

BARFRESH FOOD GROUP INC.

Form 10-K

April 01, 2019

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-K**

(Mark One)

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

For the fiscal year ended December 31, 2018

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** **27-1994406**  
(State or other jurisdiction of (I.R.S. Employer

incorporation or organization) Identification No.)

**3600 Wilshire Boulevard Suite 1720, Los Angeles,**  
**90211**  
**90010, California**  
(Address of principal executive offices) (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 ☒

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 ☒

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

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

Large Accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☒  
Emerging Growth Company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates (excluding voting shares held by officers and directors) as of June 30, 2018 was \$36,367,146

As of March 25, 2019, there were 130,085,820 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.

## **AVAILABLE INFORMATION**

We are subject to the information reporting requirements of the Securities Exchange Act of 1934, as amended, and we file quarterly reports on Form 10Q, Annual Reports on Form 10-K, Current Reports on Form 8-K, proxy statements and other required information and reports with the SEC.

You can read our SEC filings, including the registration statement, over the Internet at the SEC's website at [www.sec.gov](http://www.sec.gov) at no cost. You may also request a copy of these filings, at no cost, by writing us at 3600 Wilshire Boulevard Suite 1720, Los Angeles, 90010 or calling us at (310) 598-7113.

We also maintain a website at [www.barfresh.com/us/](http://www.barfresh.com/us/), at which you may access these materials free of charge as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC. Information contained on or accessible through our website is not a part of this prospectus, and the inclusion of our website address in this prospectus is an inactive textual reference only.

## **PART I**

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

#### **Business Overview**

Barfresh is a leader in the creation, manufacturing and distribution of ready to blend frozen beverages. The current portfolio of products includes smoothies, shakes and frappes. Products are packaged in two distinct formats.

The Company's original single serve format features portion controlled and ready to blend beverage ingredient packs or "beverage packs". The beverage packs contain all of the solid ingredients necessary to make the beverage, including the base (either sorbet, frozen yogurt or ice cream), real fruit pieces, juices and ice – five ounces of water are added before blending.

The Company's bulk "Easy Pour" format also contains all of the solid ingredients necessary to make the beverage, packaged in gallon containers in a concentrated formula that is mixed "one to one" with water. The Company has a "no sugar added" version of the bulk "Easy Pour" format that is specifically targeted for the USDA national school meal program, including the School Breakfast Program, the National School Lunch Program, and Smart Snacks in Schools Program. The Company is currently in contract to sell its bulk Easy Pour products into over three hundred schools. In addition, the Company received approval from the United States Defense Logistics Agency ("DLA") to sell its smoothie products into all branches of the U.S. Armed Forces, and is currently in contract with and selling its bulk Easy Pour products into over one hundred military bases in the United States.

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

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



Pursuant to that agreement, all Barfresh products are included in Sysco's national core selection of beverage items, making Barfresh its exclusive single-serve, pre-portioned beverage provider. The agreement is mutually exclusive; however, Barfresh may also sell the products to other foodservice distributors, but only to the extent required for such foodservice distributors to service multi-unit chain operators with at least 20 units and where Sysco is not such multi-unit chain operator's nominated distributor for our products. On October 2, 2017, the Sysco agreement was extended for an additional two year period, and expanded to cover bulk easy pour products, on a non-exclusive basis.

During 2016 and 2017 the Company announced that it had signed supply agreements with several of the major global on-site foodservice operators. On March 8, 2018, the Company announced that it had signed a new supply agreement with one of the largest of these foodservice operators, for exclusive distribution of four of Barfresh's single serve sku's. On November 14, 2018, the Company announced that it had received approval for multiple products to be rolled out to a national restaurant chain with over 2,500 locations.

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

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

Our corporate office is located at 3600 Wilshire Boulevard Suite 1720, Los Angeles, 90010. Our telephone number is (310) 598-7113 and our website is [www.barfresh.com](http://www.barfresh.com).

### **Corporate History and Background**

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



### **Reorganization and Recapitalization**

During January, 2012, the Company entered into a series of transactions pursuant to which Barfresh Inc., a Colorado corporation (“Barfresh NV”), was acquired, spun-out prior operations to the former principal shareholder, completed a private offering of securities for an aggregate purchase price of approximately \$1,000,000, conducted a four for one forward stock split and changed the name of the Company. The following describes the steps of this reorganization:

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

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

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

*Change of name.* Subsequent to the merger, we changed the name of the Company from Moving Box Inc. to Barfresh Food Group Inc. Barfresh Food Group Inc., has two direct subsidiaries; Barfresh Corporation, Inc, (formerly known as Smoothie, Inc.) and Barfresh, Inc.

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

### **Products**

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



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

**The following flavors are available as part of our standard portfolio of bulk products:**

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

From as little as 150 calories (per serving)

Real fruit in every smoothie

Dairy free options

Kosher approved

Gluten Free

### **Customer Marketing Material**

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

### **Research and Development**

The Company incurred research and development expenses for the year ended December 31, 2018 in the amount of \$674,224 and for the year ended December 31, 2017 in the amount of \$574,989. The increase in Research and Development expenses was primarily attributable to increased activity in creating unique flavors for potential customers in our national account pipeline.

## Competition

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

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

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

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

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

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

Portion pack products: These products contain only the fruit and yogurt and require the addition of juice or milk and ice. The dominant competitor is General Mills' Yoplait Smoothies.

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

## **Intellectual Property**

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

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

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

## **Governmental Approval and Regulation**

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

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

## **Environmental Laws**

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



## **Employees**

The Company currently has 26 employees and 3 consultants. There are currently 14 employees selling our products.

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

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

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

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

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

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

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

condition.

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

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

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

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

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

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

Our future success heavily depends on the continued service of our senior management and other key employees. If one or more of our senior executives is unable or unwilling to continue to work for us in his present position, we may have to spend a considerable amount of time and resources searching, recruiting, and integrating a replacement into our operations, which would substantially divert management's attention from our business and severely disrupt our business. This may also adversely affect our ability to execute our business strategy.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

***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.

***It is difficult to predict the timing and amount of our sales because our distributors and national accounts may not be required to place minimum orders with us.***

Our distributors are not required to place minimum monthly or annual orders for our products. Accordingly, we cannot predict the timing or quantity of purchases by any of our independent distributors or whether any of our distributors will continue to purchase products from us in the same frequencies and volumes as they may have done in the past. Additionally, our larger distributors and partners may make orders that are larger than we have historically been required to fill. Shortages in inventory levels, supply of raw materials or other key supplies could negatively affect us.

***If we do not adequately manage our inventory levels, our operating results could be adversely affected.***

We need to maintain adequate inventory levels to be able to deliver products on a timely basis. Our inventory supply depends on our ability to correctly estimate demand for our products. Our ability to estimate demand for our products is imprecise, particularly for new products, seasonal promotions and new markets. If we materially underestimate demand for our products or are unable to maintain sufficient inventory of raw materials, we might not be able to satisfy demand on a short-term basis. If we overestimate retailer demand for our products, we may end up with too much inventory, resulting in higher storage costs, increased trade spend and the risk of obsolete inventory. If we fail to manage our inventory to meet demand, we could damage our relationships with our retailers and could delay or lose sales opportunities, which would unfavorably impact our future sales and adversely affect our operating results.

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

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

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

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

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

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

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



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

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

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

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

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

Currently, the Company’s common stock is quoted in the OTCQB and future trading volume may be limited by the fact that many major institutional investment funds, including mutual funds, as well as individual investors follow a policy of not investing in OTCQB stocks and certain major brokerage firms restrict their brokers from recommending OTCQB stocks because they are considered speculative, volatile and thinly traded. The OTCQB market is an inter-dealer market much less regulated than the major exchanges and our common stock is subject to abuses, volatility and shorting. Thus, there is currently no broadly followed and established trading market for the Company’s common stock. An established trading market may never develop or be maintained. Active trading markets generally result in lower price volatility and more efficient execution of buy and sell orders. Absence of an active trading market reduces the liquidity of the shares traded there.

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

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

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

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

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

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

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

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

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

actual or anticipated variations in our operating results;

announcements of developments by us or our competitors;

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

adoption of new accounting standards affecting the our industry;

additions or departures of key personnel;

introduction of new products by us or our competitors;

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

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

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

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

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

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

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

## **Item 2. Properties.**

Our principal executive offices are located at 3600 Wilshire Boulevard Suite 1720, Los Angeles, 90010. Beginning in April 2019, we leased this office space pursuant to a direct lease for \$6,457 per month through March 31, 2023.

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

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

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

Not applicable.

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

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

| Financial Quarter Ended | Bid Quotation |          |
|-------------------------|---------------|----------|
|                         | High (\$)     | Low (\$) |
| December 31, 2018       | 0.77          | 0.57     |
| September 30, 2018      | 0.61          | 0.41     |
| June 30, 2018           | 0.70          | 0.60     |
| March 31, 2018          | 0.67          | 0.36     |
| December 31, 2017       | 0.70          | 0.52     |
| September 30, 2017      | 0.82          | 0.52     |
| June 30, 2017           | 0.82          | 0.57     |
| March 31, 2017          | 0.83          | 0.52     |

## Holders

At March 25, 2019, there were 130,085,820 shares of our common stock outstanding. Our shares of common stock are held by 101 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.

## Recent Sales of Unregistered Securities

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

## Purchases of Equity Securities by the Company

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

## Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information, as of December 31, 2018, with respect to equity securities authorized for issuance under our equity compensation plans:

| Plan Category | Number of<br>Securities to<br>be<br>Issued Upon<br>Exercise of<br>Outstanding<br>Options,<br>Warrants<br>and<br>Rights<br>(a) | Weighted-Average<br>Exercise Price of<br>Outstanding<br>Options, Warrants<br>and Rights<br>(b) | Number of<br>Securities<br>Remaining<br>Available for<br>Future<br>Issuance<br>Under Equity<br>Compensation<br>Plans<br>(excluding<br>securities |
|---------------|---|--|--|
|---------------|---|--|--|

|  |                  |           |            | reflected<br>in Column<br>(a))(c) |
|--|------------------|-----------|------------|-----------------------------------|
| Equity compensation plans approved by security holders     | 7,428,014        | \$        | 0.55       | 7,371,986                         |
| Equity compensation plans not approved by security holders | -                | \$        | -          | -                                 |
| <b>TOTAL</b>   | <b>7,428,014</b> | <b>\$</b> | <b>.55</b> | <b>7,371,986</b>                  |

### **Transfer Agent**

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

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

Not applicable because we are a smaller reporting company.



