

BARFRESH FOOD GROUP INC.  
Form 10-K  
July 07, 2015

**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 March 31, 2015

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.**

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(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.)

**8530 Wilshire Blvd., Suite 450, 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

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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 September 30, 2014 was \$18,488,500.

As of June 22, 2015, there were 79,229,533 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. All of the products are portion controlled and ready to blend beverage ingredient packs or “beverage packs”. The beverage packs contain all of the 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 to the beverage pack before blending.

Domestic and international patents and patents pending are owned by Barfresh, as well as related trademarks for all of the products. In November 2011, the Company acquired the patent rights in the United States and Canada. The Canadian patent has been granted and the United States patent is “patent pending”. On October 15, 2013, the Company acquired all of the related international patent rights, which were filed pursuant to the Patent Cooperation Treaty and have been granted in 13 jurisdictions. The patents are pending in the remainder of the jurisdictions that have signed the treaty. In addition, on October 15, 2013, the Company purchased all of the trademarks related to the patented products.

The Company currently conducts and plans to conduct sales through two channels: directly to certain National Accounts, and through an exclusive nationwide distribution agreement with Sysco Corporation (“Sysco”) the U.S.’s largest broad line distributor, which was entered into during July 2014.

The process of obtaining sales orders for National Accounts generally follows several steps, including product demonstration, product testing, and exclusive flavor development for the larger National Accounts. We are currently in various stages of product development and testing with National Accounts representing over 20,000 restaurant locations. The Company recently moved into full roll out with a number of National Accounts, including a national entertainment theme park operator, and with Shari’s Café and Pies, a family dining chain in the Pacific Northwest operating 97 restaurants which are open 24 hours a day, 365 days a year.

In addition to the National Accounts, the Company sells to food distributors that supply products to the food services market place. Effective July 2, 2014, the Company entered into an 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. All Barfresh products will be 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; provided however, the products are supplied 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 operators nominated distributor for our products. The Company has already started shipping to 20 of the 74 Sysco distribution centers under this agreement and anticipates a national rollout over the next 12 months.

Finally, the Company intends to monetize the international patents outside of the current area of operations, North America, by expanding contract manufacturing to other countries and selling either through selling agents or internal sales personnel. The Company will also consider entering into some form of license or royalty agreements with third parties.

Barfresh currently utilizes contract manufacturers to manufacture all of the products in the United States. Ice cream manufacturers are best suited to produce the products and two production lines are currently operational in our Salt Lake City contract manufacturer location. This manufacturer is currently producing products sold to existing customers as well as producing exclusive products developed for National Accounts. Currently annual production capacity with our existing contract manufacturer is 14 million units per year. The Company is currently in discussion with two additional contract manufacturing companies that would be able to produce an additional 100 million units per year.

Although there currently is not a contract in place with any suppliers for the raw materials needed to manufacture our products, there are a significant number of sources available and the company does not anticipate becoming dependent on any one supplier. As demand for the range of our products grows, we plan to contract a level of raw material requirements to ensure continuity of supply.

As of the end of the fiscal year we had 11 employees and 3 consultants. As of June 23, 2014 we have 25 employees and 3 consultants. There are currently 15 employees selling our products.

Most recently, as part of the Company’s expansion due to the acquisition of the international patents, a leading regional Australian food ingredient supply and product developer has been engaged as the wholesaler and distributor for Barfresh products in Australia.

## **Corporate History and Background**

The Company incorporated on February 25, 2010 in the state of Delaware. The Company was originally formed to acquire scripts for movie opportunities, to produce the related movies and to sell, lease, license, distribute and syndicate the movies and develop other related media products related to the 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 CO”), 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 foregoing transactions:

*Acquisition of Barfresh CO.* We acquired all of the outstanding capital stock of Barfresh CO 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 CO and the former shareholders of Barfresh CO. As a result of this transaction, Barfresh CO became our wholly owned subsidiary and the former shareholders of Barfresh CO became our controlling shareholders.

*Spinout of prior business.* Immediately prior to the acquisition of Barfresh CO, 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**

All of the products are portion controlled beverage ingredient packs, suitable for smoothies, shakes and frappes that can also be utilized for cocktails and mocktails. They 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 following flavors are available for sale as part of the standard line:

6

In addition to the standard product range, the Company has developed a number of exclusive flavors for several National Accounts that are currently engaged in the pre-rollout testing process.

Some of the key product benefits for operators include:

- Portion controlled
- Zero waste
- Product consistency – every time a smoothie, shake or frappe is made
- Easy inventory control
- Long shelf life (24 months)
- Minimal capital investment necessary
- Faster and easier to make (less than 60 seconds)
- Ability to itemize the ingredients of the beverages on menus
- Products require less retail space

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**

An incurrence of \$51,465 and \$47,035 in research and development expenses for the fiscal years ended March 31, 2015, and 2014, respectively.

## **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, which are both owned by Coca Cola.

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 products ease of use, portion control, premium quality, and minimal capital investment required to enable a customer to begin to carry Barfresh beverage products all add up to represent a very significant competitive advantage that will allow us to quickly gain traction in the market and secure long-term agreements with customers. The Company also believes that the product's attributes will make it more attractive to customers. However, there are other factors that may influence the adoption of a particular product by customers, including their dependence on prior relationships with competition.

## **Intellectual Property**

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

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 its current status is patent pending. The Canadian patent was originally filed on August 16, 2005 and it has been granted.

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 a contract manufacturer. Before entering into any manufacturing contract, the Company determines that the manufacturer has met all government requirements.

The Company will be subject to certain labeling requirements as to the contents and nutritional information of our products.

## **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**

Currently, the Company has 25 full time employees. We expect to hire additional employees, particularly in the sales area, as we roll out our products to all 74 Sysco distribution centers over the next approximately twelve months.

## **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 and there can be no assurance that we can achieve or maintain profitability.*

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. While there are signs that economic conditions may be improving, there is no certainty that this trend will continue or that credit and financial markets and confidence in economic conditions will not deteriorate again. 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, as evidenced by McDonald's Corporation's inclusion of fruit smoothies on their menu, could reduce our revenue and operating margins. We also compete with other employers in our markets for hourly 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. In addition, if any of our senior executives joins a competitor or forms a competing company, we may lose customers, suppliers, knowhow and key employees.

***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 avoid liability exposure, significant costs could be incurred 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 continue to 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 March 31, 2015, identified the following material weaknesses in the Company's internal control over financial reporting:

We did not have an audit committee: While we are not currently obligated to have an audit committee, including a member who is an “audit committee financial expert,” as defined in Item 407 of Regulation S-K, under applicable regulations or listing standards; however, it is management’s view that such a committee is an important internal control over financial reporting, the lack of which may result in ineffective oversight in the establishment and monitoring of internal controls and procedures.

We do not have a majority of independent directors on our board of directors, which may result in ineffective oversight in the establishment and monitoring of required internal controls and procedures.

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

Management believes that these material weaknesses have not had an effect our financial results and has concluded that disclosure controls and procedures remain effective. Nonetheless, 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.

***We are operating with less than a majority of independent directors.***

We do not have a majority of independent directors. The Company is operated without the oversight of a majority of independent directors and material agreements and transactions, including those with related parties, are not approved with the oversight of a majority of independent directors.

***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**

***Riccardo Delle Coste, Steven Lang, Arnold Tinter and Joseph M Cugine have voting control over matters submitted to a vote of the shareholders, and they may take actions that conflict with the interests of our other shareholders and holders of our debt securities.***

Riccardo Delle Coste, Steven Lang, Arnold Tinter and Joseph M. Cugine together, control more than 50% of the votes eligible to be cast by shareholders in the election of directors and generally. As a result, Messrs. Delle Coste, Lang, Tinter and Cugine have the power to control all matters requiring the approval of our shareholders, including the election of directors and the approval of mergers and other significant corporate transactions.

***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, NYSE MKT 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 8530 Wilshire Blvd., Suite 450, Beverly Hills, CA 90121. We lease this space for \$7,600 per month.

## **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.

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**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> |                 |
|--------------------------------|----------------------|-----------------|
|                                | <b>High (\$)</b>     | <b>Low (\$)</b> |
| March 31, 2015                 | 0.64                 | 0.42            |
| December 31, 2014              | 0.72                 | 0.39            |
| September 30, 2014             | 0.85                 | 0.57            |
| June 30, 2014                  | 0.84                 | 0.45            |
| March 31, 2014                 | 0.84                 | 0.40            |
| December 31, 2013              | 0.62                 | 0.30            |
| September 30, 2013             | 0.50                 | 0.24            |
| June 30, 2013                  | 0.36                 | 0.22            |

**Holdings**

At June 22, 2015, there were 79,229,533 shares of our common stock outstanding. Our shares of common stock are held by approximately 59 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.

### Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information, as of March 31, 2015, 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     | 750,000   | \$ 0.50   | 14,250,000   |
| Equity compensation plans not approved by security holders | 800,000   | \$ 0.50   | 0  |
| <b>TOTAL</b>   | <b>1,550,000</b>  | <b>\$ 0.50</b>  | <b>14,250,000</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.

### 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.

**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 years ended March 31, 2015 and 2014. 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. All of the products are 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.

