mr. Cugine is President of a subsidiary of the Company and a Director
- 18 Includes 397,857 shares underlying options granted.
- 19 Includes 96,020 shares underlying warrants issued in connection with purchase of common shares.
- 20 Ms. Elliot is a Director of the Company
- 21 Includes 360,000 shares owned by Elliot-Herbst LP of which Alice Elliot is deemed to be a beneficial owner
- 22 Includes 64,599 shares owned by Elliot-Herbst Family LLC of which Ms. Elliot is deemed to be a beneficial owner.
- 23 Includes 314,499 shares underlying options granted
- 24 Includes 130,000 shares underlying warrants issued in connection with purchase of common shares
- 25 Mr. Ware is a Director of the Company

<sup>26</sup> Includes 301,848 shares owned by The Alexander Ware Revocable Trust of which Mr. Ware is deemed to be a beneficial owner

<sup>27</sup> Includes 78,125 shares underlying warrants issued to The Alexander Ware Revocable Trust in connection with purchase of common stock.

<sup>28</sup> Ms. Ortiz-Cochet is a Director of the Company

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29 Includes 33,603 shares underlying options granted.

30 Includes 7,812,500 shares underlying warrants issued in connection with the purchase of common stock.

31 Includes 3,733,333 shares underlying warrants issued in connection with the purchase of common stock.

Wolverine Asset Management, LLC (“WAM”) is the investment manager of Wolverine Flagship Fund Trading Limited and has voting and dispositive power over these securities. The sole member and manager of WAM is <sup>32</sup>Wolverine Holdings, L.P. (“Wolverine Holdings”). Robert R. Bellick and Christopher L. Gust may be deemed to control Wolverine Trading Partners, Inc., the general partner of Wolverine Holdings.

33 Includes 2,000,000 shares underlying warrants issued in connection with the purchase of common stock.

### **Item 13. Certain Relationships and Related Transactions, and Director Independence.**

#### **Certain Relationships and Related Transactions**

The following includes a summary of transactions since the beginning of fiscal 2017 or any currently proposed transaction, in which we were or are to be a participant and the amount involved exceeded or exceeds the lesser of \$120,000 or one percent of the average of our total assets at year end for the last two completed fiscal years and in which any related person had or will have a direct or indirect material interest (other than compensation described under “Executive Compensation”). We believe the terms obtained or consideration that we paid or received, as applicable, in connection with the transactions described below were comparable to or better than terms available or the amounts that would be paid or received, as applicable, in arm’s-length transactions.

There were no related party transactions for the year ended December 31, 2017, that meet the criteria described in the paragraph above.

The Company’s policy with regard to related party transactions requires any related party loans that are (i) non-interest bearing and in excess of \$100,000 or (ii) interest bearing, irrespective of amount, must be approved by the Company’s board of directors. All issuances of securities by the Company must be approved by the board of directors, irrespective of whether the recipient is a related party. Each of the foregoing transactions, if required by its terms, was approved in this manner.

#### **Director Independence**

We use the definition of “independence” standards as defined in the NASDAQ Stock Market Rule 5605(a)(2) provides that an “independent director” is a person other than an officer or employee of the company or any other individual having a relationship, which, in the opinion of the Company’s board of directors, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. We have determined that four of our seven directors are independent, which constitutes a majority.

**Item 14. Principal Accounting Fees and Services.**

Aggregate fees for professional services rendered to the Company by Eide Bailly LLP for the years ended December 31, 2017 and December 31, 2016 were as follows.

|                    | 2017     | 2016     |
|--------------------|----------|----------|
| Audit fees         | \$66,439 | \$53,208 |
| Audit related fees |          |          |
| Tax fees           | 13,300   | 13,700   |
| All other fees     |          |          |
| Total              | \$79,739 | \$66,908 |



As defined by the SEC, (i) “audit fees” are fees for professional services rendered by our principal accountant for the audit of our annual financial statements and review of financial statements included in our Form 10-K, or for services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for those fiscal years; (ii) “audit-related fees” are fees for assurance and related services by our principal accountant that are reasonably related to the performance of the audit or review of our financial statements and are not reported under “audit fees;” (iii) “tax fees” are fees for professional services rendered by our principal accountant for tax compliance, tax advice, and tax planning; and (iv) “all other fees” are fees for products and services provided by our principal accountant, other than the services reported under “audit fees,” “audit-related fees,” and “tax fees.”

*Audit Fees.* The aggregate fees billed for the years end December 31, 2017 and December 31, 2016 were for the audits of our financial statements and reviews of our interim financial statements included in our annual and quarterly reports.

*Audit Related Fees.* Eide Bailly LLP did not provide us with audit related services for the years ended December 31, 2017 or December 31, 2016, that are not reported under Audit Fees.

*Tax Fees.* The aggregate tax fees billed for the year end December 31, 2017 and December 31, 2016 were related to the preparation of corporate income tax returns.

*All Other Fees.* Eide Bailly LLP did not provide us with professional services related to “Other Fees” for the years ended December 31, 2017 or December 31, 2016.

### **Audit Committee Pre-Approval Policies and Procedures**

Under the SEC’s rules, an audit committee is required to pre-approve the audit and non-audit services performed by the independent registered public accounting firm in order to ensure that they do not impair the auditors’ independence. The SEC’s rules specify the types of non-audit services that an independent auditor may not provide to its audit client and establish the audit committee’s responsibility for administration of the engagement of the independent registered public accounting firm. The Company has established an Audit Committee. Accordingly, audit services and non-audit services described in this Item 14 were pre-approved by an Audit Committee.

There were no hours expended on the principal accountant’s engagement to audit the registrant’s financial statements for the most recent fiscal year that were attributed to work performed by persons other than the principal accountant’s

full-time, permanent employees.

## **PART IV**

### **Item 15. Exhibits and Financial Statements**

#### *(a) 1. Financial Statements*

See Index to Financial Statements in Item 8 of this Annual Report on Form 10-K, which is incorporated herein by reference.

#### *2. Financial Statement Schedules*

All other financial statement schedules have been omitted because they are either not applicable or the required information is shown in the financial statements or notes thereto.

#### *3. Exhibits*

See the Exhibit Index, which follows the signature page of this Annual Report on Form 10-K, which is incorporated herein by reference.