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

*The information and financial data discussed below is derived from the audited financial statements of Barfresh for its fiscal year ended December 31, 2018 and for the fiscal year ended December 31, 2017. The financial statements of Barfresh were prepared and presented in accordance with generally accepted accounting principles in the United States. The information and financial data discussed below is only a summary and should be read in conjunction with the historical financial statements and related notes of Barfresh contained elsewhere in this Annual Report. This discussion and analysis may contain forward-looking statements based on assumptions about our future business. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors. See “Cautionary Note Regarding Forward Looking Statements” above for a discussion of forward-looking statements and the significance of such statements in the context of this Annual Report.*

Barfresh is a leader in the creation, manufacturing and distribution of ready to blend frozen beverages. The current portfolio of products includes smoothies, shakes and frappes. Products are packaged in two distinct formats.

The Company’s original single serve format features portion controlled and ready to blend beverage ingredient packs or “beverage packs”. The beverage packs contain all of the solid ingredients necessary to make the beverage, including the base (either sorbet, frozen yogurt or ice cream), real fruit pieces, juices and ice – five ounces of water are added before blending.

The Company’s bulk “Easy Pour” format also contains all of the solid ingredients necessary to make the beverage, packaged in gallon containers in a concentrated formula that is mixed “one to one” with water. The Company has a “no sugar added” version of the bulk “Easy Pour” format that is specifically targeted for the USDA national school meal program, including the School Breakfast Program, the National School Lunch Program, and Smart Snacks in Schools Program. The Company is currently in contract to sell its bulk Easy Pour products into over three hundred schools. In addition, the Company received approval from the United States Defense Logistics Agency (“DLA”) to sell its smoothie products into all branches of the U.S. Armed Forces, and is currently in contract to sell its bulk Easy Pour products into over one hundred military bases in the United States.

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

The Company conducts sales through several channels, including National Accounts, Regional Accounts, and Broadline Distributors. Barfresh’s primary broadline distribution arrangement is through an exclusive nationwide agreement with Sysco Corporation (“Sysco”), the U.S.’s largest broadline distributor, which was entered into during July

2014. Pursuant to that agreement, all Barfresh products are included in Sysco's national core selection of beverage items, making Barfresh its exclusive single-serve, pre-portioned beverage provider. The agreement is mutually exclusive; however, Barfresh may also sell the products to other foodservice distributors, but only to the extent required for such foodservice distributors to service multi-unit chain operators with at least 20 units and where Sysco is not such multi-unit chain operator's nominated distributor for our products. On October 2, 2017, the Sysco agreement was extended for an additional two year period, and expanded to cover bulk easy pour products, on a non-exclusive basis.

During 2016 and 2017 the Company announced that it had signed supply agreements with several of the major global on-site foodservice operators. On March 8, 2018, the Company announced that it had signed a new supply agreement with one of the largest of these foodservice operators, for exclusive distribution of four of Barfresh's single serve sku's. On November 14, 2018, the Company announced that it had received approval for multiple products to be rolled out to a national restaurant chain with over 2,500 locations.

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

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

During November, 2016, the Company received an equity investment from Unibel, the majority shareholder of the Bel Group (“Unibel”). The Bel Group is headquartered in Paris, France, with global operations in 33 countries, 30 production sites on 4 continents and nearly 12,000 employees. Its many branded products, including The Laughing Cow®, Mini Babybel® and Boursin®, are sold in over 130 countries around the world. Pursuant to the securities purchase agreement, Unibel purchased 15,625,000 shares of common stock at \$0.64 per share (“Shares”) and warrants to purchase 7,812,500 shares of common stock (“Warrants”) for aggregate gross proceeds to Barfresh of \$10 million. The Warrants are exercisable for a term of five years at a per share price of \$.88 for cash. Pursuant to the Investor Rights agreement, Barfresh has registered the Shares and the Warrants, and Unibel was granted a seat on the Barfresh Board. This strategic investment provided Barfresh with necessary capital while leveraging Unibel’s more than 150 years of industrial expertise, innovative capabilities, world-class marketing and branding expertise to accelerate our growth in new and existing markets and product channels.

On February 14, 2018, the Company announced the private placement of convertible notes with gross proceeds of \$4.1 million. The closing of the first 60% of this amount occurred between March 12 and 22, 2018, after notice was issued by the Company that it had entered into a material agreement or series of related agreements with a national account for the sale of its products into approximately 1,000 new locations. The remaining 40% of the principal amount was to be received upon achieving a second milestone, which is entering into a material agreement or series of related agreements with a national account for the sale of its products into approximately 2,500 new locations. During November of 2018 the Company and several of the Convertible Note investors agreed to amend the definition of Milestone 2 to allow for the funding the remaining 40% of the principal amount upon the Company receiving approval from a National Restaurant Chain with over 2,500 for the rollout of its products. Such approval was received during the fourth quarter of 2018, and the Company received an additional \$1.4 million of convertible note proceeds.

The convertible notes are unsecured and have (i) a two-year term, (ii) a 10% annual coupon to be paid in cash or stock at the Company’s discretion at a conversion price equal to 85% of the average closing bid prices of the Common Stock over the twenty (20) consecutive trading day period immediately preceding the payment date, but in no event lower than sixty cents (\$0.60) per share of Common Stock. The investor’s may elect to convert their principal into common stock at a conversion price equal to the lower of: (i) \$0.88 per share of Common Stock, or (ii) 85% of the average closing bid prices of the Common Stock over the twenty (20) consecutive trading day period immediately preceding the date of investor’s election to convert; but in no event lower than \$0.60 per share of Common Stock. Investors also received warrant coverage of 25% of the number of shares that would be issuable upon a full conversion of the principal amount at an average of the twenty consecutive trading day period immediately preceding the applicable closing date. If any principal amount remains outstanding after the one-year anniversary of the closing, investors will be granted an additional warrant with identical terms. The warrants are exercisable for a period of three years for cash at the greater of 120% of the closing price or \$0.70 per share of common stock. After the initial private placement, investors were offered the opportunity to accelerate the issuance of the additional warrant by increasing their convertible note investment by 10% to 20%. After the close of the first quarter, a number of investors took advantage of this acceleration opportunity, resulting in an increase in the amount of the total convertible note by \$177,300 and the issuance of 930,332 additional warrants. During the fourth quarter, four of the convertible note investors elected to convert their notes into stock, with a total of \$453,000 of convertible debt, plus accrued interest being converted into stock.

During the fourth quarter of 2018, one investor exercised 833,333 N warrants for cash, at \$0.45 per share. \$221,918 of the proceeds of that transaction were used to pay down a short term note payable, held by the same investor, in the amount of \$200,000, plus accrued interest. The balance of the proceeds of the N warrant exercise, in the amount of \$153,082 were received by the Company.

During the first quarter of 2019, the Company completed additional funding efforts, including a Private Placement Offering for common shares priced at \$0.60 per share, resulting in the receipt of capital investment in the amount of \$2.4 million and the issuance of 3,833,333 shares. In addition, during the first quarter of 2019 the Company offered to reduce the exercise price on its I Warrants from \$1 to \$0.60, for a limited time. During the time this offer was open, I Warrant holders converted 2,841,454 warrants at \$0.60, resulting in the receipt of capital investment in the amount of \$1.7 million.. In addition, during the first quarter of 2019, one investor exercised G series warrants, resulting in the receipt of capital investment in the amount of \$180,000, and the issuance of 300,000 shares. In total, during the first quarter of 2019 the Company has raised \$4.3 million and issued 7,141,454 shares, and no additional warrants.

Currently we have 26 employees and 3 consultants. There are currently 14 employees selling our products.

## **Critical Accounting Policies**

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

### **Revenue Recognition**

In accordance with ASC 606, "Revenue from Contracts with Customers", revenue is recognized when a customer obtains ownership of promised goods. The Company adopted this standard at the beginning of fiscal year 2018, with no significant impact to its financial position or results of operations, using the modified retrospective method. The amount of revenue recognized reflects the consideration to which the Company expects to be entitled to receive in exchange for these goods. The Company applies the following five steps:

#### *1) Identify the contract with a customer*

A contract with a customer exists when (i) the Company enters into an enforceable contract with a customer that defines each party's rights, (ii) the contract has commercial substance and, (iii) the Company determines that collection of substantially all consideration for goods or services that are transferred is probable. For the Company, the contract is the approved sales order, which may also be supplemented by other agreements that formalize various terms and conditions with customers.

#### *2) Identify the performance obligation in the contract*

Performance obligations promised in a contract are identified based on the goods or that will be transferred to the customer. For the Company, this consists of the delivery of frozen beverages, which provide immediate benefit to the customer.

#### *3) Determine the transaction price*

The transaction price is determined based on the consideration to which the Company will be entitled in exchange for transferring goods, and is generally stated on the approved sales order. Variable consideration, which typically includes volume-based rebates or discounts, are estimated utilizing the most likely amount method.

#### *4) Allocate the transaction price to performance obligations in the contract*

Since our contracts contain a single performance obligation, delivery of frozen beverages, the transaction price is allocated to that single performance

obligation.

*5) Recognize Revenue when or as the Company satisfies a performance obligation*

The Company recognizes revenue from the sale of frozen beverages when title and risk of loss passes and the customer accepts the goods, which generally occurs at delivery. Customer sales incentives such as volume-based rebates or discounts are treated as a reduction of sales at the time the sale is recognized. Shipping and handling costs are treated as fulfillment costs and presented in distribution, selling and administrative costs.

The company evaluated the requirement to disaggregate revenue, and concluded that substantially all of its revenue comes from a single product, frozen beverages.

**Share-based Compensation**

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

## **Convertible Notes**

We issue debt that may have separate warrants, conversion features, or no equity-linked attributes. When we issue debt with warrants, we determine the value of the warrants using the Black-Scholes Option Pricing Model (“Black-Scholes”) using the stock price on the date of issuance, the risk free interest rate associated with the life of the debt, and the estimated volatility of our stock. When we issue debt with a conversion feature, we must first assess whether the conversion feature meets the requirements to be treated as a derivative. If the conversion feature within convertible debt meets the requirements to be treated as a derivative, we estimate the fair value of the convertible debt derivative using Black-Scholes upon the date of issuance, using the stock price on the date of issuance, the risk free interest rate associated with the life of the debt, and the estimated volatility of our stock. If the conversion feature is not treated as a derivative, we assess whether it is a beneficial conversion feature (“BCF”). A BCF exists if the conversion price of the convertible debt instrument is less than the stock price on the commitment date. This typically occurs when the conversion price is less than the fair value of the stock on the date the instrument was issued. The value of a BCF is equal to the intrinsic value of the feature, the difference between the conversion price and the common stock into which it is convertible.