Domestic and international patents and patents pending are owned by Barfresh, as well as related trademarks for all of the products. In November 2011, the Company acquired the patent rights in the United States and Canada. The Canadian patent has been granted and the United States patent is "patent pending". On October 15, 2013, the Company acquired all of the related international patent rights, which were filed pursuant to the Patent Cooperation Treaty and have been granted in 13 jurisdictions. The patents are pending in the remainder of the jurisdictions that have signed the treaty. In addition, on October 15, 2013, the Company purchased all of the trademarks related to the patented products.

The Company currently conducts and plans to conduct sales through two channels: National Accounts, and through an exclusive nationwide distribution agreement with Sysco Corporation ("Sysco"), the U.S.'s largest broadline distributor, which was entered into during July 2014.

The process of obtaining sales orders for National Accounts generally follows several steps, including product demonstration, product testing, and exclusive flavor development for the larger National Accounts. We are currently in various stages of product development and testing with National Accounts representing over 20,000 restaurant



locations. The Company recently moved into full roll out with a number of National Accounts, including a national entertainment theme park operator, and with Shari's Café and Pies, a family dining chain in the Pacific Northwest operating 97 restaurants which are open 24 hours a day, 365 days a year.

In addition to the National Accounts, the Company sells to food distributors that supply products to the food services market place. Effective July 2, 2014, the Company entered into an 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. All Barfresh products will be 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; provided however, the products are supplied 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 operators nominated distributor for our products. The Company has already started shipping to 20 of the 74 Sysco distribution centers under this agreement and anticipates a national rollout over the next 12 months.

Finally, the Company intends to monetize the international patents outside of the current area of operations, North America, by expanding contract manufacturing to other countries and selling either through selling agents or internal sales personnel. The Company will also consider entering into some form of license or royalty agreements with third parties.

Barfresh currently utilizes contract manufacturers to manufacture all of the products in the United States. Ice cream manufacturers are best suited to produce the products and two production lines are currently operational in our Salt Lake City contract manufacturer location. This manufacturer is currently producing products sold to existing customers as well as producing exclusive products developed for National Accounts. Currently annual production capacity with our existing contract manufacturer is 14 million units per year. The Company is currently in discussion with two additional contract manufacturing companies that would be able to produce an additional 100 million units per year.

Although there currently is not a contract in place with any suppliers for the raw materials needed to manufacture our products, there are a significant number of sources available and the company does not anticipate becoming dependent on any one supplier. As demand for the range of our products grows, we plan to contract a level of raw material requirements to ensure continuity of supply.

As of the end of the fiscal year we had 12 employees and 3 consultants. As of June 23, 2015 we have 25 employees and 3 consultants. There are currently 15 employees selling our products.

Most recently, as part of the Company’s expansion due to the acquisition of the international patents, a leading regional Australian food ingredient supply and product developer has been engaged as the wholesaler and distributor for Barfresh products in Australia.

## **Critical Accounting Policies**

Our 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 Smoothie 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.

### *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, notes payable, and convertible notes. 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 March 31, 2015 there is an allowance for doubtful accounts \$65,000.

#### *Intangible Assets*

Intangible assets are comprised of patents, net of amortization. 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.

#### *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

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.

### *Research and Development*

Expenditures for research activities relating to product development and improvement are charged to expense as incurred. We incurred \$51,465 and \$47,035, in research and development expenses for the years ended March 31, 2015 and 2014, 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"). In addition, our lease agreement provides for rental payments commencing at a date other than the date of initial occupancy. We include the rent holidays in determination of straight-line rent expense. Therefore, rent expense is charged to expense beginning with the occupancy date. Deferred rent was \$1,484 and \$1,866 at March 31, 2015 and 2014 respectively and will be charged to rent expense over the life of the lease.

### *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 March 31, 2015 and 2014 any equivalents would have been anti-dilutive as we had losses for the years then ended.

### *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 that are not yet effective may have an impact on our results of

operations and financial position. ASU Update 2014-09 Revenue From Contracts With Customers (Topic 606) issued May 28, 2014 by FASB and IASB converged guidance on recognizing revenue in contracts with customers with an effective date after December 15, 2016 will be evaluated as to impact and implemented accordingly. In addition, ASU Update 2014-15 Presentation of Financial Statements-Going Concern (Sub Topic 205-40) issued August 27, 2014 by FASB defines management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern. The additional disclosure requirement is effective after December 15, 2016 and will be evaluated as to impact and implemented accordingly.

## Results of Operations

### *Results of Operation for the Year Ended March 31, 2015 as Compared to the Year Ended March 31, 2014*

**(References to 2015 and 2014 are to the years ended March 31, 2015 and 2014 respectively, unless otherwise specified.)**

#### *Revenue and cost of revenue*

Revenue for 2015 was \$211,467 as compared to \$110,085 in 2014. Our business grew primarily from the addition of a major broad line food distributor, Sysco Corporation (“Sysco”). We began shipping to that customer in July 2014. In addition we are shipping to a number of quick serve restaurants that we did not ship to in 2014.

Cost of revenue for 2015 was \$126,804 as compared to \$48,534 in 2014. Our gross profit was \$84,663 (40.0%) and \$61,551 (55.9%) for 2015 and 2014, respectively. There were no significant change in our selling prices. Sales in both 2015 and 2014 included sales of blenders and freezers. We only make a nominal profit on these items as they are to accommodate our customers. We have no specific plan as to major sales of equipment to customers in the future. We anticipate that our gross profit percentage going forward will improve over the current percentage.

#### *Operating expenses*

Our operations during 2015 and 2014 were directed towards increasing sales and finalizing flavor profiles. The addition of Sysco necessitated our increasing our selling general and administrative costs. We are continuing to add sales personnel to assist Sysco in selling and marketing efforts to their customers. We also have added additional staff to our marketing department as well as our accounting department. Our overhead has increased significantly as the cost of supporting the new business and personnel required it.

Our general and administrative expenses increased \$944,638 as we grew the business and may not necessarily be indicative of future rates of growth.

The following is a breakdown of our selling, general and administrative expenses for 2015 and 2014:



|                                  | 2015        | 2014        | Difference |
|----------------------------------|-------------|-------------|------------|
| Personnel costs                  | \$1,042,870 | \$877,646   | \$ 165,224 |
| Stock based compensation/options | 685,906     | 291,631     | 394,275    |
| Legal and professional fees      | 261,489     | 176,334     | 85,155     |
| Travel                           | 246,387     | 166,621     | 79,766     |
| Marketing and selling            | 193,806     | 109,104     | 84,702     |
| Consulting fees                  | 183,680     | 259,346     | (75,666 )  |
| Investor and public relations    | 165,308     | 122,224     | 43,084     |
| Rent                             | 95,181      | 77,007      | 18,174     |
| Research and development         | 51,465      | 47,035      | 4,430      |
| Director fees                    | 50,333      | -           | 50,333     |
| Other expenses                   | 235,483     | 140,322     | 95,161     |
|                                  | \$3,211,908 | \$2,267,270 | \$ 944,638 |

Personnel cost represents the cost of employees including salaries, employee benefits and employment taxes and continues to be our largest cost. Personnel cost increased \$165,224 (18.8%) from \$877,646 in 2014 to \$1,042,870 in 2015. At March 31, 2015 we had had 11 full time employees as compared to 6 at March 31, 2014. We currently have 25 full time employees. We anticipate personnel cost to increase in the future as we add more staff.

Stock based compensation is used as an incentive to attract new employees and to compensate existing employees. Stock based compensation includes stock issued and options granted to employees and non-employees and increased \$394,275 (135%) from \$291,631 in 2014 to \$685,906 in 2015. The amount in 2015 represents the amortization of stock grants and option grants to our directors. The fair value of the stock was based on the trading value of the shares on the date of grant and are being amortized over any vesting period. The fair value of the stock options was calculated using the Black-Sholes model using the following assumptions: expected life in years, 5; volatility, 91.0% to 91.8%; risk free rate of return, 1.35% to 1.45% and no annual dividends and are being amortized over any vesting period. We anticipate making additional grants in the future. We anticipate making additional grants in the future.

Legal and professional fees, which include accounting and legal services, increased \$85,155 (48.3%) from \$176,334 in 2014 to \$261,489 in 2015, as a result of increased activity. We anticipate legal fees related to ongoing Securities and Exchange Commission reporting to remain the same and additional legal fees to be related to the number of contracts we are negotiating, which are increasing.

Travel and entertainment expenses increased \$79,766 (47.9%) from \$166,621 in 2014 to \$246,387 in 2015. The increase is due to increased travel related to selling and marketing activities. We anticipate that travel and entertainment cost will increase as we increase the number of customers that we are selling to.

Consulting fees decreased \$75,666 (30%) from \$259,346 in 2014 to \$183,680 in 2015. Prior to growing our staff we relied on consultants for services that are now being provided by employees. We anticipate consultancy costs to remain close to the current level.

Investor relations fees increased \$43,084 (35.3%) from \$122,224 in 2014 to \$165,308 in 2015. In 2014 we were paying a lower monthly retainer than we currently are. In addition we attended more investor conferences in 2015 than in 2014. We anticipate that our investor relations cost will remain at the current level.