#### *(b) Exhibits*

See Item 15(a) (3) above.

#### *(c) Financial Statement Schedules*

See Item 15(a) (2) above.

**SIGNATURES**

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

**BARFRESH FOOD GROUP  
INC.**

Date: April 2, 2018 By: */s/ Riccardo Delle Coste*  
 Riccardo Delle Coste  
 Chief Executive Officer  
 (Principal Executive Officer)

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

| <b>Signature</b>  | <b>Capacity</b>   | <b>Date</b>   |
|---|---|---------------|
| <i>/s/ Riccardo Delle Coste</i><br>Riccardo Delle Coste   | Chief Executive Officer and Director<br>(Principal Executive Officer) | April 2, 2018 |
| <i>/s/ Joseph Tesoriero</i><br>Joseph Tesoriero           | Chief Financial Officer<br>(Principal Financial Officer)              | April 2, 2018 |
| <i>/s/ Steven Lang</i><br>Steven Lang                     | Director  | April 2, 2018 |
| <i>/s/ Arnold Tinter</i><br>Arnold Tinter                 | Director  | April 2, 2018 |
| <i>/s/ Joseph M. Cugine</i><br>Joseph M. Cugine           | Director  | April 2, 2018 |
| <i>/s/ Alice Elliot</i><br>Alice Elliot                   | Director  | April 2, 2018 |
| <i>/s/ Isabelle Ortiz-Cochet</i><br>Isabelle Ortiz-Cochet | Director  | April 2, 2018 |
| <i>/s/ Alexander H. Ware</i>                              | Director  | April 2, 2018 |

Alexander Ware

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**Exhibit Index**

| <b>Exhibit Number</b> | <b>Description</b>  |
|-----------------------|---|
| 2.1                   | <u>Share Exchange Agreement dated January 10, 2012 by and among Moving Box Inc., Andreas Wilcken, Jr., Barfresh Inc. and the shareholders of Barfresh Inc. (incorporated by reference to Exhibit 2.1 to Current Report on Form 8-K as filed January 17, 2012)</u> |
| 3.1                   | <u>Certificate of Incorporation of Moving Box Inc. dated February 25, 2010 (incorporated by reference to Exhibit 3.1 to Form S-1 (Registration No. 333-168738) as filed August 11, 2010)</u>  |
| 3.2                   | <u>Amended and Restated Bylaws of Barfresh Food Group Inc. (incorporated by reference to Exhibit 3.1 to Current Report on Form 8-K as filed August 4, 2014)</u>   |
| 3.3                   | <u>Certificate of Amendment of Certificate of Incorporation of Moving Box Inc. dated February 13, 2012 (incorporated by reference to Exhibit 3.1 to Current Report on Form 8-K as filed February 17, 2012)</u>  |
| 3.4                   | <u>Certificate of Amendment of Certificate of Incorporation of Smoothie Holdings Inc. dated February 16, 2012 (incorporated by reference to Exhibit 3.2 to Current Report on Form 8-K as filed February 17, 2012)</u>   |
| 4.1                   | <u>Form of Series A Warrant (incorporated by reference to Exhibit 10.3 to Current Report on Form 8-K as filed January 17, 2012)</u>   |
| 4.2                   | <u>Form of Series B Warrant (incorporated by reference to Exhibit 4.2 to Form 10K for the period ending March 31, 2014, as filed June 30, 2014)</u>   |
| 4.3                   | <u>Form of Series C Warrant (incorporated by reference to Exhibit 4.3 to Form 10K for the period ending March 31, 2014, as filed June 30, 2014)</u>   |
| 4.4                   | <u>Form of Series D Warrant (incorporated by reference to Exhibit 4.4 to Form 10K for the period ending March 31, 2014, as filed June 30, 2014)</u>   |
| 4.5                   | <u>Form of Series PA Warrant (incorporated by reference to Exhibit 4.5 to Form 10K for the period ending March 31, 2014, as filed June 30, 2014)</u>  |
| 4.6                   | <u>Form of Series CN Warrant (incorporated by reference to Exhibit 4.6 to Form 10K for the period ending March 31, 2014, as filed June 30, 2014)</u>  |
| 4.7                   | <u>Form of Series EN Warrant (incorporated by reference to Exhibit 4.7 to Registration Statement on Form S-1 (Registration No. 333-211019) as filed April 29, 2016)</u>   |
| 4.8                   |   |

Form of Series E Warrant (Incorporated by reference to Exhibit 3.8 to Registration Statement on Form S-1 (Registration No. 333-203340) as filed April 10, 2015)

4.9 Form of Series G Warrant (incorporated by reference to Exhibit 4.1 to Current Report on Form 8-K as filed February 16, 2015)

4.10 Form of Series H Warrant (incorporated by reference to Exhibit 4.10 to Registration Statement on Form S-1 (Registration No. 333-211019) as filed April 29, 2016)

4.11 Form of Series I Warrant (incorporated by reference to Exhibit 4.11 to Registration Statement on Form S-1 (Registration No. 333-211019) as filed April 29, 2016)

4.12 Form of Convertible Promissory Note dated January 29, 2016 by Barfresh Food Group Inc. in favor of certain investors (incorporated by reference to Exhibit 4.12 to Registration Statement on Form S-1 (Registration No. 333-211019) as filed April 29, 2016)

4.13 Form of warrant dated December 1, 2013 (incorporated by reference to Exhibit 4.13 to Registration Statement on Form S-1 (Registration No. 333-211019) as filed April 29, 2016)