## **Derivative Liability**

The Company evaluates its convertible instruments, options, warrants or other contracts to determine if those contracts or embedded components of those contracts qualify as derivatives to be separately accounted for under ASC Topic 815, “Derivatives and Hedging.” The result of this accounting treatment is that the fair value of any derivative is marked-to-market each balance sheet date and recorded as a liability. In the event that the fair value is recorded as a liability, the change in fair value is recorded in the statement of operations as gain/loss from derivative liability. Upon conversion or exercise of a derivative instrument, the instrument is marked to fair value at the conversion date and then that fair value is reclassified to equity. We analyzed the derivative financial instruments in accordance with ASC 815. The objective is to provide guidance for determining whether an equity-linked financial instrument is indexed to an entity’s own stock. This determination is needed for a scope exception which would enable a derivative instrument to be accounted for under the accrual method. The classification of a non-derivative instrument that falls within the scope of ASC 815-40-05 “Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company’s Own Stock” also hinges on whether the instrument is indexed to an entity’s own stock. A non-derivative instrument that is not indexed to an entity’s own stock cannot be classified as equity and must be accounted for as a liability. There is a two-step approach in determining whether an instrument or embedded feature is indexed to an entity’s own stock. First, the instrument’s contingent exercise provisions, if any, must be evaluated, followed by an evaluation of the instrument’s settlement provisions. The Company utilized the fair value standard set forth by the Financial Accounting Standards Board, defined as the amount at which the assets (or liability) could be bought (or incurred) or sold (or settled) in a current transaction between willing parties, that is, other than in a forced or liquidation sale.

## **Results of Operations**

*Revenue and cost of revenue*

Revenue increased \$2,238,147 (112%) from \$1,997,012 in 2017 to \$4,235,159 in 2018. The increase in revenue is primarily the result of the rollout of our new bulk Easy Pour product which began during the first quarter of 2017 and has continued to gain momentum during 2018. Our products continue to be distributed through all 72 of Sysco's U.S. mainland distribution centers, as well as through new customers beyond the Sysco distribution network.

Cost of revenue for 2018 was \$2,090,495 as compared to \$1,107,341 in 2017. Our gross profit was \$2,144,664 (51%) and \$889,671 (45%) for 2018 and 2017, respectively. This improvement was driven by a number factors, including leverage due to larger scale of production and product mix. We anticipate that our gross profit percentage for 2019 will be comparable to that of 2018.



*Operating expenses*

Our operations were primarily directed towards increasing sales and expanding our distribution network.

Our general and administrative expenses decreased \$1,678,669 (18%) from \$9,492,094 in 2017 to \$7,813,425 in 2018, with the improvement primarily driven by lower personnel expenses resulting from the realignment of our sales force. The following is a breakdown of our general and administrative expenses for the years 2018 and 2017.

|                                  | Twelve<br>months<br>ended<br>December<br>31, 2018 | Twelve<br>months<br>ended<br>December<br>31, 2017 | Change        |       |
|----------------------------------|---|---|---------------|-------|
| Personnel costs                  | \$3,027,548                                       | \$4,260,946                                       | \$(1,233,398) | (29)% |
| Stock based compensation/options | 498,768   | 1,360,688   | (861,920)     | (63)% |
| Legal and professional fees      | 463,991   | 465,737   | (1,746)       | 0 %   |
| Travel                           | 432,140   | 422,284   | 9,856         | 2 %   |
| Rent                             | 201,100   | 142,572   | 58,528        | 41 %  |
| Marketing and selling            | 750,059   | 696,253   | 53,806        | 8 %   |
| Consulting fees                  | 60,359  | 203,721   | (143,362)     | (70)% |
| Director fees                    | 241,000   | 206,296   | 34,704        | 17 %  |
| Research and development         | 674,224   | 574,989   | 99,235        | 17 %  |
| Shipping Expense and storage     | 864,871   | 619,871   | 245,000       | 40 %  |
| Other expenses                   | 599,365   | 538,737   | (60,627)      | 11 %  |
|                                  | \$7,813,425                                       | \$9,492,094                                       | \$(1,678,669) | (18)% |

Personnel cost represents the cost of employees including salaries, bonuses, employee benefits and employment taxes for the years 2018 and 2017 and continues to be our largest cost. Personnel cost decreased \$1,233,398 (29%) from \$4,260,946 to \$3,027,548. During the fourth quarters of 2016 and 2017, we realigned our sales force to a more efficient model, by increasing the number of dedicated sales brokers that represent our products, and reducing the number of sales force employees. At year end 2017 we had 30 full time employees, and we currently have 26 full time employees.

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. Stock compensation for the current year was \$498,768, a decrease of \$861,920, or 63%, from the year ago expense of \$1,360,688. The decrease is primarily due to reductions in our workforce and the timing of equity grants. The Company issues additional stock options to its employees from time to time under its Equity Compensation Plan.

Legal and professional fees were relatively flat between 2018 and 2017, with a small decrease \$1,746, from \$465,737 in 2017 to \$463,991 in 2018. We anticipate legal fees related to our business and financing activities to increase as our business continues to grow.

Travel expenses increased \$9,856 (2%) from \$422,284 in 2017 to \$432,140 in 2018. The increase is primarily due to the net effect of the decrease in travel costs associated with terminated employees, offset by the increase in per employee travel costs as remaining employees have been asked to cover larger territories. We anticipate that travel expenses for 2019 will be comparable to the current year.

Rent expense is primarily for our location in Beverly Hills, California. Rent expense for the Beverly Hills office is approximately \$14,488 per month. During 2018 we leased office space at 8383 Wilshire Boulevard, Beverly Hills, California pursuant to a lease that commenced on November 1, 2016 and expired March 31, 2019. Effective April 1, 2019, we have entered into a new lease for office space located at 3600 Wilshire Boulevard Suite 1720, Los Angeles, 90010.

Marketing and selling expenses increased \$53,806 (8%) from \$696,253 in 2017 to \$750,059 in 2018. Higher marketing and selling expenses were primarily due to higher sales agent commissions associated with higher sales during the year.

Consulting fees decreased \$143,362 (70%), from \$203,721 in 2017, to \$60,359 in 2018. Our consulting fees vary based on needs. We engaged consultants in the areas of sales and operations during the both 2018 and 2017. The need for future consulting services will be variable.

Director fees increased \$34,704 (17%) from \$206,296 in 2017 to \$241,000 in 2018. Annual director fees are anticipated at \$50,000 per non-employee director.

Research and development expenses increased \$99,235, (17%) from \$574,989 in 2017 to \$674,224 in 2018. These expenses relate to the services performed by our Director of Manufacturing and Product Development, and consultants supporting that employee. These activities are primarily directed towards to development of new products.

Shipping and storage expense increased \$245,000 (40%) from \$619,871 in 2017 to \$864,871 in 2018. Shipping and storage expense as a percentage of revenue decreased from 31% in 2017 to 20% in 2018. This improvement is primarily due to the growth of the scale of our business, and the corresponding cost savings associated with freight movement. We anticipate that shipping and storage expense as a percentage of sales will continue to reduce in the future, as the Company continues to take advantage of more efficient distribution arrangements.

Other expenses consist of ordinary operating expenses such as investor relations, office, telephone, insurance, and stock related costs. We anticipate these expenses to be comparable for the balance of the year.

We had operating losses of \$6,180,080 in 2018 and \$8,911,540 in 2017. The improvement of \$2,731,460 or 31%, was primarily due to higher gross profit margin on higher sales, and lower G&A expenses.

Interest expense for 2018 is \$764,813 relates to “Milestone 1” convertible debt in the amount of \$2,704,800 that was issued on March 14, 2018, which bears interest at 10%, “Milestone 2” convertible debt in the amount of \$1,363,200, that was issued on November 30, 2018, which bears interest at 10%, and to a note payable in the amount of \$250,000 that was issued on March 5, 2018. Of the Milestone 1 convertible debt, \$453,000 of principal, and the accrued interest thereon, was converted into stock during the fourth quarter of 2018. The principal and accrued interest on the Note Payable in the amount of \$250,000 was repaid during the fourth quarter of 2018. Interest expense for 2018 includes

amortization of \$519,707 of the value of warrants issued with the Milestone 1 and Milestone 2 convertible debt.

The change in fair value of the derivative liability resulted in a loss of \$87,630 for the year ended December 31, 2018. This results from the netting of a loss of \$198,454 from the change in value of the derivative, partially offset by gain on the conversion to stock of convertible notes during the fourth quarter of 2018.

The warrant modification was revalued at July 31, 2018 with a value of \$452,308. The difference in fair value immediately before and after the modification of the warrant resulted in a loss of \$290,300.

We had net losses of \$7,322,823 and \$8,911,540 for the years 2018 and 2017, respectively. This reduction in net loss, in the amount of \$1,588,717, or 18%, is primarily attributable to the same factors that drove the improvement in operating losses, partially offset by certain non-cash charges, including higher interest, warrant modification, and loss from derivative liability, in 2018.

### **Liquidity and Capital Resources**

As of December 31, 2018, we had a working capital surplus of \$652,360 as compared with a working capital surplus of \$1,774,719 at December 31, 2017. The reduction in working capital surplus is primarily due to the reduction in cash raised from investing activities, and significant increases in current liabilities, partially offset by a reduction of cash used in operations.

During the twelve month period ended December 31, 2018, we used cash of \$4,128,284 in operations, \$1,106,574 for the purchase of equipment, net of proceeds of \$37,967 for sale of equipment, and \$14,456 for patents and trademarks

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

On February 14, 2018, the Company announced the private placement of convertible notes with gross proceeds of \$4.1 million. The closing of the first 60% of this amount occurred between March 12 and 22, 2018, after notice was issued by the Company that it had entered into a material agreement or series of related agreements with a national account for the sale of its products into approximately 1,000 new locations. The remaining 40% of the principal amount was to be received upon achieving a second milestone, which is entering into a material agreement or series of related agreements with a national account for the sale of its products into approximately 2,500 new locations. During November of 2018 the Company and several of the Convertible Note investors agreed to amend the definition of Milestone 2 to allow for the funding the remaining 40% of the principal amount upon the Company receiving approval from a National Restaurant Chain with over 2,500 for the rollout of its products. Such approval was received during the fourth quarter of 2018, and the Company received an additional \$1.4 million of convertible note proceeds.