Rent expense increased 18,174 (23.6%) from \$77,007 in 2014 to \$95,181 in 2015. Rent expense is primarily for our location in Beverly Hills, California. Our rent expense is approximately \$7,600 per month. The lease on the office commenced in October 2012, expired in October 2014 and was renewed and now expires in November 2016. Rent expense also includes monthly parking fees as well as an offsite storage facilities. During 2014 we had a subtenant that leased a portion of our space. We no longer have that subtenant. We anticipate an increase in rent in future periods.

Research and development expenses increased \$4,430 (9.42%) from \$47,035 in 2014 to \$51,465 in 2015. Research and development represents the cost of developing flavor profiles of our products and the development of future equipment. We anticipate cost continuing in future periods, the amounts of which cannot be estimated at this point in time. Our research and development cost will be dependent on new formulations and new flavor profiles as our customer base increases.

In 2014 we did not have any director fees. We currently pay our non-employee directors \$12,500 per quarter.

Other expenses consist of ordinary operating expenses such as office, telephone, insurance, and stock related costs. These expenses directly correlate to our overall activity. We anticipate that these cost will continue to rise as we our business activity.

We had operating losses of \$3,261,466 and \$2,290,562 for 2015 and 2014, respectively.

Interest expense increased \$224,127 (76.5%) from \$292,888 in 2014 to \$517,015 in 2015. Interest primarily relates to convertible debt that was issued in August 2012 and renewed in September 2013 and short term notes that were issued in December 2013 and renewed in December 2014. The stated interest rate on the convertible debt is 12%. After giving effect to the debt discount the effective rate of interest on the short term debt is estimated to be approximately 53% and approximately 74% on the convertible notes. Interest expense includes direct interest of \$68,044 and \$66,842

for 2015 and 2014, respectively, calculated based on the interest rates stated in our various debt instruments. In addition, interest expense includes non-cash amortization of the debt discount of \$448,971 and \$224,680 for 2015 and 2014, respectively.

We had net losses of \$3,778,481 (\$0.06 per share) and \$2,583,450 (\$0.05 per share) for 2015 and 2014, respectively.

## Liquidity and Capital Resources

As of March 31, 2015 we had working capital of \$3,994,297.

During the year ended March 31, 2015 we used cash of \$2,282,083 in operations, \$271,927 for the purchase of equipment and \$12,158 for patents and trademarks. We generated cash flow from the sale of equipment of \$15,709.

We generated \$5,283,788 in financing activity from the sale of common stock during the year ended March 31, 2015.

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 capital or debt. There are no assurances that we will be able to generate the necessary capital or debt to carry out our current plan of operations.

We lease office space under a non-cancelable operating lease, which expires November, 2016.

The aggregate minimum requirements under non-cancelable leases as of March 31, 2015 is as follows:

|        |           |
|--------|-----------|
| Fiscal |           |
| Years  |           |
| ending |           |
| March  |           |
| 31,    |           |
| 2016   | \$91,252  |
| 2017   | 53,231    |
|        | \$144,483 |



Subsequent to March 31, 2015, we renegotiated the short term notes that were due June 2015. We repaid one note in full (\$25,000) 50% of three notes were paid (\$350,000) and one note was converted to 71,429 shares of our common stock. The balance of the notes due, \$350,000, are payable on September 20, 2015 and bear interest at 12% per annum.

### **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 Principal Accounting 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 Principal Accounting Officer concluded that the Company's disclosure controls and procedures were effective as of March 31, 2015.

## **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 March 31, 2015. 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 1992 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 Principal Accounting 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 Principal Accounting Officer concluded that the Company's disclosure controls and procedures were effective as of March 31, 2015.

However, management has identified the following material weaknesses in our internal control over financial reporting:

We do not have an audit committee: While we are not currently obligated to have an audit committee, including a member who is an "audit committee financial expert," as defined in Item 407 of Regulation S-K, under applicable regulations or listing standards; however, it is management's view that such a committee is an important internal control over financial reporting, the lack of which may result in ineffective oversight in the establishment and monitoring of internal control.

We do not have a majority of independent directors on our board of directors, which may result in ineffective oversight in the establishment and monitoring of our internal control.

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

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 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 accounting personnel to ensure that we are able to properly implement internal control procedures at such time as funds are available.



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 our fiscal year ended March 31, 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

### **Item 9B. Other Information.**

None.

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**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 | 36         | President, Chief Executive Officer and Chairman      |
| Joseph S. Tesoriero  | 62         | Chief Financial Officer                              |
| Steven Lang          | 62         | Director   |
| Arnold Tinter        | 70         | Principal Accounting Officer, Secretary and Director |
| Joseph M. Cugine     | 54         | Director   |
| Alice Elliot         | 58         | 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 Colorado corporation and our wholly owned subsidiary (“Barfresh CO”), since its inception. Mr. Delle Coste is the inventor of the patent pending technology and the creator of Smoo Smoothies. Mr. Delle Coste started the business in 2005 and 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 tenders 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 accreditation (HACCP, Halal, and Kosher), 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 and did not receive 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 President 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 CO since its inception. Prior to joining Barfresh CO, 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 and was appointed 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 is the chief financial officer to two other public companies: LifeApps Digital Media Inc. and Arvana Inc. From 2006 to 2010 he was the chief financial officer of Spicy Pickle Franchising, Inc., a public company, where 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 currently serves as a director of LifeApps Digital Media Inc., a public company. 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 Ridgfield 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.

## **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 only one of our directors is independent, which constitutes less than a majority.

## **Board Committees**

We currently have an audit, and a compensation committee. 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. None of the members of the audit committee are independent, as defined above. In the future we will have an independent member of the committee. 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.

## **Family Relationships**

There are no family relationships among any of our officers or directors.

## **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, during the past ten years:

been convicted in a criminal proceeding or been subject to a pending criminal proceeding (excluding traffic violations and other minor offenses);

had any bankruptcy petition filed by or against him/her or any business of which he/she was a general partner or executive officer, either at the time of the bankruptcy or within two years prior to that time;

been subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his/her involvement in any type of business, securities, futures, commodities or banking activities;

been found by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission or the Commodity Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended, or vacated;

been subject to, or party to, any judicial or administrative order, judgment, decree, or finding, not subsequently reversed, suspended or vacated, relating to an alleged violation of (i) any Federal or State securities or commodities law or regulation, (ii) any law or regulation respecting financial institutions or insurance companies including, but not limited to, a temporary or permanent injunction, order of disgorgement or restitution, civil money penalty or temporary or permanent cease-and-desist order, or removal or prohibition order or (iii) any law or regulation prohibiting mail or wire fraud or fraud in connection with any business entity; or been the subject of, or a party to, any sanction or order, not subsequently reversed, suspended or vacated, of any self-regulatory organization (as defined in Section 3(a)(26) of the Exchange Act (15 U.S.C. 78c(a)(26))), any registered entity (as defined in Section 1(a)(29) of the Commodity Exchange Act (7 U.S.C. 1(a)(29))), or any equivalent exchange, association, entity or organization that has disciplinary authority over its members or persons associated with a member.

## **Code of Ethics**

Our Chief Executive Officer, Chief Financial Officer and Principal Accounting 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 March 31, 2015 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 M. Cugine and Alice Elliot each filed a late Form 3 and Form 4 filings.

**Item 11. Executive Compensation.**

The following table summarizes all compensation for fiscal years 2015 and 2014 received by our principal executive officer and principal financial officer, who were the only executive officers of the Company in fiscal year 2014, our “Named Executive Officers”:

| Name and Principal Position                   | Year | Salary (\$) | Bonus (\$) | 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 | 2015 | 266,666     |            | 204,000           | 89,790             |   |  |                             | 560,456    |
|   | 2014 | 117,517     |            |                   |                    |   |  |                             | 117,517    |
| Arnold Tinter, Chief Financial Officer        | 2015 | 96,000      |            |                   | 44,895             |   |  |                             | 140,895    |
|   | 2014 | 72,000      |            | 160,000           |                    |   |  |                             | 232,000    |

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

At March 31, 2015, the Company had no outstanding equity awards to its Named Executive Officers.