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- 4.14 Form of Series K Warrant (incorporated by reference to Exhibit 4.14 to Registration Statement on Form S-1 (Registration No. 333-333-215322) as filed December 23, 2016)
- 4.15 Form of Series J Warrant (incorporated by reference to Exhibit 4.15 to Registration Statement on Form S-1 (Registration No. 333-333-215322) as filed December 23, 2016)
- 4.16 Form of Series L Warrant\*
- 4.17 Form of 10% Convertible Debenture\*
- 10.1 Form of Registration Rights Agreement dated February 16, 2016 (incorporated by reference to Exhibit 10.1 to Registration Statement on Form S-1 (Registration No. 333-211019) as filed April 29, 2016)
- 10.2 Intellectual Property Sale Deed by and between National Australia Bank Limited and Barfresh Inc. dated October 15, 2013 (incorporated by reference to Exhibit 10.1 to Quarterly Report on Form 10-Q as filed November 20, 2013)
- 10.3 Form of Securities Purchase Agreement dated February 16, 2016 by and between Barfresh Food Group Inc. and certain investors. (incorporated by reference to Exhibit 10.3 to Registration Statement on Form S-1 (Registration No. 333-211019) as filed April 29, 2016)
- 10.4 Form of Investor Rights Agreement dated November 23, 2016 by and between Barfresh Food Group, Inc. and Unibel\*
- 10.5 Form of Securities Purchase Agreement dated November 23, 2016 by and between Barfresh Food Group, Inc. and Unibel (incorporated by reference to Exhibit 10.5 to Registration Statement on Form S-1 (Registration No. 333-215322) as filed December 23, 2016)
- 10.6 Form of Securities Purchase Agreement dated September 28, 2016 by and between Barfresh Food Group, Inc. and certain investors (incorporated by reference to Exhibit 10.6 to Registration Statement on Form S-1 (Registration No. 333-215322) as filed December 23, 2016)
- 10.7 Form of Registration Rights Agreement dated September 28, 2016 by and between Barfresh Food Group, Inc. and certain investors (incorporated by reference to Exhibit 10.7 to Registration Statement on Form S-1 (Registration No. 333-215322) as filed December 23, 2016)
- 10.8 Barfresh Food Group, Inc. 2014 Equity Incentive Plan (incorporated by reference to Exhibit 10.10 to Annual Report Form 10-K filed June 30, 2014)+
- 10.9 Barfresh Food Group, Inc. 2015 Equity Incentive Plan (incorporated by reference to Exhibit 10.10 to Annual Report Form 10-K filed July 7, 2015)+



- 10.10 Executive Employment Agreement by and between Smoothie, Inc. and Riccardo Delle Coste dated April 27, 2015 (incorporated by reference to Exhibit 10.11 to Annual Report Form 10-K filed July 7, 2015)+
- 10.11 Executive Employment Agreement by and between Smoothie, Inc. and Joseph M. Cugine dated April 27, 2015 (incorporated by reference to Exhibit 10.12 to Annual Report Form 10-K filed July 7, 2015)+

- 10.21 Executive Employment Agreement by and between Barfresh Food Group, Inc. and Joseph S. Tesoriero dated May 18, 2015 (incorporated by reference to Exhibit 10.13 to Annual Report Form 10-K filed July 7, 2015)+
- 10.22 Form of Securities Purchase Agreement dated [ ], 2018 by and between Barfresh Food Group, Inc. and certain investors\*
- 21.1 Subsidiaries \*
- 31.1 Certification of Principal Executive Officer, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)\*
- 31.2 Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)\*
- 32.1 Certification of Principal Executive Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002\*
- 32.2 Certification of Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002\*

101.INS XBRL Instance.  
101.XSD XBRL Schema.  
101.PRE XBRL Presentation.  
101.CAL XBRL Calculation.  
101.DEF XBRL Definition.  
101.LAB XBRL Label.

\* Filed herewith  
+ Compensatory plan

In accordance with SEC Release 33-8238, Exhibit 32.1 and 32.2 are being furnished and not filed.

Furnished herewith. XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

**Barfresh Food Group Inc.**

**Index to Consolidated Financial Statements**

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## **Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders  
Barfresh Food Group, Inc.  
Beverly Hills, California

### **Opinion on the Consolidated Financial Statements**

We have audited the accompanying consolidated balance sheets of Barfresh Food Group, Inc. (the “Company”) as of December 31, 2017 and 2016, and the related consolidated statements of operations, stockholders’ equity, and cash flows, for the years then ended, and the related notes (collectively referred to as the “financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Barfresh Food Group, Inc. as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

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

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

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

We have served as Barfresh Food Group Inc.'s auditor since 2012.

*/s/ Eide Bailly LLP*

Denver, Colorado

March 30, 2018

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Barfresh Food Group Inc.

## Consolidated Balance Sheets

December 31, 2017 and 2016

|  | 2017         | 2016         |
|--|--------------|--------------|
| Assets   |              |              |
| Current assets:  |              |              |
| Cash and cash equivalents  | \$1,304,916  | \$9,180,947  |
| Accounts receivable  | 301,012      | 131,088      |
| Inventory  | 1,415,495    | 317,948      |
| Prepaid expenses and other current assets  | 24,496       | 25,864       |
| Total current assets   | 3,045,919    | 9,655,847    |
| Property, plant and equipment, net of depreciation   | 1,760,890    | 1,494,478    |
| Intangible assets, net of amortization   | 586,943      | 619,863      |
| Deposits   | 39,369       | 53,202       |
| Total Assets   | \$5,433,121  | \$11,823,390 |
| Liabilities and Stockholders' Equity   |              |              |
| Current liabilities:   |              |              |
| Accounts payable   | \$421,176    | \$153,756    |
| Accrued expenses   | 849,529      | 746,375      |
| Deferred rent liability  | 495          | 165          |
| Current portion of long term debt  | -            | 3,849        |
| Total current liabilities  | 1,271,200    | 904,145      |
| Long term Debt, net of current portion   | 0            | 8,958        |
| Total liabilities  | 1,271,200    | 913,103      |
| Stockholders' equity:  |              |              |
| Preferred stock, \$0.000001 par value, 5,000,000 shares authorized, none issued or outstanding   | -            | -            |
| Common stock, \$0.000001 par value; 300,000,000 shares authorized; 118,690,527 and 117,103,276 shares issued and outstanding at December 31, 2017 and 2016, respectively | 119          | 117          |
| Additional paid in capital   | 37,992,799   | 35,829,627   |
| Accumulated (deficit)  | (33,830,997) | (24,919,457) |
| Total stockholders' equity   | 4,161,921    | 10,910,287   |
| Total Liabilities and Stockholders' Equity   | \$5,433,121  | \$11,823,390 |

See the accompanying notes to the consolidated financial statements



Barfresh Food Group Inc.