The convertible notes are unsecured and have (i) a two-year term, (ii) a 10% annual coupon to be paid in cash or stock at the Company's discretion at a conversion price equal to 85% of the average closing bid prices of the Common Stock over the twenty (20) consecutive trading day period immediately preceding the payment date, but in no event lower than sixty cents (\$0.60) per share of Common Stock. The investor's may elect to convert their principal into common stock at a conversion price equal to the lower of: (i) \$0.88 per share of Common Stock, or (ii) 85% of the average closing bid prices of the Common Stock over the twenty (20) consecutive trading day period immediately preceding the date of investor's election to convert; but in no event lower than \$0.60 per share of Common Stock. Investors also received warrant coverage of 25% of the number of shares that would be issuable upon a full conversion of the principal amount at an average of the twenty consecutive trading day period immediately preceding the applicable closing date. If any principal amount remains outstanding after the one-year anniversary of the closing, investors will be granted an additional warrant with identical terms. The warrants are exercisable for a period of three years for cash at the greater of 120% of the closing price or \$0.70 per share of common stock. After the initial private placement, investors were offered the opportunity to accelerate the issuance of the additional warrant by increasing their convertible note investment by 10% to 20%. After the close of the first quarter, a number of investors took advantage of this acceleration opportunity, resulting in an increase in the amount of the total convertible note by \$177,300 and the issuance of 930,332 additional warrants. During the fourth quarter, four of the convertible note investors elected to convert their notes into stock, with a total of \$453,000 of convertible debt, plus accrued interest being converted into stock.

During the fourth quarter of 2018, one investor exercised 833,333 N warrants for cash, at \$0.45 per share. \$221,918 of the proceeds of that transaction were used to pay down a short term note payable, held by the same investor, in the amount of \$200,000, plus accrued interest. The balance of the proceeds of the N warrant exercise, in the amount of

\$153,082 were received by the Company.

During the first quarter of 2019, the Company completed additional funding efforts, including a Private Placement Offering for common shares priced at \$0.60 per share, resulting in the receipt of capital investment in the amount of \$2.4 million and the issuance of 3,833,333 shares. In addition, during the first quarter of 2019 the Company offered to reduce the exercise price on its I Warrants from \$1 to \$0.60, for a limited time. During the time this offer was open, I Warrant holders converted 2,841,454 warrants at \$0.60, resulting in the receipt of capital investment in the amount of \$1.7 million. In addition, during the first quarter of 2019, one investor exercised G series warrants, resulting in the receipt of capital investment in the amount of \$180,000, and the issuance of 300,000 shares. In total, during the first quarter of 2019 the Company has raised \$4.3 million and issued 7,141,454 shares, and no additional warrants.

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

We have entered into a direct lease for a new premises covering the period April 1, 2019 to March 31, 2023. The aggregate minimum requirements under the non-cancellable direct lease as of April 2019 is \$309,929.

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

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

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

Not applicable because we are a smaller reporting company.

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

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

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

None.

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

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

## **Disclosure Controls and Procedures**

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Securities and Exchange Act of 1934 Rules 13a-15(f). Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of December 31, 2018.

## **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.

Our management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2018. The framework used by management in making that assessment was the criteria set forth in the document entitled "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 2013.

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Securities and Exchange Act of 1934 Rules 13a-15(f). Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of December 31, 2018.



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.

### **Remediation of Previously Identified Material Weakness**

Management previously identified and disclosed a material weakness in our internal control over financial reporting at December 31, 2017, which related to inadequate segregation of duties, due to an inadequate number of personnel to properly implement controls over financial reporting. As of December 31, 2018, management sufficiently completed its remediation of this material weakness by taking the following actions:

Implementation of a formal quarterly and annual closing checklist, with clearly identified review process

Establishment and implementation of detailed Operating Manual covering all key Company processes

Utilization of commercially available positive pay check process to mitigate risk of bank fraud

Implementation of on-line approval process for approval and signing of all customer contracts

Establishment of formal approval process for equipment ordering, and separation of responsibility for approval process from equipment ordering process

Separation of duties for receiving customer orders for products, and issuing customer invoices

Establishment of a Company-wide Code of Conduct

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**

Except for those remedial actions described above, there have been no changes in our internal control over financial reporting during the fiscal year ended December 31, 2018 that has materially affected, or is reasonably likely to

materially affect, our internal control over financial reporting.

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

### **Amendment to Employment Contract**

The Company and Joseph S. Tesoriero, our Chief Financial Officer, amended Mr. Tesoriero's employment agreement, dated March 18, 2015, to reduce Mr. Tesoriero's time commitment and compensation by 60% to more effectively address the Company's current needs. In connection with this change, which takes effect on April 1, 2019, the Company plans to bring on additional resources at the staff accounting and finance level.

### **Resignation of Director**

Effective March 31, 2019, Alice Elliot has resigned from the Board of Directors of Barfresh Food Group, Inc. Ms. Elliot has been a Director at Barfresh since October 15, 2014. The rapid growth of The Elliot Group, a global retained executive search firm where Ms. Elliot is Chief Executive Officer and founder, requires a growing amount of Ms. Elliot's time, and therefore the Board has accepted her resignation. There are no disagreements between Ms. Elliot and the Barfresh Board, and the Barfresh Board wishes Ms. Elliot every success as she continues to build The Elliot Group. With the departure of Ms. Elliot from the Barfresh board, Barfresh now has six directors, four of whom have been determined by the Barfresh board to be independent.

## 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:

| Name                  | Age | Position  |
|-----------------------|-----|---|
| Riccardo Delle Coste  | 40  | President, Chief Executive Officer and Chairman |
| Joseph S. Tesoriero   | 64  | Chief Financial Officer                         |
| Steven Lang           | 66  | Director  |
| Arnold Tinter         | 73  | Secretary and Director                          |
| Joseph M. Cugine      | 56  | Director  |
| Alexander H. Ware     | 56  | Director  |
| Isabelle Ortiz-Cochet | 57  | Director  |

***Riccardo Delle Coste*** has been the Chairman of our board of directors, President and Chief Executive Officer since January 10, 2012. He has also been the President and Chief Executive Officer of Barfresh Inc., a Nevada corporation and our wholly owned subsidiary (“Barfresh NV”), since its inception. Mr. Delle Coste is the inventor of the patented technology and the creator of Barfresh. Mr. Delle Coste developed a unique system using controlled pre-packaged portions to deliver a freshly made smoothie that is quick, cost efficient, healthy and with no waste. In building the business, he is responsible for securing new business and maintaining key client relationships. He is also responsible for the development of new product from testing to full-scale production, establishment of the manufacturing facilities that have all necessary accreditations, technology development, product improvement and R&D with new product launches. Mr. Delle Coste also has over five years of investment banking experience. Mr. Delle Coste attended Macquarie University, Sydney, Australia while studying for a Bachelor of Commerce for 3.5 years but left to pursue business interests before receiving a degree.

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

***Joseph S. Tesoriero*** was appointed as Chief Financial Officer of the Company on May 18, 2015. Mr. Tesoriero has served as an independent director of Smart & Final Stores, Inc. (NYSE: SFS) since July of 2014, where he serves as Chairman of the Audit Committee and a member of the Nominating and Governance Committee. He was most recently engaged as a financial advisor for Dole Asia Holdings, Ltd. Pte., a Singapore based wholly owned subsidiary

of Itochu Corporation of Japan, from April 2013 to October 2013. Prior to this consulting engagement, Mr. Tesoriero served as Executive Vice 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. Prior to joining Barfresh NV, from 2003 to 2007, Mr. Lang was a director of Vericap Finance Limited, a company that specializes in providing advice to and investing in Australian companies with international growth potential. From 1990 to 1999, he served as a director of Babcock & Brown's Australian operations where he was responsible for international structured finance transactions. Mr. Lang received a Bachelor of Commerce and a Bachelor of Laws from the University of New South Wales in 1976 and a Master of Laws from the University of Sydney in 1984. He has been a member of the Institute of Chartered Accountants in Australia and was licensed to practice foreign law in New York.

*Qualifications:* Mr. Lang has over 40 years of experience in business, accounting, law and finance and served as Chairman of an Australian public company.

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

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

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

**Alexander H. Ware** was appointed as director of the company on July 13, 2016. Since September 2018, Mr. Ware has served as President of Foodsby, Inc., a fast-growing meal ordering platform for office buildings. Previously, Mr. Ware served as the Interim President, Executive Vice President & Chief Financial Officer of Buffalo Wild Wings from 2016 to 2018. From 2012 to 2016, Mr. Ware was Executive Chairman of MStar Holding Corporation. Mr. Ware served as Interim Chief Executive Officer for MStar Holding Corporation in 2013. Prior to his time at MStar, he served as a Senior Advisor and previously as Executive Vice President of Strategic Development of Pohlad Companies, a family office, from 2010 to 2015. Starting in 1994, he served in increasing capacities at PepsiCo, then PepsiAmericas, Inc. culminating as Executive Vice President & Chief Financial Officer from 2005 to 2010. Previously, he was a Senior Associate at Booz Allen Hamilton, Inc. from 1990-1994. Mr. Ware received his Bachelor of Arts degree in Economics from Hampden-Sydney College and his Master of Business Administration from the Darden Graduate School of Business at University of Virginia. Mr. Ware currently serves on the board of MStar Holding Corporation and on the advisory board of Stonearch Capital.

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

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

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

## Employment Agreements

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

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

The Company entered into an executive employment agreement with Joseph S. Tesoriero on May 18, 2015, pursuant to which he agreed to serve as Chief Financial Officer. Pursuant to the employment agreement, Mr. Tesoriero received 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 also receives 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.

Effective April 1, 2019, the Company and Mr. Tesoriero entered into an amendment to his employment agreement reducing Mr. Tesoriero's time commitment and compensation by 60%, in order to more effectively address the Company's current needs.

## **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 determined, as of December 31, 2018, that five of our seven directors are independent, which constitutes a majority. One of our directors, Alice Elliot, subsequently resigned effective March 31, 2019, reducing the current number of directors to six, four of which are independent.

## **Board Committees**

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

## **Legal Proceedings**

To the best of our knowledge, none of our executive officers or directors are parties to any material proceedings adverse to the Company, have any material interest adverse to the Company or have been subject to legal,



administrative or judicial orders, proceedings or decrees required to be disclosed.