**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.

## Compensation of Directors

The following table summarizes the compensation paid to our directors for the fiscal year ended March 31, 2015:

| Name                 | Fees                         |                 | Non-Equity       |                                |                           | Total    |
|----------------------|------------------------------|-----------------|------------------|--------------------------------|---------------------------|----------|
|                      | Earned or<br>Paid in<br>Cash | Stock<br>Awards | Option<br>Awards | Incentive Plan<br>Compensation | All Other<br>Compensation |          |
| Riccardo Delle Coste | \$ -                         | -               | -                | -                              | -                         | \$-      |
| Arnold Tinter        | \$ -                         | -               | -                | -                              | -                         | \$-      |
| Steven Lang          | \$ 15,000                    | -               | 44,895           | -                              | -                         | \$69,895 |
| Alice Elliot         | \$ -                         | -               | 57,209           | -                              | -                         | \$57,209 |
| Joseph M. Cugine     | \$ -                         | 50,000          | -                | -                              | -                         | \$50,000 |

## 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 June 22, 2015 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 June 22, 2015. 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 June 22, 2015 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. Unless otherwise specified, the address of each of the persons set forth below is in care of Barfresh Food Group Inc., 8530 Wilshire Blvd., Suite 450, Beverly Hills, CA 90211.

| Name and address of beneficial owner <sup>(1)</sup>  | Amount and nature of beneficial ownership | Percent of class o/s |
|--|---|----------------------|
| Riccardo Delle Coste <sup>(2) (3) (4) (5) (6)</sup>  | 20,049,310                                | 25.37 %              |
| R.D. Capital Holdings Pty Ltd.   | 18,966,664                                | 23.94 %              |
| Steven Lang <sup>(7) (8) (9) (10)</sup>  | 20,249,310                                | 25.35 %              |
| Sidra Pty Limited  | 19,249,310                                | 24.21 %              |
| Arnold Tinter <sup>(11) (12)</sup>   | 800,000                                   | 1.20 %               |
| Joseph M. Cugine <sup>(13) (14) (15)</sup>   | 1,714,100                                 | 2.16 %               |
| Alice Elliot <sup>(16) (17) (18)</sup>   | 490,000                                   | 0.62 %               |
| All directors and officers as a group (5 persons)  | 43,302,720                                | 53.69 %              |
| Lazarus Investment Partners LLLP 3200 Cherry Creek South Drive Suite 670 Denver, CO 80209 <sup>(19)</sup><br>Wolverine Flagship Fund Trading Limited | 18,093,295                                | 20.27 %              |
| 175 West Jackson Blvd., Suite 340  | 6,000,000                                 | 7.39 %               |
| Chicago, IL 60604 <sup>(20)</sup><br>Bruce Grossman  |   |                      |
| c/o Dillon Hill Capital LLC  | 4,500,000                                 | 5.57 %               |
| 200 Business Park Drive, Suite 306   |   |                      |
| Armonk, NY 10504 <sup>(21)</sup>   |   |                      |

- (1) The address of all officers and directors listed is c/o Barfresh Food Group Inc., 8530 Wilshire Blvd., Suite 450, Beverly Hills, CA 90211.
- (2) Mr. Delle Coste is the Chief Executive Officer, President and a Director of the Company.
- (3) Includes 18,966,664 shares owned by R.D. Capital Holdings PTY Ltd. and of which Riccardo Delle Coste is deemed to be a beneficial owner.  
  
Includes 200,000 shares underlying convertible debt and 200,000 shares underlying warrants related to the convertible debt owned by the Delle Coste Family Trust. Mr. Delle Coste may be deemed to indirectly beneficially own these shares but disclaims beneficial ownership of these shares pursuant to Rule 13d-4 promulgated under the Securities Exchange Act of 1934, as amended.
- (4) Includes 300,000 shares underlying options granted.  
  
Includes 282,646 shares underlying warrants issued in connection with a promissory note the holder of which is the Delle Coste Family Trust. Mr. Delle Coste may be deemed to indirectly beneficially own these shares but disclaims beneficial ownership of these shares pursuant to Rule 13d-4 promulgated under the Securities Exchange Act of 1934, as amended.
- (5) Mr. Lang is a Director of the Company.
- (6) Includes 18,966,664 shares owned by Sidra Pty Limited of which Steven Lang is deemed to be a beneficial owner.
- (7) Includes 950,000 shares underlying options granted.
- (8) Includes 282,6469 shares underlying warrants issued in connection with a promissory note the holder of which is Sidra PTY Limited.
- (9) Mr. Tinter is the Chief Financial Officer, Secretary and a Director of the Company.
- (10) Includes 150,000 shares underlying options granted
- (11) Mr. Cugine is a Director of the Company.
- (12) Includes 500,000 shares owned by Restaurant Consulting Group LLC of which Joe Cugine is deemed to be a beneficial owner.
- (13) Includes 50,000 shares underlying warrants issued in connection with purchase of common stock.
- (14) Ms. Elliot is a Director of the Company.
- (15) Includes 160,000 shares owned by Elliot-Herbst LP of which Alice Elliot is deemed to be a beneficial owner.
- (16) Includes 30,000 shares underlying warrants issued in connection with purchase of common stock.
- (17)
- (18)

Includes 10,033,333 shares underlying warrants issued in connection with purchase of common stock. Lazarus Management Company LLC, a Colorado limited liability company (“Lazarus Management”), is the investment adviser and general partner of Lazarus Investment Partners LLLP (“Lazarus Partners”), and consequently may be deemed to have voting control and investment discretion over securities owned by Lazarus Partners. Justin B. (19) Borus is the managing member of Lazarus Management. As a result, Mr. Borus may be deemed to be the beneficial owner of any shares deemed to be beneficially owned by Lazarus Management. The foregoing should not be construed in and of itself as an admission by Lazarus Management or Mr. Borus as to beneficial ownership of the shares owned by Lazarus Partners. Each of Lazarus Management and Mr. Borus disclaims beneficial ownership of the securities, except to the extent of its or his pecuniary interests therein.

Includes 2,000,000 shares underlying warrants issued in connection with purchase of common stock. Wolverine Asset Management, LLC (“WAM”) is the investment manager of Wolverine Flagship Fund Trading Limited and (20) has voting and dispositive power over these securities. The sole member and manager of WAM is 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.

Dillon Hill Capital, LLC, of which the Mr. Grossman is the sole member, directly owns 2,000,000 shares are common stock and warrants to purchase an additional 1,000,000 shares of common stock. Dillon Hill Investment Company, LLC, the sole member of which is a trust of which Mr. Grossman’s spouse is a co-trustee, directly (21) owns 1,000,000 shares of common stock and warrants to purchase an additional 500,000 shares of common stock. By virtue of the relationships described above, the Mr. Grossman n may be deemed to have sole voting and dispositive power over the shares and warrants held by Dillon Hill Capital LLC and shared voting and dispositive power over the shares and warrants held by Dillon Hill Investment Company, LLC.

#### **Changes in control.**

None

#### **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 2015, 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.



Our principal executive offices were located at 90 Madison Street, Suite 701, Denver, Colorado 80206 through March 2015. The executive office was co-located with the office of Corporate Finance Group, a company that is owned by Arnold Tinter, a director and former Chief Financial Officer. We used this property free of charge. We no longer occupy those premises.

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 only one of our directors is independent, which constitutes less than 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 March 31, 2015 and 2014 were as follows.

|                    | Fiscal<br>2015 | Fiscal<br>2014 |
|--------------------|----------------|----------------|
| Audit fees         | \$34,588       | \$37,264       |
| Audit related fees | -              | -              |
| Tax fees           | -              | -              |
| All other fees     | -              | -              |
| Total              | \$34,588       | \$37,264       |

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 ended March 31, 2015 and 2014 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.* The aggregate fees billed for the years ended March 31, 2015 and 2014 were for the audit or review of our financial statements that are not reported under Audit Fees.

*Tax Fees.* Eide Bailly LLP did not provide us with professional services related to tax compliance, tax advice and tax planning for the years ended March 31, 2015 and 2014.

*All Other Fees.* Eide Bailly LLP did not provide us with professional services related to “Other Fees” for the years ended March 31, 2015 and 2014.

#### **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 subsequent to the start of the audit. Accordingly, none of 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: July 7, 2015 By: */s/ Riccardo Delle Coste*  
Riccardo Delle Coste

Chief Executive Officer

(Principal Executive Officer)

Date: July 7, 2015 By: */s/ Arnold Tinter*  
Arnold Tinter  
Principal Accounting 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 | President, Chief Executive Officer and Director<br>(Principal Executive Officer) | July 7, 2015 |
| <i>/s/ Arnold Tinter</i><br>Arnold Tinter               | Chief Financial Officer, Secretary and Director<br>(Principal Financial Officer) | July 7, 2015 |
| <i>/s/ Steven Lang</i><br>Steven Lang                   | Director   | July 7, 2015 |
| <i>/s/ Joseph M. Cugine</i><br>Joseph M. Cugine         | Director   | July 7, 2015 |
| <i>/s/ Alice Elliot</i><br>Alice Alliot                 | Director   | July 7, 2015 |



**Barfresh Food Group Inc.**

**Index to Consolidated Financial Statements**

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| <u>Consolidated Balance Sheets as of March 31, 2015 and 2014</u>                         | F-3         |
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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and

Stockholders of Barfresh Food Group Inc.

We have audited the accompanying consolidated balance sheets of Barfresh Food Group Inc. (the "Company") as of March 31, 2015 and 2014, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for each of the years in the two-year period ended March 31, 2015. Barfresh Food Group Inc.'s management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Barfresh Food Group Inc. as of March 31, 2015 and 2014, and the results of its operations and its cash flows for each of the years in the two-year period ended March 31, 2015 in conformity with accounting principles generally accepted in the United States of America.