## Consolidated Statements of Operations

|  | For the year<br>ended<br>December 31,<br>2017 | For the year<br>ended<br>December<br>31, 2016 |
|--|---|---|
| Revenue  | \$ 1,997,012                                  | \$ 1,457,499                                  |
| Cost of revenue                                  | 1,085,575                                     | 772,827                                       |
| Gross profit                                     | 911,437                                       | 684,672                                       |
| Operating expenses:                              |   |   |
| General and administrative                       | 9,492,094                                     | 10,415,933                                    |
| Depreciation and Amortization                    | 330,883                                       | 208,614                                       |
| Total operating expenses                         | 9,822,977                                     | 10,624,547                                    |
| Operating loss                                   | (8,911,540 )                                  | (9,939,875 )                                  |
| Other expenses                                   |   |   |
| Interest   | -   | 250,850                                       |
| Net (loss)                                       | \$(8,911,540 )                                | \$(10,190,725 )                               |
| Per share information - basic and fully diluted: |   |   |
| Weighted average shares outstanding              | 117,748,411                                   | 95,557,640                                    |
| Net (loss) per share                             | \$(0.08 )                                     | \$(0.11 )                                     |

See the accompanying notes to the consolidated financial statements

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Barfresh Food Group, Inc.

## Statement of Stockholders' Equity

For the Period from January 1, 2016 to December 31, 2017

|  | Common Stock |        | Additional         | Accumulated    |              |
|--|--------------|--------|--------------------|----------------|--------------|
|  | Shares       | Amount | paid in<br>Capital | (Deficit)      | Total        |
| Balance January 1, 2016                                  | 86,186,453   | \$ 87  | \$ 15,798,337      | \$(14,728,732) | \$ 1,069,692 |
| Issuance of stock for cash, net of expenses of \$750,019 | 24,598,674   | 24     | 15,707,106         | -              | 15,707,130   |
| Exercise of warrants                                     | 2,464,017    | 2      | 714,998            | -              | 715,000      |
| Exercise of options                                      | 50,000       | -      | 25,500             | -              | 25,500       |
| Conversion of debt into stock                            | 3,502,327    | 4      | 2,242,688          | -              | 2,242,692    |
| Debt settled for stock                                   | 176,328      | -      | 112,849            | -              | 112,849      |
| Issuance of stock for services                           | 125,477      | -      | 95,000             | -              | 95,000       |
| Equity based compensation                                | -            | -      | 1,133,149          | -              | 1,133,149    |
| Net (loss) for the year                                  |              |        |                    | (10,190,725)   | (10,190,725) |
| Balance December 31, 2016                                | 117,103,276  | \$ 117 | 35,829,627         | (24,919,457)   | 10,910,287   |
| Exercise of warrants                                     | 232,005      | -      | 35,400             |                | 35,400       |
| Exercise of options                                      | 276,171      | -      | -                  |                | -            |
| Issuance of stock for services                           | 178,733      | 1      | 112,250            |                | 112,251      |
| Equity based compensation                                | 900,342      | 1      | 2,015,522          |                | 2,015,523    |
| Net (loss) for the year                                  |              |        |                    | (8,911,540 )   | (8,911,540 ) |
| Balance December 31, 2017                                | 118,690,527  | \$ 119 | \$ 37,992,799      | \$(33,830,997) | \$ 4,161,921 |

See the accompanying notes to the consolidated financial statements

Barfresh Food Group Inc.

## Consolidated Statements of Cash Flows

|   | For the year<br>ended<br>December<br>31, 2017 | For the nine<br>month ended<br>December<br>31, 2016 |
|---|---|---|
| Cash flow from operating activities:  |   |   |
| Net (loss)  | \$(8,911,540)                                 | \$(10,190,725)                                      |
| Adjustments to reconcile net (loss) to net cash (used in) operating activities: |   |   |
| Depreciation  | 268,784                                       | 147,131   |
| Equity based compensation   | 1,550,718                                     | 1,133,149   |
| Amortization of intellectual property   | 62,099  | 61,483  |
| Interest related to debt discount   | -   | 180,707   |
| Loss on sale of property and equipment  | -   | 63,751  |
| Stock issuance for service  | 112,250                                       | 95,000  |
| Change in operating assets and liabilities                                      |   |   |
| Accounts receivable   | (169,924 )                                    | (102,492 )  |
| Inventory   | (1,097,547)                                   | 10,012  |
| Prepaid expenses  | 1,368   | 4,660   |
| Deposits  | 13,833  | (36,751 )   |
| Accounts payable  | 267,420                                       | 21,952  |
| Accrued expenses  | 567,960                                       | 589,025   |
| Deferred rent   | 330   | (1,690 )  |
| Net cash (used in) operations   | (7,334,249)                                   | (8,024,788 )  |
| Cash flow from investing activities:  |   |   |
| Purchase of fixed assets  | (535,196 )                                    | (1,053,498 )  |
| Proceeds from sale of equipment   | -   | 36,910  |
| Investment in patent and trademarks   | (29,179 )                                     | (64,089 )   |
| Net cash (used in) investing activities   | (564,375 )                                    | (1,080,677 )  |
| Cash flow from financing activities:  |   |   |
| Issuance of common stock and warrants for cash                                  | 35,400  | 16,457,150  |
| Equity issuance costs   | -   | (750,020 )  |
| Exercise of warrant and options   | -   | 740,500   |
| Repayment of short term notes payable -related party                            | -   | (100,000 )  |
| Repayment of long term debt   | (12,807 )                                     | (47,222 )   |
| Net cash provided by financing activities                                       | 22,593  | 16,300,408  |
| Net increase (decrease) in cash   | (7,876,031)                                   | 7,197,943   |
| Cash and cash equivalents at beginning of period                                | 9,180,947                                     | 1,986,004   |
| Cash and cash equivalents at end of period                                      | \$1,304,916                                   | \$9,180,947   |

Supplemental disclosure of cash flow information:

|                            |     |          |
|----------------------------|-----|----------|
| Cash paid for interest     | \$- | \$23,370 |
| Cash paid for income taxes | \$- | \$-      |

Non-cash financing activities:

|  |         |             |
|--|---------|-------------|
| Common stock issued for services, and conversion of debt | \$      | \$2,450,541 |
| Settlement of liability with Equity awards               | 464,806 |             |

See the accompanying notes to the financial statements

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## **Note 1. Summary of Significant Accounting Policies**

Barfresh Food Group Inc., (“we,” “us,” “our,” and the “Company”) was incorporated on February 25, 2010 in the State of Delaware. We are engaged in the manufacturing and distribution of ready to blend beverages, particularly, smoothies, shakes and frappes.