### **Code of Ethics**

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

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

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

To our knowledge, based solely upon a review of Forms 3 and 4 and amendments thereto furnished to Barfresh under 17 CFR 240.16a-3(e) during our most recent fiscal year and Forms 5 and amendments thereto furnished to Barfresh with respect to our most recent fiscal year or written representations from the reporting persons, we believe that during the fiscal year ended December 31, 2018 our directors, executive officers and persons who own more than 10% of our common stock complied with all Section 16(a) filing requirements with the exception of the following:

Joseph Cugine, late filing of Form 4

Joseph Tesoriero, late filings of Form 4 (two transactions)

Isabelle Ortiz-Cochet, late filings of Form 4 (two transactions)

Alexander H. Ware, late filings of Form 4 (two transactions)  
 Alice Elliot, late filings of Form 4 (three transactions)  
 Steve Lang, late filings of Form 4  
 Riccardo Delle Coste, late filings of Form 4

Each late filing reported one transaction unless otherwise indicated. None of our officers or directors submitted Form 5 filings.

### Item 11. Executive Compensation.

| Name and Principal Position   | Period | Salary (\$)            | Bonus (\$) | Stock Awards (\$) | Option Awards (\$)      | Non-Equity Incentive Plan Compensation (\$) | Change in Pension and Nonqualified Deferred Compensation Earnings (\$) | Value of All Other Compensation (\$) | Total (\$) |
|---|--------|------------------------|------------|-------------------|-------------------------|---|--|--------------------------------------|------------|
| Riccardo Delle Coste, Chief Executive Officer                           | 2018   | 350,000 <sup>(1)</sup> | -          | -                 | 92,500 <sup>(2)</sup>   |   |  | 10,800 <sup>(4)</sup>                | 453,300    |
|   | 2017   | 350,000 <sup>(1)</sup> | -          | -                 | 105,000 <sup>(3)</sup>  |   |  | 10,800 <sup>(4)</sup>                | 455,000    |
| Joseph Cugine, President, Barfresh Corp. Inc. a wholly owned subsidiary | 2018   | 143,750 <sup>(5)</sup> | -          | -                 | 92,500 <sup>(6)</sup>   |   |  |                                      | 236,250    |
|   | 2017   | 300,000 <sup>(5)</sup> | -          |                   | 105,000 <sup>(7)</sup>  |   |  |                                      | 405,000    |
| Joseph Tesoriero, Chief Financial Officer                               | 2018   | 290,000 <sup>(8)</sup> | -          | -                 | 92,500 <sup>(9)</sup>   |   |  |                                      | 382,500    |
|   | 2017   | 290,000                | -          | -                 | 253,364 <sup>(10)</sup> |   |  |                                      | 543,364    |

<sup>1</sup> Of the salary earned, in 2018 \$164,096 was paid and \$185,904 was deferred and in 2017 \$294,135 was paid and \$55,865 was deferred.

<sup>2</sup> Represents a stock option grant 250,000 options shares issued 7/25/2018 with an exercise price of \$0.52, which vest ratably over the next three years and are exercisable until 7/25/2026.

<sup>3</sup> Represents a stock option grant 250,000 options shares issued 9/15/17 with an exercise price of \$0.55, which vest ratably over the next three years and are exercisable until 9/15/25.

4. Represents the car allowance paid to Mr. Delle Coste

5. Of the salary earned, in 2018 \$82,115 was paid and \$61,635 was deferred and in 2017 \$252,115 was paid and \$47,885 was deferred.

6. Represents a stock option grant 250,000 options shares issued 7/25/2018 with an exercise price of \$0.52, which vest ratably over the next three years and are exercisable until 7/25/2026.
7. Represents a stock option grant 250,000 options shares issued 9/15/17 with an exercise price of \$0.55, which vest ratably over the next three years and are exercisable until 9/15/25.
8. Of the salary earned, in 2018 \$142,379 was paid and \$147,621 was deferred and in 2017 \$243,711 was paid and \$46,289 was deferred.
9. Represents a stock option grant 250,000 options shares issued 7/25/2018 with an exercise price of \$0.52, which vest ratably over the next three years and are exercisable until 7/25/2026.
10. Represents two stock option grants: (1) 300,000 options shares issued 7/5/17, with an exercise price of \$0.77, which vest ratably over the next three years and are exercisable until 7/5/2025 and (2) 175,000 options issued on 9/15/2017, with an exercise price of \$0.55, which vest ratably over the next three years and are exercisable until 9/5/25.

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

| Option Awards        |   |  |                            |                        | Stock Awards  |  |
|----------------------|---|--|----------------------------|------------------------|---|--|
| Name                 | Number of securities underlying unexercised options (#) exercisable | Equity incentive plan awards: Number of securities underlying unexercised unearned options (#) | Option exercise price (\$) | Option expiration date | Number of shares or units of stock that have not vested (#) | Market value of shares or units of stock that have not vested (\$) |
| Riccardo Delle Coste | 300,000   | (1)  | 0.45                       | 1/21/20                |   |  |
|                      | 166,666   | (2)  | 0.61                       | 5/25/24                |   |  |
|                      | 83,333  | (3)  | 0.72                       | 11/25/24               |   |  |
|                      | 83,333  | (4)  | 0.55                       | 9/15/25                |   |  |
|                      |   | 250,000  | (5)                        | 0.52                   | 7/26/26   |  |
|                      |   |  |                            |                        | 40,509  | 27,951   |
| Joseph Cugine        | 600,000   | (1)  | 0.50                       | 5/1/23                 |   |  |
|                      | 83,333  | (2)  | 0.61                       | 5/25/24                |   |  |
|                      | 27,930  | (3)  | 0.72                       | 11/25/24               |   |  |
|                      | 83,333  | (4)  | 0.55                       | 9/15/25                |   |  |
|                      |   | 250,000  | (5)                        | 0.52                   | 7/26/26   |  |
|                      |   |  |                            |                        | 23,275  | 16,059   |

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|                  |         |     |         |      |        |
|------------------|---------|-----|---------|------|--------|
| Joseph Tesoriero | 500,000 | (1) |         | 0.82 | 5/1/23 |
|                  | 58,333  | (2) | 116,667 | (2)  | 0.61   |
|                  | 100,000 | (6) | 200,000 | (6)  | 0.77   |
|                  | 36,378  | (3) | 18,189  | (3)  | 0.72   |
|                  | 58,333  | (4) | 116,667 | (4)  | 0.55   |
|                  |         |     | 250,000 | (5)  | 1.52   |

286,089 168,793

1. Fully vested.
2. Vest in equal increments on 5/25/2017, 5/25/2018 and 5/25/2019.
3. Vest in equal increments on 11/25/2017, 11/25/2018, and 11/25/2019.
4. Vest in equal increments on 9/15/18, 9/15/19, and 9/15/20.
5. Vest in equal increments on 7/15/18, 7/15/19, and 7/15/19.
6. Vest in equal increments on 7/26/19, 7/26/20, and 7/26/21.

## Compensation of Directors

The following table summarizes the compensation paid to our directors that were not employees for the fiscal year ended December 31, 2018. A director who is a Company employee does not receive any compensation for service as a director. The compensation received by directors that are employees of the Company is shown above in the summary compensation table. We reimburse all directors for expenses incurred in their capacity as directors.

| Name                  | Fees<br>Earned<br>or<br>Paid in<br>Cash<br>(\$) | Stock<br>Awards<br>(\$) | Option<br>Awards<br>(\$) | Non-Equity<br>Incentive Plan<br>Compensation<br>(\$) | Nonqualified<br>Deferred<br>Compensation<br>Earnings<br>(\$) | All Other<br>Compensation<br>(\$) | Total<br>(\$) |
|-----------------------|---|-------------------------|--------------------------|--|--|-----------------------------------|---------------|
| Arnold Tinter         | 50,000  |                         |                          |  |  | 12,600                            | (1) 62,600    |
| Steven Lang           |   |                         | 50,000                   |  |  |                                   | 50,000        |
| Alice Elliot          |   | 50,000                  |                          |  |  |                                   | 50,000        |
| Alex Ware             |   | 50,000                  | (2)                      |  |  |                                   | 50,000        |
| Isabelle Ortiz-Cochet |   |                         | 50,000                   | (3)  |  |                                   | 50,000        |

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

(2) Mr. Ware joined the board on July 13, 2016.

(3) Ms. Ortiz-Cochet joined the board on December 16, 2016. She elected to receive Stock Options for her service beginning in 2017.

## Employment Agreements

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

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

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

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

### **Security Ownership of Certain Beneficial Owners and Management**

The following table sets forth certain information regarding our shares of common stock beneficially owned as of February 28, 2019, 2019 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 February 28, 2019. As of February 28, 2019, the Company had 129,444,882 shares of common stock outstanding. For purposes of computing the percentage of outstanding shares of our common stock held by each person or group of persons named above, any shares that such person or persons has the right to acquire within 60 days of February 28, 2019 is deemed to be outstanding, but is not deemed to be outstanding for the purpose of computing the percentage ownership of any other person. The inclusion herein of any shares listed as beneficially owned does not constitute an admission of beneficial ownership.

The following table sets forth certain information regarding our shares of common stock beneficially owned as of February 28, 2019, for (i) each shareholder known to be the beneficial owner of 5% or more of our outstanding shares of common stock, (ii) each named executive officer and director, and (iii) all executive officers and directors as a group. A person is considered to beneficially own any shares: (i) over which such person, directly or indirectly, exercises sole or shared voting or investment power, or (ii) of which such person has the right to acquire beneficial ownership at any time within 60 days through an exercise of stock options or warrants or otherwise. Unless otherwise indicated, voting and investment power relating to the shares shown in the table for our directors and executive officers is exercised solely by the beneficial owner or shared by the owner and the owner's spouse or children.



| Name and address of beneficial owner <sup>(1)</sup>   | <b>Common Stock</b>                       |                      |
|---|---|----------------------|
|   | Amount and nature of beneficial ownership | Percent of class o/s |
| Riccardo Delle Coste <sup>(2) (3) (4) (5)</sup>   | 20,878,977                                | 16.02 %              |
| Steven Lang <sup>(7) (8) (9) (10) (11)</sup>  | 20,696,294                                | 15.89 %              |
| Joseph Tesoriero <sup>(12) (13) (14)</sup>  | 1,395,396                                 | 1.07 %               |
| Arnold Tinter <sup>(15) (16)</sup>  | 950,000                                   | 0.73 %               |
| Joe Cugine <sup>(17) (18) (19) (20)</sup>   | 2,839,489                                 | 2.22 %               |
| Alice Elliot <sup>(20) (21) (22) (23)</sup>   | 1,014,429                                 | 0.78 %               |
| Alexander Ware <sup>(25) (26) (27)</sup>  | 460,452                                   | 0.36 %               |
| Isabelle Ortiz-Cochet<br>2 Allee De Longchamp Suresnes, France <sup>(28) (29)</sup>   | 225,543                                   | 0.17 %               |
| All directors and officers as a group (8 persons)   | 48,514,580                                | 36.26 %              |
| Unibel 2 Allee De Longchamp Suresnes, France 92150 <sup>(30) (31)</sup>   | 25,551,503                                | 18.56 %              |
| IBEX Investors LLC (fka) Lazarus Investment Partners LLLP<br>3200 Cherry Creek South Drive Suite 670 Denver, CO <sup>(33)</sup> 80209 | 16,245,766                                | 12.30 %              |

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

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

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

<sup>4</sup> Includes 633,333 shares underlying options granted.