*/s/ Eide Bailly LLP*

Greenwood Village, Colorado  
July 6, 2015

## Barfresh Food Group Inc.

## Consolidated Balance Sheets

March 31, 2015 and 2014

|   | 2015         | 2014        |
|---|--------------|-------------|
| Assets  |              |             |
| Current assets:   |              |             |
| Cash  | \$5,364,657  | \$2,632,612 |
| Accounts Receivable   | 46,096       | 68,640      |
| Inventory   | 165,847      | 76,913      |
| Prepaid expenses and other current assets   | 6,386        | 12,007      |
| Total current assets  | 5,582,986    | 2,790,172   |
| Property, plant and equipment, net of depreciation  | 545,454      | 362,078     |
| Intangible asset, net of amortization   | 651,433      | 700,654     |
| Deposits  | 16,451       | 14,461      |
| Total Assets  | \$6,796,324  | \$3,867,365 |
| Liabilities And Stockholders' Equity  |              |             |
| Current liabilities:  |              |             |
| Accounts payable  | \$133,254    | \$175,851   |
| Accrued expenses  | 424,262      | 242,820     |
| Deferred rent liability   | 1,484        | 1,866       |
| Short-term notes payable - related party, net of discount   | 157,393      | 492,015     |
| Short-term notes payable, net of discount   | 539,631      | 52,731      |
| Convertible note, net of discount   | 325,114      | -           |
| Current portion of long term debt   | 7,551        | -           |
| Total current liabilities   | 1,588,689    | 965,283     |
| Long term debt  | 28,916       | -           |
| Convertible note, net of discount   | -            | 193,059     |
| Total liabilities   | 1,617,605    | 1,158,342   |
| Commitments and contingencies   | -            | -           |
| Stockholders' equity:   |              |             |
| Preferred stock, \$0.000001 par value, 5,000,000 shares authorized, none issued or outstanding  | -            | -           |
| Common stock, \$0.000001 par value; 95,000,000 shares authorized; and 77,720,828 and 65,247,660, shares issued and outstanding at March 31, 2015 and 2014, respectively | 78           | 65          |
| Additional paid in capital  | 14,034,623   | 7,739,117   |
| Accumulated deficit   | (8,808,640 ) | (5,030,159) |
| Unearned services   | (47,342 )    | -           |
| Total stockholders' equity  | 5,178,719    | 2,709,023   |
| Total Liabilities and Stockholders' Equity  | \$6,796,324  | \$3,867,365 |

See the accompanying notes to the consolidated financial statements

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Barfresh Food Group Inc.

Consolidated Statements of Operations

For the Years Ended March 31, 2015 and 2014

|  | 2015           | 2014           |
|--|----------------|----------------|
| Revenue  | \$211,467      | \$110,085      |
| Cost of revenue                                  | 126,804        | 48,534         |
| Gross profit                                     | 84,663         | 61,551         |
| Operating expenses:                              |                |                |
| General and administrative                       | 3,211,908      | 2,267,270      |
| Depreciation Amortization                        | 134,221        | 84,843         |
| Total operating expenses                         | 3,346,129      | 2,352,113      |
| Operating loss                                   | (3,261,466 )   | (2,290,562 )   |
| Other expenses                                   |                |                |
| Interest   | 517,015        | 292,888        |
| Net (loss)                                       | \$(3,778,481 ) | \$(2,583,450 ) |
| Per share information - basic and fully diluted: |                |                |
| Weighted average shares outstanding              | 66,651,993     | 57,276,274     |
| Net (loss) per share                             | \$(0.06 )      | \$(0.05 )      |

See the accompanying notes to the consolidated financial statements

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Barfresh Food Group, Inc.

## Statement of Stockholders' Equity

For the Years Ended March 31, 2015 and 2014

|  | Common Stock<br>Shares | Amount | Additional<br>paid in<br>capital | Accumulated<br>Deficit | Unearned<br>services | Total       |
|--|------------------------|--------|----------------------------------|------------------------|----------------------|-------------|
| Balance April 1, 2013  | 50,366,660             | \$ 50  | \$2,355,328                      | \$(2,446,709 )         | \$-                  | \$(91,331 ) |
| Issuance of common stock and<br>warrants for cash, net of expenses of<br>\$295,320             | 14,226,000             | 14     | 4,511,166                        | -                      | -                    | 4,511,180   |
| Effect of beneficial conversion and<br>issuance of warrants in relation to<br>convertible debt | -                      | -      | 268,778                          | -                      | -                    | 268,778     |
| Effect of issuance of warrants in<br>relation to debt  | -                      | -      | 298,232                          | -                      | -                    | 298,232     |
| Issuance of stock for services to<br>non-employees   | 55,000                 | -      | 28,730                           | -                      | -                    | 28,730      |
| Issuance of stock for services to<br>employee  | 600,000                | 1      | 239,999                          | -                      | -                    | 240,000     |
| Stock based compensation   | -                      | -      | 155,119                          | -                      | -                    | 155,119     |
| Adjustment to stock based comp   | -                      | -      | (118,235 )                       | -                      | -                    | (118,235 )  |
| Net loss for the year ended March 31,<br>2014  | -                      | -      | -                                | (2,583,450 )           | -                    | (2,583,450) |
| Balance March 31, 2014   | 65,247,660             | 65     | 7,739,117                        | (5,030,159 )           | -                    | 2,709,023   |
| Issuance of common stock and<br>warrants for cash, net of expenses of<br>\$238,212             | 11,044,000             | 11     | 5,283,777                        | -                      | -                    | 5,283,788   |
| Effect of issuance of warrants in<br>relation to debt (debt discount)                          | -                      | -      | 164,638                          | -                      | -                    | 164,638     |
| Issuance of stock for services to<br>non-employees   | 155,000                | -      | 113,845                          | -                      | -                    | 113,845     |
| Issuance of stock for services to<br>employee and directors                                    | 964,100                | 1      | 496,457                          | -                      | (41,665 )            | 454,793     |
| Stock based compensation   | -                      | -      | 236,790                          | -                      | (57,209 )            | 179,581     |
| Amortization of unearned services  | -                      | -      | -                                | -                      | 51,532               | 51,532      |
| Conversion of warrants   | 310,068                | 1      | (1 )                             | -                      | -                    | -           |
| Net loss for the year ended March 31,<br>2015  | -                      | -      | -                                | (3,778,481 )           | -                    | (3,778,481) |
|  | 77,720,828             | \$ 78  | \$14,034,623                     | \$(8,808,640 )         | \$(47,342 )          | \$5,178,719 |

See the accompanying notes to the consolidated financial statements

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Barfresh Food Group Inc.

## Consolidated Statements of Cash Flows

For the Years Ended March 31, 2015 and 2014

|   | 2015          | 2014          |
|---|---------------|---------------|
| Cash flow from operating activities:  |               |               |
| Net loss for the period   | \$(3,778,481) | \$(2,583,450) |
| Adjustments to reconcile net loss to net cash used in operating activities: |               |               |
| Depreciation  | 72,842        | 53,951        |
| Equity based compensation   | 748,219       | 305,614       |
| Amortization of intellectual property                                       | 61,379        | 30,892        |
| Amortization of debt discount   | 448,971       | 228,164       |
| Amortization of unearned services   | 51,532        | -             |
| Reserve for bad debt  | (65,000 )     | -             |
| Purchase of assets for long term debt                                       | 37,751        | -             |
| Changes in operating assets and liabilities                                 |               |               |
| Accounts receivable   | 87,544        | (61,227 )     |
| Receivable from related party   | -             | 13,540        |
| Inventory   | (88,934 )     | (64,201 )     |
| Prepaid expenses  | 5,621         | 214,594       |
| Deposits  | (1,990 )      | (3,730 )      |
| Accounts payable  | (42,597 )     | (71,831 )     |
| Accrued expenses  | 181,442       | 55,724        |
| Deferred rent   | (382 )        | (3,200 )      |
| Net cash used in operations   | (2,282,083)   | (1,885,160)   |
| Cash flow from investing activities:  |               |               |
| Purchase of fixed assets  | (271,927 )    | (104,532 )    |
| Disposition of fixed assets   | 15,709        |               |
| Purchase of patents   | (12,158 )     | (699,561 )    |
| Net Cash used in investing activities                                       | (268,376 )    | (804,093 )    |
| Cash flow from financing activities:  |               |               |
| Issuance of common stock and warrants for cash                              | 5,283,788     | 4,511,180     |
| Issuance of short term notes  | -             | 775,000       |
| Repayment of long term debt   | (1,284 )      | -             |
| Repayment of convertible debt   | -             | (40,000 )     |
| Issuance of convertible debt  | -             | 20,000        |
| Advance from related party  | -             | 485,132       |
| Repayment to related party  | -             | (515,404 )    |
| Net cash provided by financing activities                                   | 5,282,504     | 5,235,908     |
| Net increase (decrease) in cash   | 2,732,045     | (2,546,655)   |

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|   |             |             |
|---|-------------|-------------|
| Cash at beginning of period                               | 2,632,612   | 85,957      |
| Cash at end of period                                     | \$5,364,657 | \$2,632,612 |
| Supplemental disclosure of cash flow information:         |             |             |
| Cash paid for interest                                    | \$81,185    | \$63,875    |
| Cash paid for income taxes                                | \$-         | \$-         |
| Non-cash financing activities:                            |             |             |
| Common stock issued for services/stock based compensation | \$847,092   | \$268,730   |
| Fair value of warrants issued with convertible notes      | \$164,638   | \$142,873   |
| Value of beneficial conversion of convertible notes       | \$-         | \$125,905   |
| Fair value of warrants issued with notes payable          | \$-         | \$298,232   |

See the accompanying notes to the consolidated financial statements

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Barfresh Food Group Inc.