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”).

### *Basis of Consolidation*

The consolidated financial statements include the financial statements of the Company and our wholly owned subsidiaries, Barfresh Inc. and Barfresh Corporation Inc. All inter-company balances and transactions among the companies have been eliminated upon consolidation.

### *Use of Estimates*

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities in the balance sheets and revenues and expenses during the years reported. Actual results may differ from these estimates.

### *Cash and Cash Equivalents*

We consider all highly liquid investments with an original maturity of three months or less, at the time of purchase, to be cash equivalents.

### *Concentration of Credit Risk*

The amount of cash on deposit with financial institutions exceeds the \$250,000 federally insured limit at December 31, 2017 and 2016. However, we believe that cash on deposit that exceeds \$250,000 in the financial institutions is financially sound and the risk of loss is minimal.

#### *Fair Value Measurement*

Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 820, *Fair Value Measurements and Disclosures* (“ASC 820”), provides a comprehensive framework for measuring fair value and expands disclosures which are required about fair value measurements. Specifically, ASC 820 sets forth a definition of fair value and establishes a hierarchy prioritizing the inputs to valuation techniques, giving the highest priority to quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable value inputs. ASC 820 defines the hierarchy as follows:

Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reported date. The types of assets and liabilities included in Level 1 are highly liquid and actively traded instruments with quoted prices, such as equities listed on the New York Stock Exchange.

Level 2 - Pricing inputs are other than quoted prices in active markets but are either directly or indirectly observable as of the reported date. The types of assets and liabilities in Level 2 are typically either comparable to actively traded securities or contracts or priced with models using highly observable inputs.

Level 3 - Significant inputs to pricing that are unobservable as of the reporting date. The types of assets and liabilities included in Level 3 are those with inputs requiring significant management judgment or estimation, such as complex and subjective models and forecasts used to determine the fair value of financial transmission rights.

Our financial instruments consist of accounts receivable, accounts payable, accrued expenses and notes payable. The carrying value of our financial instruments approximates their fair value due to their relative short maturities.

#### *Accounts Receivable*

Accounts receivable are typically unsecured. Our credit policy calls for payment generally within 30 days. The credit worthiness of a customer is evaluated prior to a sale. As of December 31, 2017, and 2016, there is no allowance for doubtful accounts. There was no bad debt expense for the years ended December 31, 2017 and 2016.

#### *Inventory*

Inventory consists of finished goods and is carried at the lower of cost or net realizable value on a first in first out basis.

#### *Intangible Assets*

Intangible assets are comprised of patents, net of amortization and trademarks. The patent costs are being amortized over the life of the patent, which is twenty years from the date of filing the patent application. In accordance with ASC Topic 350 *Intangibles - Goodwill and Other* ("ASC 350"), the costs of internally developing other intangible assets, such as patents, are expensed as incurred. However, as allowed by ASC 350, costs associated with the acquisition of patents from third parties, legal fees and similar costs relating to patents have been capitalized.

In accordance with ASC 350 legal costs related to trademarks have been capitalized. We have determined that trademarks have an indeterminable life and therefore are not being amortized.

#### *Property, Plant, and Equipment*

Property, plant, and equipment is stated at cost less accumulated depreciation and accumulated impairment loss, if any. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets. Leasehold

improvements are being amortized over the shorter of the useful life of the asset or the lease term that includes any expected renewal periods that are deemed to be reasonably assured. The estimated useful lives used for financial statement purposes are:

Furniture and fixtures: 5 years

Manufacturing Equipment: 7 years

Leasehold improvements: 2 years

Vehicles 5 years

### *Revenue Recognition*

We recognize revenue when there is persuasive evidence of an arrangement, delivery has occurred or services have been rendered, the sales price is determinable, and collection is reasonably assured. Revenue is recorded net of provisions for discounts and promotion allowances. Our products are sold on various terms. Our credit terms, which are established in accordance with local and industry practices, typically require payment within 30 days of delivery. We recognize revenue upon receipt of our products by our distributors and retail accounts, in accordance with written sales terms, net of provisions for discounts or allowances. Allowances for returns and discounts are made on a case-by-case basis. Historically, neither returns nor discounts have been material.

### *Research and Development*

Expenditures for research activities relating to product development and improvement are charged to expense as incurred. We incurred \$574,989 and \$432,146, in research and development expenses for the years ended December 31, 2017 and 2016, respectively.

### *Rent Expense*

We recognize rent expense on a straight-line basis over the reasonably assured lease term as defined in ASC Topic 840, *Leases* (“ASC 840”). Rent expense is charged to expense beginning with the occupancy date. Deferred rent was \$495 and \$165 at December 31, 2017 and 2016, respectively, and will be charged to rent expense over the life of the lease. Total amount of rent expense incurred in 2017 was \$142,572 and in 2016 was \$96,151.

### *Income Taxes*

The provision for income taxes is determined in accordance with the provisions of ASC Topic 740, *Accounting for Income Taxes* (“ASC 740”). Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Any effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

ASC 740 prescribes a comprehensive model for how companies should recognize, measure, present, and disclose in their financial statements, uncertain tax positions taken or expected to be taken on a tax return. Under ASC 740, tax positions must initially be recognized in the financial statements when it is more likely than not the position will be sustained upon examination by the tax authorities. Such tax positions must initially and subsequently be measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the tax authority assuming full knowledge of the position and relevant facts.

ASC 740 requires a valuation allowance to reduce the deferred tax assets reported if, based on the weight of evidence, it is more than likely than not that some portion or all of the deferred tax assets will not be recognized.

For the years ended December 31, 2017 and 2016 we did not have any interest and penalties or any significant unrecognized uncertain tax positions.

### *Earnings per Share*



We calculate net loss per share in accordance with ASC Topic 260, *Earnings per Share*. Basic net loss per share is computed by dividing net loss by the weighted average number of shares of common stock outstanding for the period, and diluted earnings per share is computed by including common stock equivalents outstanding for the period in the denominator. At December 31, 2017 and 2016 any equivalents would have been anti-dilutive as we had losses for the periods then ended.