<sup>5</sup> Includes 154,788 shares underlying warrants issued in connection with promissory notes the holder of which is R.D. Capital Holdings PTY Ltd. And of which Riccardo Delle Coste is deemed to be a beneficial owner.

<sup>6</sup> Includes 83,333 shares underlying convertible debt

<sup>7</sup> Mr. Lang is a Director of the Company.

8 Includes 19,127,177 shares owned by Sidra Pty Limited of which Steven Lang is deemed to be a beneficial owner.

9 Includes 534,468 shares underlying options granted.

10 Includes 268,402 shares underlying warrants issued in connection with a promissory note the holder of which is Sidra PTY Limited.

11 Includes 500,000 shares underlying convertible debt.

12 Mr. Tesoriero is the Chief Financial Officer of the Company.

13 Includes 811,378 shares underlying options granted.

14 Includes 76,629 shares underlying warrants issued in connection with a promissory note and conversion thereof.

15 Mr. Tinter is the Secretary and a Director of the Company.

16 Includes 150,000 shares underlying options granted.

17 Mr. Cugine is President of a subsidiary of the Company and a Director.

18 Includes 822,526 shares underlying options granted.

19 Includes 111,666 shares underlying warrants issued in connection with purchase of common shares.

20 Includes 83,333 shares underlying convertible debt.

21 Ms. Elliot was a Director of the Company. She resigned effective March 31, 2019.

22 Includes 360,000 shares owned by Elliot-Herbst LP of which Alice Elliot is deemed to be a beneficial owner.

23 Includes 64,599 shares owned by Elliot-Herbst Family LLC of which Ms. Elliot is deemed to be a beneficial owner.

24 Includes 368,210 shares underlying options granted.

25 Includes 130,000 shares underlying warrants issued in connection with purchase of common shares.

26 Mr. Ware is a Director of the Company.

27 Includes 301,848 shares owned by The Alexander Ware Revocable Trust of which Mr. Ware is deemed to be a beneficial owner.

28 Includes 78,125 shares underlying warrants issued to The Alexander Ware Revocable Trust in connection with purchase of common stock.

29 Ms. Ortiz-Cochet is a Director of the Company.

30 Includes 225,543 shares underlying options granted.

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

32 Includes 447,336 shares underlying warrants issued in connection with a convertible promissory note.

33 Includes 1,666,667 shares underlying convertible debt.

34 Includes 2,633,333 shares underlying warrants issued in connection with the purchase of common stock.

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

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

The following includes a summary of transactions since the beginning of fiscal 2018 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.

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 as of December 31, 2018 that five of our seven directors are independent, which constitutes a majority.

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

Aggregate fees for professional services rendered to the Company by Eide Bailly LLP for the years ended December 31, 2018 and December 31, 2017 were as follows.

| 2018 | 2017 |
|------|------|
|------|------|

|                    |          |          |
|--------------------|----------|----------|
| Audit fees         | \$71,985 | \$66,439 |
| Audit related fees | -        | -        |
| Tax fees           | 15,181   | 13,300   |
| All other fees     | -        | -        |
| Total              | \$87,166 | \$79,739 |

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

*Audit Fees.* The aggregate fees billed for the years end December 31, 2018 and December 31, 2017 were for the audits of our financial statements and reviews of our interim financial statements included in our annual and quarterly reports.

*Audit Related Fees.* Eide Bailly LLP did not provide us with audit related services for the years ended December 31, 2018 or December 31, 2017, that are not reported under Audit Fees.

*Tax Fees.* The aggregate tax fees billed for the years end December 31, 2018 and 2017 related to the preparation of corporate income tax returns.

*All Other Fees.* Eide Bailly LLP did not provide us with professional services related to “Other Fees” for the years ended December 31, 2018 or December 31, 2017.

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

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

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

## **PART IV**

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

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

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

#### *2. Financial Statement Schedules*

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

*3. Exhibits*

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

*(b) Exhibits*

See Item 15(a) (3) above.

*(c) Financial Statement Schedules*

See Item 15(a) (2) above.

## SIGNATURES

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

### BARFRESH FOOD GROUP INC.

Date: April 1, 2019 By: */s/ Riccardo Delle Coste*  
Riccardo Delle Coste  
Chief Executive Officer  
(Principal Executive Officer)

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

| Signature   | Capacity  | Date          |
|---|---|---------------|
| <i>/s/ Riccardo Delle Coste</i><br>Riccardo Delle Coste   | Chief Executive Officer and Director<br>(Principal Executive Officer) | April 1, 2019 |
| <i>/s/ Joseph Tesoriero</i><br>Joseph Tesoriero           | Chief Financial Officer<br>(Principal Financial Officer)              | April 1, 2019 |
| <i>/s/ Steven Lang</i><br>Steven Lang                     | Director  | April 1, 2019 |
| <i>/s/ Arnold Tinter</i><br>Arnold Tinter                 | Director  | April 1, 2019 |
| <i>/s/ Joseph M. Cugine</i><br>Joseph M. Cugine           | Director  | April 1, 2019 |
| <i>/s/ Isabelle Ortiz-Cochet</i><br>Isabelle Ortiz-Cochet | Director  | April 1, 2019 |
| <i>/s/ Alexander H. Ware</i><br>Alexander Ware            | Director  | April 1, 2019 |





## Exhibit Index

| Exhibit Number | Description   |
|----------------|---|
| 2.1            | <u>Share Exchange Agreement dated January 10, 2012 by and among Moving Box Inc., Andreas Wilcken, Jr., Barfresh Inc. and the shareholders of Barfresh Inc. (incorporated by reference to Exhibit 2.1 to Current Report on Form 8-K as filed January 17, 2012)</u> |
| 3.1            | <u>Certificate of Incorporation of Moving Box Inc. dated February 25, 2010 (incorporated by reference to Exhibit 3.1 to Form S-1 (Registration No. 333-168738) as filed August 11, 2010)</u>  |
| 3.2            | <u>Amended and Restated Bylaws of Barfresh Food Group Inc. (incorporated by reference to Exhibit 3.1 to Current Report on Form 8-K as filed August 4, 2014)</u>   |
| 3.3            | <u>Certificate of Amendment of Certificate of Incorporation of Moving Box Inc. dated February 13, 2012 (incorporated by reference to Exhibit 3.1 to Current Report on Form 8-K as filed February 17, 2012)</u>  |
| 3.4            | <u>Certificate of Amendment of Certificate of Incorporation of Smoothie Holdings Inc. dated February 16, 2012 (incorporated by reference to Exhibit 3.2 to Current Report on Form 8-K as filed February 17, 2012)</u>   |
| 4.1            | <u>Form of Series A Warrant (incorporated by reference to Exhibit 10.3 to Current Report on Form 8-K as filed January 17, 2012)</u>   |
| 4.2            | <u>Form of Series B Warrant (incorporated by reference to Exhibit 4.2 to Form 10K for the period ending March 31, 2014, as filed June 30, 2014)</u>   |
| 4.3            | <u>Form of Series C Warrant (incorporated by reference to Exhibit 4.3 to Form 10K for the period ending March 31, 2014, as filed June 30, 2014)</u>   |
| 4.4            | <u>Form of Series D Warrant (incorporated by reference to Exhibit 4.4 to Form 10K for the period ending March 31, 2014, as filed June 30, 2014)</u>   |
| 4.5            | <u>Form of Series PA Warrant (incorporated by reference to Exhibit 4.5 to Form 10K for the period ending March 31, 2014, as filed June 30, 2014)</u>  |
| 4.6            | <u>Form of Series CN Warrant (incorporated by reference to Exhibit 4.6 to Form 10K for the period ending March 31, 2014, as filed June 30, 2014)</u>  |
| 4.7            | <u>Form of Series EN Warrant (incorporated by reference to Exhibit 4.7 to Registration Statement on Form S-1 (Registration No. 333-211019) as filed April 29, 2016)</u>   |
| 4.8            | <u>Form of Series E Warrant (Incorporated by reference to Exhibit 3.8 to Registration Statement on Form S-1 (Registration No. 333-203340) as filed April 10, 2015)</u>  |
| 4.9            |   |

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

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

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

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

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

4.14 Form of Series K Warrant (incorporated by reference to Exhibit 4.14 to Registration Statement on Form S-1 (Registration No. 333-333-215322) as filed December 23, 2016)

4.15 Form of Series J Warrant (incorporated by reference to Exhibit 4.15 to Registration Statement on Form S-1 (Registration No. 333-333-215322) as filed December 23, 2016)

4.16 Repayment of Debt Agreement dated July 26, 2018 by and between Barfresh Food Group, Inc. and Ibex Investors LLC (incorporated by reference to Exhibit 4.16 to Registration Statement on Form S-1, No.333-228030)

4.17 Form of Series L Warrant (incorporated by reference to Exhibit 4.17 to Registration Statement on Form S-1, No.333-228030)

4.18 Form of 10% Convertible Promissory Note dated March 5, 2018 issued by Barfresh Food Group Inc. in favor of Ibex Investors LLC (incorporated by reference to Exhibit 4.18 to Registration Statement on Form S-1, No.333-228030)

4.19 Form of 12% Convertible Promissory Note issued by Barfresh Food Group, Inc. in favor of certain investors in February 2018 (incorporated by reference to Exhibit 4.19 to Registration Statement on Form S-1, No.333-228030)

10.1 Form of Registration Rights Agreement dated February 16, 2016 (incorporated by reference to Exhibit 10.1 to Registration Statement on Form S-1 (Registration No. 333-211019) as filed April 29, 2016)