Notes to Consolidated Financial Statements

March 31, 2015 and 2014

#### 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 Smoothie 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 March 31, 2015. 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, amounts due to a related party, notes payable, and convertible notes. The carrying value of our financial instruments approximates their fair value due to their relative short maturities.





Barfresh Food Group Inc.

Notes to Consolidated Financial Statements

March 31, 2015 and 2014

*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 March 31, 2015 there is an allowance for doubtful accounts \$65,000.

*Intangible Assets*

Intangible assets are comprised of patents, net of amortization. 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.

*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

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.

### *Research and Development*

Expenditures for research activities relating to product development and improvement are charged to expense as incurred. We incurred \$51,465 and \$47,035, in research and development expenses for the years ended March 31, 2015 and 2014, 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”). In addition, our lease agreement provides for rental payments commencing at a date other than the date of initial occupancy. We include the rent holidays in determination of straight-line rent expense. Therefore, rent expense is charged to expense beginning with the occupancy date. Deferred rent was \$1,484 and \$1,866 at March 31, 2015 and 2014 respectively and will be charged to rent expense over the life of the lease.

### *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 March 31, 2015 and 2014 any equivalents would have been anti-dilutive as we had losses for the years then ended.

### *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 that are not yet effective may have an impact on our results of operations and financial position. ASU Update 2014-09 Revenue From Contracts With Customers (Topic 606) issued May 28, 2014 by FASB and IASB converged guidance on recognizing revenue in contracts with customers with an effective date after December 15, 2016 will be evaluated as to impact and implemented accordingly. In addition, ASU Update 2014-15 Presentation of Financial Statements-Going Concern (Sub Topic 205-40) issued August 27, 2014 by FASB defines management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern. The additional disclosure requirement is effective after December 15, 2016 and will be evaluated as to impact and implemented accordingly.

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Barfresh Food Group Inc.

Notes to Consolidated Financial Statements

March 31, 2015 and 2014

Note 2. Property Plant and Equipment

Major classes of property and equipment at March 31, 2015 and 2014 consist of the following:

|   | 2015      | 2014      |
|---|-----------|-----------|
| Furniture and fixtures                      | \$10,794  | \$13,331  |
| Equipment                                   | 632,596   | 372,617   |
| Leasehold Improvements                      | 3,300     | 3,300     |
| Vehicles                                    | 58,752    | -         |
|   | 705,442   | 389,248   |
| Less: accumulated depreciation              | (159,988) | (87,146)  |
|   | 545,454   | 302,102   |
| Equipment not in service                    | -         | 59,976    |
| Property and equipment, net of depreciation | \$545,454 | \$362,078 |

We recorded depreciation expense related to these assets of \$72,103 and \$53,951 for the years ended March 31, 2015 and 2014, respectively.

Note 3. Intangible Assets

As of March 31, 2015 and 2014, intangible assets primarily consists of patent costs of \$748,806 and \$736,648, less accumulated amortization of \$97,373 and \$35,994, respectively.

During the year ended March 31, 2014, we acquired at a cost of \$672,157, all of the international patent rights for a pre-portioned, ready to blend packet for beverages, particularly, smoothies, shakes and frappes.

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 \$61,378 and \$30,892 for the years ended March 31, 2015 and 2014, respectively.

Estimated future amortization expense related to intangible property as of March 31, 2015 is as follows:

| Years ending March 31, | Total<br>Amortization |
|------------------------|-----------------------|
| 2015                   | \$ 60,513             |
| 2017                   | 60,513                |
| 2018                   | 60,513                |
| 2019                   | 60,513                |
| 2020                   | 60,513                |
| Later years            | 348,868               |
|                        | \$ 651,433            |

#### Note 4. Advance from Related Party

During the year ended March 31, 2014 we received a cash advance from an affiliate of a director and shareholder of the Company in the amount of \$672,157 (Australian \$710,000), which was used for the purchase of certain international patent rights. The advance was repaid with interest calculated at 6.0% per annum, \$5,617. The repayment was made in the form of a note in the amount \$200,000 and cash of \$451,495, which was net of a foreign exchange gain of \$26,280, as payments were due in Australian dollars.

Barfresh Food Group Inc.

Notes to Consolidated Financial Statements

March 31, 2015 and 2014

During the years ended March 31, 2014 we received cash advances in the amounts of \$12,975 from a relative of an officer of the Company. The advances bear no interest and were repaid.

Note 5. Short-Term Notes Payable (Related and Unrelated)

In December 2013, we closed an offering of \$775,000 in short-term notes payable (“Short-Term Notes”), \$500,000 of which was purchased by a significant shareholder, \$100,000 was purchased by the family trust of an officer, director and significant shareholder and \$100,000 was purchased by a company controlled by a director and significant shareholder. During 2014 the \$100,000 that was purchased by the family trust of an officer, director and significant shareholder is no longer considered to be owned by the officer as he is no longer, nor is any other related party, the trustee and does not exercise control over the trust and is not classified as a related party debt. The Short-Term Notes bear interest at a rate of 2% per annum and were due and payable on December 20, 2014. We also issued 1,291,667 warrants to the Short-Term Note holders for the right to purchase shares of our common stock. Each warrant entitles the holder to purchase one share of our common stock at a price of \$0.45 per share, may be exercised on a cashless basis and are exercisable for a period of five years.

In accordance with the guidance in ASC Topic 470-20 *Debt with Conversion and Other Options* (“ASC 470”), we first calculated the fair value of the warrants issued and then determined the relative value of the Short-Term Notes.

The relative value of the warrants was \$298,232, which was the amount recorded as debt discount. The amounts recorded as debt discount was amortized over the life of the note, one year, and charged to interest expense. We estimated the effective interest rate as calculated to be approximately 52% but paid cash at a rate of 2% per annum.

We exercised our right to extend the due date of the Short-Term Notes to June 20, 2015. The extended Short-Term Notes bear at the rate of 3% per annum and required us to issue additional warrants (“Extension Warrants”). We issued 898,842 warrants to the Short-Term Note holders for the right to purchase shares of our common stock. Each warrant entitles the holder to purchase one share of our common stock at a price of \$0.485 per share, may be exercised on a cashless basis and are exercisable for a period of three years.

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As discussed above we accounted for the warrants as per the guidance in ASC 470. The relative value of the new warrants, \$164,638, was the amount recorded as the new debt discount. The amounts recorded as debt discount is being amortized over the life of the note, six months, and charged to interest expense. We estimated the effective interest rate as calculated to be approximately 53% but pay cash at a rate of 3% per annum.

The fair value of the warrant, \$0.23 per share, was calculated using the Black-Sholes option pricing model using the following assumptions:

|  |         |
|--|---------|
| Expected life (in years)                   | 3       |
| Volatility (based on a comparable company) | 76.88 % |
| Risk Free interest rate                    | 1.10 %  |
| Dividend yield (on common stock)           | - %     |

The balance at March 31, 2015 was comprised of:

|  |            |
|--|------------|
| Convertible notes payable, related and unrelated parties | \$ 775,000 |
| Unamortized Debt discount                                | (77,976 )  |
|  | \$697,024  |

Interest expenses includes direct interest of \$17,644 and amortization of debt discount of \$316,917 for the year ended March 31, 2015 for this note.

Barfresh Food Group Inc.

Notes to Consolidated Financial Statements

March 31, 2015 and 2014

Note 6. Convertible Note (Related and Unrelated)

In August 2012, we closed an offering of \$440,000 of convertible notes

The notes bear interest at a rate of 12% per annum and were due and payable on September 6, 2013. In addition, the notes were convertible at any time after the original issue date until the notes are no longer outstanding into our common stock at a conversion price of \$0.372 per share. We also issued 956,519 warrants to the note holders for the right to purchase shares of our common stock. Each warrant entitled the holder to purchase one share of our common stock at a price of \$0.46 per share for a term of seven years.

When the convertible notes were due we settled the notes by repaying \$40,000 of the notes in cash, issuing new convertible notes in the amount of \$400,000 and received payment for another note in the amount of \$20,000. The new notes bear interest at a rate of 12% per annum and are due and payable on September 6, 2015. In addition the new notes are convertible at any time after the original issue date until the new notes are no longer outstanding, into our common stock at a conversion price of \$0.25 per share. We also issued warrants to the new note holders for the right to purchase shares of our common stock. Each warrant entitles the holder to purchase one share of our common stock at a price of \$0.25 per share. There were 1,680,000 warrants issued. The warrants issued with the original notes were cancelled.

In accordance with the guidance in ASC 470, we first calculated the fair value of the warrants issued and then determined the relative value of the notes and determined that there was a beneficial conversion feature.

The fair value of the warrants, \$0.13 per share, (\$216,531 in the aggregate) was calculated using the Black-Sholes option pricing model using the following assumptions:

|  |        |
|--|--------|
| Expected life (in years)                   | 3      |
| Volatility (based on a comparable company) | 85 %   |
| Risk Free interest rate                    | 0.91 % |



Dividend yield (on common stock) -

The relative value of the warrants to the notes was \$142,873, which was the amount recorded as a portion of the debt discount. We also recorded a beneficial conversion feature on the convertible notes of \$125,905. The amounts recorded as debt discount are being amortized over the life of the notes, two years, and charged to interest expense. We estimated the effective interest rate as calculated to be approximately 74% but will be paying cash at a rate of 12% per annum.