#### *Stock Based Compensation*

We calculate stock compensation in accordance with ASC Topic 718, *Compensation-Stock Based Compensation* (“ASC 718”). ASC 718 requires that the cost resulting from all share-based payment transactions be recognized in the financial statements and establishes fair value as the measurement objective in accounting for share-based payment arrangements and requires all entities to apply a fair-value-based measurement method in accounting for share-based payment transactions with employees except for equity instruments held by employee stock ownership plans

#### *Recent pronouncements*

From time to time, new accounting pronouncements are issued that we adopt as of the specified effective date. We believe that the impact of recently issued standards not yet effective may have an impact on our results of operations and financial position.

In May 2014, the FASB issued ASU Update 2014-09 Revenue from Contracts with Customers (Topic 606), which converged guidance on recognizing revenue in contracts with customers on an effective date after our year ending December 31, 2017. The Company is in the initial stages of evaluating the effect of the standard on our financial statements and continue to evaluate the available transition methods. However, based on our initial evaluation, we do not expect there to be material changes to our current Revenue Recognition policies due to the non-complex contracts with our customers, including the definition of our performance obligations and the transaction prices in our contracts with our customers.

The Company has evaluated the effect of the standard on our financial statements, and based on our evaluation, we do not expect there to be material impact to our financial statement.

In February 2016, the FASB issued ASU No. 2016-02, Leases, to improve financial reporting about leasing transactions. This ASU will require organizations that lease assets (“lessees”) to recognize a lease liability and a right-of-use asset on its balance sheet for all leases with terms of more than twelve months. A lease liability is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis and a right-of-use asset represents the lessee’s right to use, or control use of, a specified asset for the lease term. The amendments in this ASU leaves the accounting for the organization that own the assets leased to the lessee (“lessor”) largely unchanged except for targeted improvements to align it with the lessee accounting model and Topic 606, Revenue from Contracts with Customers.

The Company is in the initial stages of evaluating the effect of the standard on our financial statements and continue to evaluate the available transition methods. However, based on our initial evaluation, we do not expect there to be material changes to both our current and long-term lease liabilities and our fixed assets of our limited number of operating leases that will be converted to financing leases under the new guidance. The Company does not plan to adopt the standard until the interim period ended March 31, 2019.

In August 2014, the FASB issued FASB ASU2014-15, *Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entities Ability to Continue as a Going Concern*. FASB ASU 2015-15 changes the disclosure requirements of uncertainties about an entity’s ability to continue as a going concern. FASB ASU2014-15 is effective for annual periods ending after December 15, 2016, and for interim periods within annual periods beginning after that date. These changes require an entity’s management to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about an entities ability to continue as a going concern within one year after the date the financial statements are issued. If management has concluded that substantial doubt exists, then the following disclosures should be made in the financial statements: (i) principal conditions or events that raised the substantial doubt; (ii) management’s evaluation of the significance of those conditions or events in relation to the entities ability to meet those obligations; (iii) management’s plans that alleviated the initial substantial doubt or, if substantial doubt was not alleviated, management’s plans that are intended to at least mitigate the conditions or events that raise the substantial doubt, and (iv) if management’s plans did not alleviate the substantial doubt, an explicit statement that there is a substantial doubt. These changes are reflected in the disclosure

included in Note 10.

## Note 2. Property Plant and Equipment

Major classes of property and equipment at December 31, 2017 and 2016 consist of the following:

|   | 2017        | 2016        |
|---|-------------|-------------|
| Furniture and fixtures                      | \$1,524     | \$1,524     |
| Manufacturing Equipment                     | 1,952,538   | 1,605,317   |
| Leasehold Improvements                      | 4,886       | 4,800       |
| Vehicles                                    | 29,696      | 29,696      |
|   | 1,988,644   | 1,641,337   |
| Less: accumulated depreciation              | (665,657 )  | (396,863 )  |
|   | 1,322,987   | 1,244,474   |
| Equipment not yet placed in service         | 437,903     | 250,004     |
| Property and equipment, net of depreciation | \$1,760,890 | \$1,494,478 |

We recorded depreciation expense related to these assets of \$268,784 and \$147,131 for the year ended December 31, 2017 and 2016, respectively.

**Note 3. Intangible Assets**

As of December 31, 2017, intangible assets consist of patent costs of \$764,891, trademarks of \$88,853 and accumulated amortization of \$266,801

As of December 31, 2016, intangible assets consist of patent costs of \$750,640, trademarks of \$73,925 and accumulated amortization of \$204,702.

The amounts carried on the balance sheet represent cost to acquire, legal fees and similar costs relating to the patents incurred by the Company. Amortization is calculated through the expiration date of the patent, which is December, 2025. The amount charged to expenses for amortization of the patent costs was \$62,099 and \$61,483 for the year ended December 31, 2017 and 2016, respectively.

Estimated future amortization expense related to intangible property as of December 31, 2017, is as follows:

| Years ending December 31, | Total<br>Amortization |
|---------------------------|-----------------------|
| 2018                      | \$ 63,610             |
| 2019                      | 63,610                |
| 2020                      | 63,610                |
| 2021                      | 63,610                |
| 2022                      | 63,610                |
| Later years               | 180,040               |
|                           | \$ 498,090            |

**Note 4. Related Parties**

As disclosed below in Note 6, members of management and directors have received shares of stock and options in exchange for services.

**Note 5. Commitments and Contingencies**

We lease office space under non-cancelable operating leases, which expires on March 31, 2019. The aggregate minimum requirements are as follows:

| For years ending December 31, |           |
|-------------------------------|-----------|
| 2018                          | \$167,530 |
| 2019                          | 43,462    |
|                               | \$210,992 |

#### **Note 6. Stockholders' Equity**

During the year ended December 31, 2016, the holder of warrants to purchase shares of common stock exercised their rights and purchased 1,250,000 shares of common stock for an aggregate price of \$715,000. In addition, the holders of 620,000 warrants exercised their right to a cash-less conversion and received 1,214,017 shares.