- 10.2 Intellectual Property Sale Deed by and between National Australia Bank Limited and Barfresh Inc. dated October 15, 2013 (incorporated by reference to Exhibit 10.1 to Quarterly Report on Form 10-Q as filed November 20, 2013)
- 10.3 Form of Securities Purchase Agreement dated February 16, 2016 by and between Barfresh Food Group Inc. and certain investors. (incorporated by reference to Exhibit 10.3 to Registration Statement on Form S-1 (Registration No. 333-211019) as filed April 29, 2016)
- 10.4 Form of Investor Rights Agreement dated November 23, 2016 by and between Barfresh Food Group, Inc. and Unibel (Incorporated by reference to Exhibit 10.4 to Registration Statement of Form S-1 No. 333-203340)
- 10.5 Form of Securities Purchase Agreement dated November 23, 2016 by and between Barfresh Food Group, Inc. and Unibel (incorporated by reference to Exhibit 10.5 to Registration Statement on Form S-1 (Registration No. 333-215322) as filed December 23, 2016)
- 10.6 Form of Securities Purchase Agreement dated September 28, 2016 by and between Barfresh Food Group, Inc. and certain investors (incorporated by reference to Exhibit 10.6 to Registration Statement on Form S-1 (Registration No. 333-215322) as filed December 23, 2016)
- 10.7 Form of Registration Rights Agreement dated September 28, 2016 by and between Barfresh Food Group, Inc. and certain investors (incorporated by reference to Exhibit 10.7 to Registration Statement on Form S-1 (Registration No. 333-215322) as filed December 23, 2016)
- 10.8 Barfresh Food Group, Inc. 2014 Equity Incentive Plan (incorporated by reference to Exhibit 10.10 to Annual Report Form 10-K filed June 30, 2014)+
- 10.9 Barfresh Food Group, Inc. 2015 Equity Incentive Plan (incorporated by reference to Exhibit 10.10 to Annual Report Form 10-K filed July 7, 2015)+
- 10.10 Executive Employment Agreement by and between Smoothie, Inc. and Riccardo Delle Coste dated April 27, 2015 (incorporated by reference to Exhibit 10.11 to Annual Report Form 10-K filed July 7, 2015)+
- 10.11 Executive Employment Agreement by and between Smoothie, Inc. and Joseph M. Cugine dated April 27, 2015 (incorporated by reference to Exhibit 10.12 to Annual Report Form 10-K filed July 7, 2015)+
- 10.12 Executive Employment Agreement by and between Barfresh Food Group, Inc. and Joseph S. Tesoriero dated May 18, 2015 (incorporated by reference to Exhibit 10.13 to Annual Report Form 10-K filed July 7, 2015)+
- 10.13 Form of Series D Warrant Exercise Offer dated July 25, 2018 (incorporated by reference to Exhibit 10.13 to Registration Statement on Form S-1, No. 333-228030)
- 10.14 Form of Securities Purchase Agreement dated February 14, 2018 by and between Barfresh Food Group, Inc. and certain investors (incorporated by reference to Exhibit 10.14 to Registration Statement on Form S-1, No.333-228030)
- 21.1 Subsidiaries \*

- 31.1 Certification of Principal Executive Officer, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)\*
- 31.2 Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)\*
- 32.1 Certification of Principal Executive Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002\*
- 32.2 Certification of Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002\*

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

\* Filed herewith  
+ Compensatory plan

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

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

**Barfresh Food Group Inc.**

**Index to Consolidated Financial Statements**

|   | <b>Page</b> |
|---|-------------|
| <u>Report of Independent Registered Public Accounting Firm</u>  | F-2         |
| <u>Consolidated Balance Sheets as of December 31, 2018 and 2017</u>   | F-3         |
| <u>Consolidated Statements of Operations for the Years Ended December 31, 2018 and 2017</u>                       | F-4         |
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## **Report of Independent Registered Public Accounting Firm**

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

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

We have audited the accompanying consolidated balance sheets of Barfresh Food Group, Inc. (the “Company”) as of December 31, 2018 and 2017, and the related consolidated statements of operations, stockholders’ equity (deficit), and cash flows for the years then ended, and the related notes (collectively referred to as the “financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Barfresh Food Group, Inc. as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

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

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

Our audits included performing procedures to assess the risk of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our

audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

*/s/ Eide Bailly LLP*

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

Denver, Colorado

April 1, 2019

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## Barfresh Food Group Inc.

## Consolidated Balance Sheets

December 31, 2018 and 2017

|   | 2018         | 2017         |
|---|--------------|--------------|
| Assets  |              |              |
| Current assets:   |              |              |
| Cash  | \$1,041,569  | \$1,304,916  |
| Accounts receivable, net  | 357,304      | 301,012      |
| Inventory, net  | 1,226,463    | 1,415,495    |
| Prepaid expenses and other current assets   | 98,457       | 24,496       |
| Total current assets  | 2,723,793    | 3,045,919    |
| Property, plant and equipment, net of depreciation  | 2,500,254    | 1,760,890    |
| Intangible assets, net of amortization  | 537,789      | 586,943      |
| Deposits  | -            | 39,369       |
| Total Assets  | \$5,761,836  | \$5,433,121  |
| Liabilities And Stockholders' Equity (Deficit)  |              |              |
| Current liabilities:  |              |              |
| Accounts payable  | \$1,101,882  | \$421,176    |
| Accrued expenses  | 175,259      | 439,032      |
| Accrued payroll   | 638,706      | 161,186      |
| Accrued vacation  | 155,586      | 249,311      |
| Deferred rent   | -            | 495          |
| Total current liabilities   | 2,071,433    | 1,271,200    |
| Long term liabilities:  |              |              |
| Accrued interest  | 190,475      | -            |
| Convertible note - related party, net of discount   | 841,836      | -            |
| Convertible note, net of discount   | 1,367,487    | -            |
| Derivative liabilities  | 1,325,653    | -            |
| Total liabilities   | 5,796,884    | 1,271,200    |
| Commitments and contingencies (Note 6,7,8 and 13)   |              |              |
| Stockholders' equity (deficit):   |              |              |
| Preferred stock, \$0.000001 par value, 5,000,000 shares authorized, none issued or outstanding  | -            | -            |
| Common stock, \$0.000001 par value; 300,000,000 shares authorized; 122,770,960 and 118,690,527 shares issued and outstanding at December 31, 2018 and December 31, 2017, respectively | 123          | 119          |
| Additional paid in capital  | 41,118,649   | 37,992,799   |
| Accumulated deficit   | (41,153,820) | (33,830,997) |

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|  |             |             |
|--|-------------|-------------|
| Total stockholders' equity (deficit)                 | (35,048 )   | 4,161,921   |
| Total Liabilities and Stockholders' Equity (Deficit) | \$5,761,836 | \$5,433,121 |

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 December 31, 2018 and 2017

|  | 2018           | 2017           |
|--|----------------|----------------|
| Revenue  | \$4,235,159    | \$1,997,012    |
| Cost of revenue                                  | 2,033,396      | 1,085,575      |
| Depreciation of manufacturing equipment          | 57,099         | 21,766         |
| Gross profit                                     | 2,144,664      | 889,671        |
| Operating expenses:                              |                |                |
| General and administrative                       | 7,813,425      | 9,492,094      |
| Depreciation and amortization                    | 511,319        | 309,117        |
| Total operating expenses                         | 8,324,744      | 9,801,211      |
| Operating loss                                   | (6,180,080 )   | (8,911,540 )   |
| Other expenses                                   |                |                |
| Loss from derivative liability                   | 87,630         | -              |
| Warrant modification                             | 290,300        | -              |
| Interest   | 764,813        | -              |
| Total other expense                              | 1,142,743      | -              |
| Net (loss)                                       | \$(7,322,823 ) | \$(8,911,540 ) |
| Per share information - basic and fully diluted: |                |                |
| Weighted average shares outstanding              | 119,599,191    | 117,748,411    |
| Net (loss) per share                             | \$(0.06 )      | \$(0.08 )      |

See the accompanying notes to the consolidated financial statements

Barfresh Food Group, Inc.

Statement of Stockholders' Equity

For the Period from January 1, 2017 to December 31, 2018

|  | Common Stock |        | Additional         | Accumulated    |              |
|--|--------------|--------|--------------------|----------------|--------------|
|  | Shares       | Amount | paid in<br>Capital | (Deficit)      | Total        |
| Balance January 1, 2017                  | 117,103,276  | \$ 117 | 35,829,627         | (24,919,457)   | 10,910,287   |
| Exercise of warrants                     | 232,005      | -      | 35,400             | -              | 35,400       |
| Exercise of options                      | 276,171      | -      | -                  | -              | -            |
| Issuance of stock for services           | 178,733      | 1      | 112,250            | -              | 112,251      |
| Equity based compensation                | 900,342      | 1      | 2,015,522          | -              | 2,015,523    |
| Net (loss) for the year                  | -            | -      | -                  | (8,911,540 )   | (8,911,540 ) |
| Balance December 31, 2017                | 118,690,527  | \$ 119 | \$37,992,799       | \$(33,830,997) | \$4,161,921  |
| Exercise of warrants                     | 2,017,821    | 2      | 924,998            | -              | 925,000      |
| Cashless exercise of options             | 107,821      | -      | -                  | -              | -            |
| Conversion of notes payable              | 804,396      | 1      | 580,853            | -              | 580,854      |
| Issuance of stock for services           | 1,150,395    | 1      | 190,166            | -              | 190,167      |
| Equity based compensation                | -            | -      | 598,768            | -              | 598,768      |
| Discount on convertible notes (warrants) | -            | -      | 540,765            | -              | 540,765      |
| Warrant modification                     | -            | -      | 290,300            | -              | 290,300      |
| Net (loss) for the year                  | -            | -      | -                  | (7,322,823 )   | (7,322,823 ) |
| Balance December 31, 2018                | 122,770,960  | \$ 123 | \$41,118,649       | \$(41,153,820) | \$(35,048 )  |

See the accompanying notes to the consolidated financial statements

Barfresh Food Group Inc.