The balance at March 31, 2015 was comprised of:

|  |           |
|--|-----------|
| Convertible notes payable, related and unrelated parties | \$420,000 |
| Unamortized Debt discount                                | (94,886)  |
|  | \$325,114 |

Interest expenses includes direct interest of \$50,400 and amortization of debt discount of \$132,054 for the year ended March 31, 2015 for this note.

#### Note 7. Long term Debt

Long term debt at March 31, 2015 consists of installment payments on two vehicles maturing in November 2019 and April 2020. The installment agreements bears no interest. Monthly payments are \$629 per month.

Barfresh Food Group Inc.

Notes to Consolidated Financial Statements

March 31, 2015 and 2014

Note 8. Commitments and Contingencies

We lease office space under a non-cancelable operating lease, which expires October 31, 2014. We renewed the lease and it will now expire on November 7, 2016.

The aggregate minimum requirements under non-cancelable leases as of March 31, 2015 is as follows:

| Fiscal Years ending March 31, |           |
|-------------------------------|-----------|
| 2016                          | \$91,881  |
| 2017                          | 54,529    |
|                               | \$145,410 |

Note 9. Stockholders' Equity

During the year ended March 31, 2014, we completed an offering of common stock units at a price of \$0.25 per unit. Each unit consists of one share of common stock and a three year warrant to purchase one-half (1/2) share of our common stock at an exercise price of \$0.50 per share ("Unit" or "Units"). We sold 1,600,000 units representing 1,600,000 shares and warrants to purchase 800,000 shares for total consideration of \$400,000.

The fair value of the warrants, \$123,496, was estimated at the date of grant using the Black-Scholes option pricing model, with an allocation of the proceeds applied to the warrants. The difference between the warrant allocation and the proceeds was allocated to the shares of common stock issued. The fair value of the warrants has been included in the total additional paid in capital. The following assumptions were used in the Black-Scholes option pricing model:

|  |        |
|--|--------|
| Expected life (in years)                   | 3      |
| Volatility (based on a comparable company) | 100 %  |
| Risk Free interest rate                    | 0.36 % |

Dividend yield (on common stock) -

During July and August of 2013 we completed an offering of common stock units at a price of \$0.25 per unit. Each unit consisted of one share of common stock, a three-year warrant to purchase one share of our common stock at an exercise price of \$0.25 per share (which may be exercised on a cashless basis), and a five-year warrant to purchase one-half (1/2) share of our common stock at an exercise price of \$0.50 per share (“Unit” or “Units) for total consideration of \$1,906,500 less \$267,645 in cost for a net amount received of \$1,638,855.

The fair value of the warrants, estimated at the date of grant using the Black-Scholes option pricing model was \$3,089,919. The estimated value was higher than the proceeds received from the sale of the units. Accordingly, the proceeds received less the par value of the common stock, has been included in the total additional paid in capital. The following assumptions were used in the Black-Scholes option pricing model:

|  |               |
|--|---------------|
| Expected life (in years)                   | 3 - 5         |
| Volatility (based on a comparable company) | 87 - 106 %    |
| Risk Free interest rate                    | 0.67 - 1.38 % |
| Dividend yield (on common stock)           | -             |

During March 2014 we completed an offering of common stock units at a price of \$.50 per unit. Each unit consists of one share of common stock, a three-year warrant to purchase one share of our common stock at an exercise price of \$0.60 per share (which may be exercised on a cashless basis), and a five-year warrant to purchase one-half (1/2) share of our common stock at an exercise price of \$0.50 per share for total consideration of \$2,500,000 less \$27,675 in cost for a net amount received of \$2,472,325. Included in the cost of the offering is value of Units issued to legal counsel for services in connection with the offering.

Barfresh Food Group Inc.

Notes to Consolidated Financial Statements

March 31, 2015 and 2014

The fair value of the warrants, estimated at the date of grant using the Black-Scholes option pricing model was \$1,001,396. The estimated value was higher than the proceeds received from the sale of the units. Accordingly, the proceeds received less the par value of the common stock, has been included in the total additional paid in capital. The following assumptions were used in the Black-Scholes option pricing model:

|  |        |
|--|--------|
| Expected life (in years)                   | 3      |
| Volatility (based on a comparable company) | 83 %   |
| Risk Free interest rate                    | 0.91 % |
| Dividend yield (on common stock)           | -      |

During the year ended March 31, 2014, we terminated a contract with a non-employee. All previously unvested stock option expense attributed to the non-employee, in the amount of \$14,747 was reversed and credited to general and administrative expenses.

Certain previously granted restricted stock rights and stock options were subject to performance conditions. As a result of the employee termination the performance conditions will not be met. In accordance with ASC Topic 718, Compensation - Stock Compensation (“ASC 718”), previously recognized unvested equity based compensation cost of \$103,488 has been reversed during the year ended March 31, 2014.

During the year ended March 31, 2014 we issued 600,000 shares of common stock to officers and directors of the Company for services rendered. In accordance with ASC 718 compensation expense in the amount of \$240,000 was recognized in the statement of operations for the year ended March 31, 2014. The fair value of the stock was based on the trading value of the shares on the date of grant.

During the year ended March 31, 2014, we issued 55,000 shares of our common stock to non-employees for consulting services. Pursuant to the guidance in ASC 505, the value of the shares was charged to expense in the amount of \$28,730. The fair value of the stock was based on the trading value of the shares on the date of grant.

During the year ended March 31, 2014, we issued options to purchase 800,000 shares of our common stock at an exercise price of \$0.50 per share to a Director of the Company. The options vested immediately and are exercisable for a period of 3 years from the date of issuance, February 14, 2014. The fair value of the options, \$115,119, which was charged to expenses, was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions:

|  |        |
|--|--------|
| Expected life (in years)                   | 3      |
| Volatility (based on a comparable company) | 84 %   |
| Risk Free interest rate                    | 0.91 % |
| Dividend yield (on common stock)           | -      |

All other previously outstanding stock options issued to employees were cancelled during the year ended March 31, 2014.

During the year ended March 31, 2015 we completed two offerings of common stock units at a price of \$0.50 per unit. Each unit consists of one share of common stock and a five year warrant to purchase one-half (1/2) share of our common stock at an exercise price of \$0.60 per share ("Unit" or "Units"). We sold a total of 11,044,000 units representing 11,044,000 shares and warrants to purchase 5,522,000 shares for total consideration of \$5,522,000.

The fair value of the warrants, \$1,842,613 was estimated at the date of grant using the Black-Scholes option pricing model, with an allocation of the proceeds applied to the warrants. The difference between the warrant allocation and the proceeds was allocated to the shares of common stock issued. The fair value of the warrants has been included in the total additional paid in capital. The following assumptions were used in the Black-Scholes option pricing model:

|  |        |
|--|--------|
| Expected life (in years)                   | 5      |
| Volatility (based on a comparable company) | 100 %  |
| Risk Free interest rate                    | 0.36 % |
| Dividend yield (on common stock)           | -      |

Barfresh Food Group Inc.

Notes to Consolidated Financial Statements

March 31, 2015 and 2014

During the year ended March 31, 2015 we issued 900,000 shares of common stock to an officer and two employees of the Company for services rendered. In accordance with ASC Topic 718, Compensation - Stock Compensation (“ASC 718”), compensation expense in the amount of \$446,460 was recognized in the statement of operations.

Also during the year ended March 31, 2015, we issued 155,000 shares of our restricted common stock to legal counsel and a consultant to the Company. In accordance with ASC Topic 505, Equity-Based Payments to Non-Employees (“ASC 505”), expense in the amount of \$113,845 was recognized in the statement of operations.

Additionally, during the year ended March 31, 2015 we issued 64,100 shares of our Common Stock to a Director. The fair value of the stock was based on the trading value of the shares on the date of grant. The shares vest over a one year period and are being amortized over that period. The unamortized balance is shown as Unearned Services in the equity section of the Balance Sheet.

We also issued options to purchase 600,000 shares of our common stock at an exercise price of \$0.45 per share to two officers and directors and a director of the Company. The options vested immediately and are exercisable for a period of 5 years from the date of issuance, January 21, 2014. The fair value of the options, \$179,581, which was charged to expenses, was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions:

|  |        |
|--|--------|
| Expected life (in years)                   | 5      |
| Volatility (based on a comparable company) | 91 %   |
| Risk Free interest rate                    | 1.35 % |
| Dividend yield (on common stock)           | -      |

During the year ended March 31, 2015 we issued 150,000 options to a director of the Company. The exercise price of the options is \$0.54 per share, which was the fair market value of the option on the date of grant and is exercisable for a period of 5 years. The options vest on the first anniversary of the issuance, October 14, 2015. The unamortized balance is shown as Unearned Services in the equity section of the Balance Sheet.