Also, during the year ended December 31, 2016 we issued 64,599 shares of stock to a member of our board of directors in lieu of \$50,000 in director fees due and 60,878 shares of common stock in lieu of cash for legal fees. We valued the shares based on the trading value on the date issued.

In addition, during the year ended December 31, 2016 we issued 50,000 shares of stock at a price of \$0.51 per share in exchange for outstanding options.

During the year ended December 31, 2016, we issued 1,893,442 options to purchase our common stock to employees of the Company. In addition, we cancelled 56,000 options to purchase our common stock. The exercise price of the options ranged from \$0.6129 to \$0.83 per share and are exercisable for a period of 8 years and have varying vesting periods of up to three years.

The fair value of the options (\$883,490 in the aggregate) was calculated using the Black-Sholes option pricing model, based on the criteria shown below, and are being expensed over the vesting period of each option.

|  |                   |
|--|-------------------|
| Expected life (in years)                   | 5.5 to 8          |
| Volatility (based on a comparable company) | 74.09% to 82.65 % |
| Risk Free interest rate                    | 1.24% to 1.73 %   |
| Dividend yield (on common stock)           | -                 |

During the year ended December 31, 2017, we issued 178,733 shares of common stock, valued at \$112,250 for services. In addition, we issued 439,977 options to purchase our common stock to certain member of the Board of Directors in lieu of cash payments for Director fees. The exercise price of the options ranged from \$0.77 to \$0.79 per share, vest immediately, and are exercisable for periods of 8 years. In addition, we issued 1,485,000 options to purchase our common stock to employees and executives. The exercise price of the options ranged from \$0.55 to \$0.68 per share, vest after 3 years, and are exercisable for periods of 8 years. We also issued 95,995 shares of our common stock, with a value of \$73,560, to a member of our Board of Directors in lieu of cash payments for Director fees.

The fair value of the options issued (\$999,682, in the aggregate) was calculated using the Black-Sholes option pricing model, based on the criteria shown below.

|  |                 |
|--|-----------------|
| Expected life (in years)                   | 5.5 to 8        |
| Volatility (based on a comparable company) | 73.9% to 89 %   |
| Risk Free interest rate                    | 2.01% to 2.35 % |
| Dividend yield (on common stock)           | -               |

The shares of our common stock were valued at the trading price on the date of grant, \$0.75 and \$0.79 per share

During the same period, we cancelled 122,000 options to purchase our common stock.

Holder of 59,000 warrants, exercised those warrants for cash proceeds of \$35,400. The holders of 950,000 options elected to exercise those options on a cashless basis and received 276,171 shares of our common stock.

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Holders of 1,049,847 warrants, elected to exercise those warrants on a cashless basis and received 173,005 shares of our common stock.

The total amount of equity-based compensation included in additional paid in capital for the years ended December 31, 2017 and 2016 was \$1,550,718 and \$1,133,149, respectively,

The following is a summary of outstanding stock options issued to employees and directors as of December 31 2017:

|                                | Number of<br>Options | Exercise<br>price<br>per<br>share \$ | Average<br>remaining<br>term in<br>years | Aggregate<br>intrinsic<br>value at<br>date of<br>grant \$ |
|--------------------------------|----------------------|--------------------------------------|--|---|
| Outstanding January 1, 2016    | 4,075,000            | .45 -.87                             |  | -   |
| Issued                         | 1,893,442            | .61 -.83                             |  |   |
| Cancelled                      | (56,000 )            |                                      |  |   |
| Exercised                      | (50,000 )            |                                      |  |   |
| Outstanding December 31, 2016  | 5,862,442            | .45-.87                              |  |   |
| Issued                         | 1,924,977            | .40-.79                              |  |   |
| Cancelled                      | (122,000 )           |                                      |  |   |
| Exercised                      | (950,000 )           |                                      |  |   |
| Outstanding December 31, 2017  | 6,715,419            | .40-.87                              | 5.93                                     |   |
| Exercisable, December 31m 2017 | 2,855,878            | .40-.87                              | 4.96                                     | -   |

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**Note 7. Outstanding Warrants**

The following is a summary of all outstanding warrants as of December 31, 2017:

|   | Number of Warrants | Exercise price per share \$ | Average remaining term in years | Aggregate intrinsic value at date of grant |
|---|--------------------|-----------------------------|---------------------------------|--|
| Warrants issued in connection with private placements of common stock | 23,789,808         | .50 - 1.00                  | 0.63                            | -  |
| Warrants issued in connection with private placement of notes         | 2,626,667          | .45 - 1.00                  | 2.00                            | \$ 64,583                                  |

**Note 8. Income Taxes**

Income tax provision (benefit) for the years ended December 31, 2017 and 2016 is summarized below:

|                               | 2017      | 2016        |
|-------------------------------|-----------|-------------|
| Current:                      |           |             |
| Federal                       | \$-       | \$-         |
| State                         | -         | -           |
| Total current                 | -         | -           |
| Deferred:                     |           |             |
| Federal                       | (746,700) | (2,878,000) |
| State                         | (117,200) | (279,300)   |
| Total deferred                | (863,900) | (3,157,300) |
| Change in valuation allowance | \$863,900 | \$3,157,300 |

The provision for income taxes differs from the amount computed by applying the statutory federal income tax rate before provision for income taxes. The sources and tax effect of the differences are as follows:

|  | 2017   | 2016   |
|--|--------|--------|
| Income tax provision at the federal statutory rate | 34.0 % | 34.0 % |
| State income taxes, net of federal benefit         | 3.3 %  | 3.3 %  |



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|   |           |          |     |
|---|-----------|----------|-----|
| Permanent Difference                    | (5.46 %)  | -        | %   |
| Effect of rate change                   | (41.53 %) | -        | %   |
| Effect of change in valuation allowance | 9.69 %    | (37.3 %) |     |
|   | -         | %        | - % |

Components of the net deferred income tax assets at December 31, 2017 and 2016 were as follows:

|                              | 2017        | 2016        |
|------------------------------|-------------|-------------|
| Net operating loss carryover | \$6,902,200 | \$7,766,100 |
| Valuation allowance          | (6,902,200) | (7,766,100) |
|                              | \$-         | \$-         |

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ASC 740 requires a valuation allowance to reduce the deferred tax assets reported if, based on the weight of evidence, it is more than likely than not that some portion or all of the deferred tax assets will not be recognized. After consideration of all the evidence, both positive and negative, management has determined that a \$6,902,200 and \$7,766,100 allowance at December 31, 2017 and 2016, respectively, is necessary to reduce the deferred tax assets to the amount that will more likely than not be realized. The reduction in the valuation allowance for the current period is \$863,900.