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The fair value of the option, \$0.3814 per share, (\$57,209 in the aggregate) was calculated using the Black-Sholes option pricing model using the following assumptions and is being written off over a 1 year period:

|  |       |
|--|-------|
| Expected life (in years)                   | 5     |
| Volatility (based on a comparable company) | 91.8% |
| Risk Free interest rate                    | 1.45% |
| Dividend yield (on common stock)           | -     |

The following is a summary of outstanding stock options issued to employees and directors as of March 31, 2015:

|                            | Number of<br>Options | Exercise<br>price<br>per share<br>\$ | Average<br>remaining<br>term<br>in years | Aggregate<br>intrinsic<br>value at<br>date of<br>grant<br>\$ |
|----------------------------|----------------------|--------------------------------------|--|--|
| Outstanding April 1, 2013  | 625,000              | 1.00                                 |  | -  |
| Issued                     | 800,000              | 0.50                                 |  | -  |
| Cancelled                  | 625,000              | 1.00                                 | -  | -  |
| Outstanding March 31, 2014 | 800,000              | 0.50                                 | -  | -  |
| Issued                     | 750,000              | 0.45 - 0.54                          | 4.25                                     | -  |
| Cancelled                  | -                    | -                                    | -  | -  |
| Outstanding March 31, 2015 | 1,550,000            | 0.45 - 0.54                          | 4.25                                     | -  |
| Exercisable                | 1,400,000            | 0.45 - 0.50                          | 3.02                                     | -  |

Barfresh Food Group Inc.

Notes to Consolidated Financial Statements

March 31, 2015 and 2014

#### Note 10. Outstanding Warrants

The following is a summary of all outstanding warrants as of March 31, 2015:

|   | 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     | 22,664,312         | 0.25 - 1.50                 | 2.63                            | \$ 1,907,650                               |
| Warrants issued in connection with private placement of convertible notes | 1,680,000          | 0.25                        | 1.45                            | \$-  |
| Warrants issued in connection with short-term notes payable               | 2,190,509          | .45                         | 3.23                            | \$64,583                                   |

#### Note 11. Interest Expense

Interest expense includes direct interest of \$68,044 and \$63,276 for the years ended March 31, 2015 and 2014, respectively, calculated based on the interest rate stated in our debt instruments.

In addition as more fully described in Note 6 above, interest expense includes non-cash amortization of the debt discount of \$448,970 and \$228,165 for the years ended March 31, 2015 and 2014, respectively.

Interest expense also included various finance charges of \$1,447 for the year ended March 31, 2014.

#### Note 12. Income Taxes



Income tax provision (benefit) for the years ended March 31, 2015 and 2014 is summarized below:

|                                 | 2015        | 2014      |
|---------------------------------|-------------|-----------|
| Current:                        |             |           |
| Federal                         | \$-         | \$-       |
| State                           | -           | -         |
| Total current                   | -           | -         |
| Deferred:                       |             |           |
| Federal                         | (1,015,700) | (790,200) |
| State                           | (98,600 )   | (76,700 ) |
| Total deferred                  | (1,114,300) | (866,900) |
| Increase in valuation allowance | 1,114,300   | 866,900   |

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Barfresh Food Group Inc.

Notes to Consolidated Financial Statements

March 31, 2015 and 2014

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:

|  | 2015     | 2014     |
|--|----------|----------|
| Income tax provision at the federal statutory rate | 34.0 %   | 34.0 %   |
| State income taxes, net of federal benefit         | 3.3 %    | 3.3 %    |
| Effect of net operating loss                       | (37.3 %) | (37.3 %) |
|  | - %      | - %      |

Components of the net deferred income tax assets at March 31, 2015 and 2014 were as follows:

|                              | 2015        | 2014        |
|------------------------------|-------------|-------------|
| Net operating loss carryover | \$2,820,800 | \$1,706,500 |
| Valuation allowance          | (2,820,800) | (1,706,500) |
|                              | \$-         | \$-         |

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 \$2,820,800 and \$1,706,500 allowance at March 31, 2015 and 2014, respectively, is necessary to reduce the deferred tax assets to the amount that will more likely than not be realized. The change in the valuation allowance for the current year is \$1,114,300.

As of March 31, 2015, we have a net operating loss carry forward of approximately \$7,562,400. 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

As of March 31, 2015 we did not have any significant unrecognized uncertain tax positions.

#### Note 13. Business Segments

During the years ended March 31, 2015 and 2014 we operate in only one segment and sold to two geographic location as follows:

|               | 2015      | 2014      |
|---------------|-----------|-----------|
| Australia     | \$6,968   | \$65,760  |
| United States | 204,499   | 44,325    |
|               | \$211,467 | \$110,085 |

All of our assets are located in the United States.

Barfresh Food Group Inc.

Notes to Consolidated Financial Statements

March 31, 2015 and 2014

The following is a breakdown of customers representing more than 10% of sales for the year ended March 31, 2015

|            | Revenue<br>from<br>customer | Percentage<br>of total<br>revenue |   |
|------------|-----------------------------|-----------------------------------|---|
| Customer A | \$58,911                    | 28.0                              | % |
| Customer B | 52,195                      | 24.8                              | % |
| Customer C | 24,234                      | 11.5                              | % |
|            | \$135,340                   | 64.3                              | % |

The following is a breakdown of customers representing more than 10% of sales for the year ended March 31, 2014:

|            | Revenue<br>from<br>customer | Percentage<br>of total<br>revenue |   |
|------------|-----------------------------|-----------------------------------|---|
| Customer C | \$67,760                    | 59.7                              | % |
| Customer D | 20,160                      | 18.3                              | % |
| Customer E | 12,960                      | 11.8                              | % |
|            | \$100,880                   | 89.8                              | % |

#### Note 14. Subsequent Events

Management has evaluated all activity and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements except as for the following:

Subsequent to March 31, 2015, we renegotiated the short term notes that were due June 2015. We repaid one note in full (\$25,000), 50% of three notes were paid (\$350,000) and one note was converted to 71,429 shares of our common stock. The balance of the notes due, \$350,000, are payable on September 20, 2015 and bear interest at 10% per annum.

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**Exhibit Index**

| <b>Exhibit<br/>Number</b> | <b>Description</b>   |
|---------------------------|--|
| 2.1                       | 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) |
| 3.1                       | 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)  |
| 3.2                       | 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)   |
| 3.3                       | 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)  |
| 3.4                       | 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)   |
| 4.1                       | Form of Series A Warrant (incorporated by reference to Exhibit 10.3 to Current Report on Form 8-K as filed January 17, 2012)   |
| 4.2                       | 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)   |
| 4.3                       | 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)   |
| 4.4                       | 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)   |
| 4.5                       | 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)  |
| 4.6                       | 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)  |
| 4.7                       | Form of Series N Warrant**   |
| 4.8                       | Form of Series E Warrant**   |
| 4.9                       |  |

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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 Note dated December 20, 2013 by Barfresh Food Group Inc. in favor of certain investors (incorporated by reference to Exhibit 4.1 to Form 10Q for the period ending December 31, 2013, as filed February 13, 2014)

10.1 Form of Registration Rights Agreement dated December 20, 2013 (incorporated by reference to Exhibit 4.2 to Form 10Q for the period ending December 31, 2013, as filed February 13, 2014)

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 Agreement of Sale, dated January 10, 2012, by and among Moving Box Inc. and Andreas Wilcken, Jr. (incorporated by reference to Exhibit 10.1 of Current Report on Form 8-K as filed January 17, 2012)

10.4 Form of Subscription Agreement dated January 10, 2012 by and between Moving Box, Inc. and certain investors. (incorporated by reference to Exhibit 10.2 of Current Report on Form 8-K as filed January 17, 2012)

10.5 Form of Lock Up Agreement dated January 10, 2012 (incorporated by reference to Exhibit 10.4 to Current Report on Form 8-K as filed January 17, 2012)

10.6 Amendment No. 2, dated January 10, 2012 to Agreement dated March 21, 2010, by and among Moving Box Inc., Moving Box Entertainment LLC, Garrett LLC, Ian McKinnon, Brad Miller, Andreas Wilckin, Jr. and Uptone Pictures, Inc. (incorporated by reference to Exhibit 10.5 to Current Report on Form 8-K, as filed January 17, 2012)

- 10.7 Investor Release dated January 10, 2012, by and among Moving Box Inc., Andreas Wilcken, Jr., Garrett LLC, Ian McKinnon and Brad Miller (incorporated by reference to Exhibit 10.4 to Current Report on Form 8-K as filed January 17, 2012)
- 10.8 Form of Registration Rights Agreement dated March 13, 2015 (incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K as filed February 16, 2015)
- 10.9 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)+
- 10.10 Barfresh Food Group, Inc. 2015 Equity Incentive Plan\*+
- 10.11 Executive Employment Agreement by and between Smoothie, Inc. and Riccardo Delle Coste dated April 27, 2015\*+
- 10.12 Executive Employment Agreement by and between Smoothie, Inc. and Joseph M. Cugine dated April 27, 2015\*+
- 10.13 Executive Employment Agreement by and between Barfresh Food Group, Inc. and Joseph S. Tesoriero dated May 18, 2015\*+
- 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 Document\*
- 101.SCH XBRL Taxonomy Extension Schema Document\*
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document\*
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document\*
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document\*
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document\*

\* 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.