As of December 31, 2017, we have a net operating loss carry forward of approximately \$28,404,200. The loss will be available to offset future taxable income. If not used, this carry forward will expire as follows:

|      |             |
|------|-------------|
| 2030 | \$ 1,000    |
| 2031 | \$63,800    |
| 2032 | \$345,900   |
| 2033 | \$1,840,300 |
| 2034 | \$2,324,100 |
| 2035 | \$2,987,300 |
| 2036 | \$5,061,700 |
| 2037 | \$8,464,700 |
| 2038 | \$7,315,400 |

As of December 31, 2017, we did not have any significant unrecognized uncertain tax positions.

**Note 9. Business Segments and Customer Concentrations.**

During the years ended December 31, 2017 and 2016, we operated in one segment.

The following is a breakdown of customers representing more than 5% of sales for the year ended December 31, 2017:

| Revenue<br>from<br>customer | Percentage<br>of total<br>revenue |
|-----------------------------|-----------------------------------|
|-----------------------------|-----------------------------------|

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|            |             |       |   |
|------------|-------------|-------|---|
| Customer A | \$1,243,341 | 62.3  | % |
| Customer B | 140,028     | 7.02  | % |
| Customer C | 110,497     | 5.54  | % |
|            | \$1,493,866 | 74.88 | % |

The following is a breakdown of customers representing more than 10% of sales for the year ended December 31, 2016:

|            | Revenue<br>from<br>customer | Percentage<br>of total<br>revenue |   |
|------------|-----------------------------|-----------------------------------|---|
| Customer A | \$1,194,960                 | 82.0                              | % |
| Customer B | 161,363                     | 11.1                              | % |
|            | \$1,356,323                 | 93.1                              | % |

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#### **Note 10. Liquidity**

We have a history of operating losses and negative cash flow. As our operations grow, we expect to experience significant increases in our working capital requirements. These conditions raise substantial doubt over the Company's ability to meet all of its obligations over the twelve months following the filing of this Form 10-K. Management has evaluated these conditions, and concluded that current plans will alleviate this concern. As of December 31, 2017, we had no debt. On February 14, 2018, we announced the private placement of convertible notes with gross proceeds of \$4.1 million. The funding of that note occurs upon the achievement of certain milestones establishing significant sales to national accounts. One milestone is that the Company shall have entered into a material agreement or series of related agreements with a national account for the sale of its products into approximately 1,000 new locations. The first milestone was achieved on March 8, 2018. According to the terms of the Convertible Note, 60% of the gross proceeds, or \$2.5 million, was received by the Company within five business days of that Milestone 1 achievement. The other milestone is that the Company shall have entered into a material agreement or series of related agreements with a national account for the sale of its products into approximately 2,500 new locations. We expect the second Milestone to occur during 2018. On March 5, 2018, the Company issued a Promissory Note to an existing investor, in the amount of \$250,000. The unsecured note bears interest at 12%, and has a 6 month term. Proceeds are being used to fund the short term working capital needs of the Company. The Company plans to refinance this note upon maturity. In addition, we have significantly reduced core operating costs beginning in 2016, including reducing the number of our employees from 44 to 30 over this time period. Members of the senior management team have deferred a portion of their salaries during 2017, and are continuing to defer a portion of their salaries in 2018. Management is prepared to take further similar actions to reduce or defer fixed overhead should that become necessary. Management has concluded that it is probable that the combination of the above described financings which have already been achieved and are about to be achieved, along with the described measures available to reduce or defer fixed overhead, alleviate the substantial doubt of our ability to continue as a going concern. However, the Company cannot predict, with certainty, the outcome of its action to generate liquidity, including the availability of additional financing, or whether such actions would generate the expected liquidity as planned.

#### **Note 11. Subsequent Events**

On February 14, 2018, we announced the private placement of convertible notes with gross proceeds of \$4.1 million. The closing shall be no later than five (5) business days after receipt of notice from the Company that it has achieved certain milestones establishing significant sales to national accounts. One milestone is that the Company shall have entered into a material agreement or series of related agreements with a national account for the sale of its products into approximately 1,000 new locations. The first milestone was achieved on March 8, 2018. The other milestone is that the Company shall have entered into a material agreement or series of related agreements with a national account for the sale of its products into approximately 2,500 new locations.

Upon achievement of the first milestone, 60% of the principal amount of the convertible notes will be available to the Company, with the balance of 40% upon achievement of the second milestone. The Company intends to use the

proceeds from this financing to fund the manufacture of inventory, to purchase equipment, and for general corporate purposes.

The convertible notes are unsecured and have (i) a two-year term, (ii) a 10% annual coupon to be paid in cash or stock at the Company's discretion at a conversion price equal to 85% of the average closing bid prices of the Common Stock over the twenty (20) consecutive trading day period immediately preceding the payment date, but in no event lower than sixty cents (\$0.60) per share of Common Stock. The investor's may elect to convert their principal into common stock at a conversion price equal to the lower of: (i) \$0.88 per share of Common Stock, or (ii) 85% of the average closing bid prices of the Common Stock over the twenty (20) consecutive trading day period immediately preceding the date of investor's election to convert; but in no event lower than \$0.60 per share of Common Stock. Investors also received warrant coverage of 25% of the number of shares that would be issuable upon a full conversion of the principal amount at an average of the twenty consecutive trading day period immediately preceding the applicable closing date. If any principal amount remains outstanding after the one-year anniversary of the closing, investors will be granted an additional warrant with identical terms. The warrants are exercisable for a period of three years for cash at the greater of 120% of the closing price or \$0.70 per share of common stock.

On March 5, 2018, the Company issued a Promissory Note to an existing investor, in the amount of \$250,000. The unsecured note bears interest at 12%, and has a 6 month term. Proceeds are being used to fund the short term working capital needs of the Company. The Company plans to refinance this note upon maturity.