## Consolidated Statements of Cash Flows

For the years ended December 31, 2018 and 2017

|   | 2018          | 2017          |
|---|---------------|---------------|
| Net income  | \$(7,322,823) | \$(8,911,540) |
| Adjustments to reconcile net income to net cash from operating activities |               |               |
| Depreciation  | 504,808       | 268,784       |
| Amortization  | 63,610        | 62,099        |
| Change in allowance for doubtful accounts                                 | 61,788        | -             |
| Change in inventory reserve   | 31,237        | -             |
| Interest expense, amortization of debt discount                           | 519,707       | -             |
| Warrant modification expense  | 290,300       | -             |
| Stock-Based compensation  | 598,768       | 1,550,718     |
| Loss on derivative  | 87,630        | -             |
| Gain on sale of assets  | (13,118 )     | -             |
| Stock and options issued for services                                     | 190,167       | 112,250       |
| Changes in assets and liabilities   |               |               |
| Receivables - trade   | (148,055 )    | (169,924 )    |
| Inventories   | 213,346       | (1,097,547)   |
| Prepaid expenses & other assets   | (4,617 )      | 1,368         |
| Deposits  | -             | 13,833        |
| Accounts payable  | 458,507       | 267,420       |
| Accrued expenses  | 120,022       | 567,960       |
| Accrued interest  | 220,934       | -             |
| Deferred rent   | (495 )        | 330           |
| Net Cash (used for) Operating Activities                                  | (4,128,284)   | (7,334,249)   |
| Investing Activities  |               |               |
| Purchase of property and equipment  | (1,106,574)   | (535,196 )    |
| Proceeds from sale of equipment   | 37,967        | -             |
| Purchase of intangibles   | (14,456 )     | (29,179 )     |
| Net Cash (used for) Investing Activities                                  | (1,083,063)   | (564,375 )    |
| Financing Activities  |               |               |
| Cash received for warrant Exercises                                       | 925,000       | 35,400        |
| Cash paid for debt offering costs   | (45,000 )     | -             |
| Issuance of convertible notes   | 4,318,000     | -             |
| Repayment of long term debt   | (250,000 )    | (12,807 )     |
| Net Cash from Financing Activities  | 4,948,000     | 22,593        |
| Net Change in Cash and Cash Equivalents                                   | (263,347 )    | (7,876,031)   |

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|   |             |             |
|---|-------------|-------------|
| Cash and Cash Equivalents, Beginning of Year                                    | 1,304,916   | 9,180,947   |
| Cash and Cash Equivalents, End of Year  | \$1,041,569 | \$1,304,916 |
| Interest Paid   | \$-         | \$-         |
| Non Cash Financing and Investing Activities                                     |             |             |
| Settlement of liability with equity awards                                      | -           | 464,806     |
| Total property and equipment included in accounts payable                       | 216,768     | -           |
| Discount on convertible notes   | 1,874,684   | -           |
| Convertible notes principal, interest and derivative liability settled in stock | 580,854     | -           |

See the accompanying notes to the financial statements

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

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

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

### *Basis of Consolidation*

The consolidated financial statements include the financial statements of the Company and our wholly owned subsidiaries, Barfresh Inc. and Barfresh Corporation Inc. (formerly known as 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.

### *Concentration of Credit Risk*

The amount of cash on deposit with financial institutions exceeds the \$250,000 federally insured limit at December 31, 2018 and 2017. 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 cash, accounts receivable, accounts payable, accrued expenses, derivative liabilities, and convertible notes. The carrying value of our financial instruments approximates their fair value, except for the derivative liability in which carrying value is fair value.

#### *Accounts Receivable*

Accounts receivable are typically unsecured. Our credit policy calls for payment generally within 30 days. The credit worthiness of a customer is evaluated prior to a sale. As of December 31, 2018 and 2017, the company’s allowance for doubtful accounts was \$61,788 and \$0, respectively. There was bad debt expense for the year ended December 31, 2018 of \$61,788 and no bad debt expense for the year ended December 31, 2017. The allowance was applied to certain receivable accounts which are over 95 days.



### *Inventory*

Inventory consists of finished goods and is carried at the lower of cost or realizable value on a first in first out basis. The company monitors the remaining useful life of its inventory and establishes a reserve of obsolescence where appropriate. As of December 31, 2018 and 2017, the Company's inventory reserve was \$31,237 and \$0, respectively.

### *Intangible Assets*

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

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

### *Long-Lived Assets and Other Acquired Intangible Assets*

We evaluate the recoverability of property and equipment and finite-lived intangible assets for possible impairment whenever events or circumstances indicate that the carrying amount of such assets may not be recoverable. The evaluation is performed at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. Recoverability of these assets is measured by a comparison of the carrying amounts to the future undiscounted cash flows the assets are expected to generate. If such review indicates that the carrying amount of property and equipment and intangible assets is not recoverable, the carrying amount of such assets is reduced to fair value. We have not recorded any significant impairment charges during the years presented.

### *Property, Plant, and Equipment*

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

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

Furniture and fixtures: 5 years

Manufacturing equipment and customer equipment: 3 years to 7 years

Leasehold improvements: 2 years

Vehicles 5 years

### *Revenue Recognition*

In accordance with ASC 606, Revenue from Contracts with Customers, revenue is recognized when a customer obtains ownership of promised goods. The Company adopted this standard at the beginning of fiscal year 2018, with no significant impact to its financial position or results of operations, using the modified retrospective method. The amount of revenue recognized reflects the consideration to which the Company expects to be entitled to receive in exchange for these goods. The Company applies the following five steps:

#### *1) Identify the contract with a customer*

A contract with a customer exists when (i) the Company enters into an enforceable contract with a customer that defines each party's rights, (ii) the contract has commercial substance and, (iii) the Company determines that collection of substantially all consideration for goods or services that are transferred is probable. For the Company, the contract is the approved sales order, which may also be supplemented by other agreements that formalize various terms and conditions with customers.

#### *2) Identify the performance obligation in the contract*

Performance obligations promised in a contract are identified based on the goods or that will be transferred to the customer. For the Company, this consists of the delivery of frozen beverages, which provide immediate benefit to the customer.

*3) Determine the transaction price*

The transaction price is determined based on the consideration to which the Company will be entitled in exchange for transferring goods, and is generally stated on the approved sales order. Variable consideration, which typically includes volume-based rebates or discounts, are estimated utilizing the most likely amount method.

*Allocate the transaction price to performance obligations in the contract* Since our contracts contain a single performance obligation, delivery of frozen beverages, the transaction price is allocated to that single performance obligation.

*5) Recognize Revenue when or as the Company satisfies a performance obligation*

The Company recognizes revenue from the sale of frozen beverages when title and risk of loss passes and the customer accepts the goods, which generally occurs at delivery. Customer sales incentives such as volume-based rebates or discounts are treated as a reduction of sales at the time the sale is recognized. Shipping and handling costs are treated as fulfillment costs and presented in distribution, selling and administrative costs.

The company evaluated the requirement to disaggregate revenue, and concluded that substantially all of its revenue comes from a single product, frozen beverages.

*Research and Development*

Expenditures for research activities relating to product development and improvement are charged to expense as incurred. We incurred \$674,224 and \$574,989, in research and development expenses for the years ended December 31, 2018 and 2017, respectively.

*Shipping and Storage Costs*

Shipping and handling costs are included in general and administrative expenses. For the years ended December 31, 2018 and 2017, shipping and handling costs totaled \$864,871 and \$619,871, 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").

*Income Taxes*

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

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

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

For the years ended December 31, 2018 and 2017 we did not have any interest and penalties or any significant unrecognized uncertain tax positions.

### *Derivative Liability*

The Company evaluates its convertible instruments, options, warrants or other contracts to determine if those contracts or embedded components of those contracts qualify as derivatives to be separately accounted for under ASC Topic 815, “Derivatives and Hedging.” The result of this accounting treatment is that the fair value of any derivative is marked-to-market each balance sheet date and recorded as a liability. In the event that the fair value is recorded as a liability, the change in fair value is recorded in the statement of operations as gain/loss from derivative liability. Upon conversion or exercise of a derivative instrument, the instrument is marked to fair value at the conversion date and then that fair value is reclassified to equity. We analyzed the derivative financial instruments in accordance with ASC 815. The objective is to provide guidance for determining whether an equity-linked financial instrument is indexed to an entity’s own stock. This determination is needed for a scope exception which would enable a derivative instrument to be accounted for under the accrual method. The classification of a non-derivative instrument that falls within the scope of ASC 815-40-05 “Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company’s Own Stock” also hinges on whether the instrument is indexed to an entity’s own stock. A non-derivative instrument that is not indexed to an entity’s own stock cannot be classified as equity and must be accounted for as a liability. There is a two-step approach in determining whether an instrument or embedded feature is indexed to an entity’s own stock. First, the instrument’s contingent exercise provisions, if any, must be evaluated, followed by an evaluation of the instrument’s settlement provisions. The Company utilized the fair value standard set forth by the Financial Accounting Standards Board, defined as the amount at which the assets (or liability) could be bought (or incurred) or sold (or settled) in a current transaction between willing parties, that is, other than in a forced or liquidation sale.

### *Earnings per Share*

We calculate net loss per share in accordance with ASC Topic 260, *Earnings per Share*. Basic net loss per share is computed by dividing net loss by the weighted average number of shares of common stock outstanding for the period, and diluted earnings per share is computed by including common stock equivalents outstanding for the period in the denominator. At December 31, 2018 and 2017 any equivalents would have been anti-dilutive as we had losses for the periods then ended.

### *Stock Based Compensation*

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

### *Reclassifications*

Certain reclassifications of amounts previously reported have been made to the accompanying consolidated financial statements to maintain consistency between periods presented. The reclassifications had no impact on net income or stockholder's equity.

### *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.

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

The Company has evaluated the effect of the standard on our financial statements. Based on our evaluation, we will have one material lease subject to adoption of this standard in our upcoming fiscal year. As disclosed in Note 14, we entered into a new office space lease that will take effect on April 1, 2019 and would expect to record a right-of-use asset and corresponding liability for amounts that approximate our future commitments of approximately \$300,000. The Company does not plan to adopt the standard until the interim period ended March 31, 2019.

**Note 2. Property Plant and Equipment**

Major classes of property and equipment at December 31, 2018 and 2017 consist of the following:

|  | 2018        | 2017        |
|--|-------------|-------------|
| Furniture and fixtures                         | \$1,524     | \$1,524     |
| Manufacturing Equipment and customer equipment | 3,118,391   | 1,952,538   |
| Leasehold Improvements                         | 4,886       | 4,886       |
| Vehicles                                       | 29,696      | 29,696      |
|  | 3,154,497   | 1,988,644   |
| Less: accumulated depreciation                 | (1,190,846) | (665,657 )  |
|  | 1,963,651   | 1,322,987   |
| Equipment not yet placed in service            | 536,605     | 437,903     |
| Property and equipment, net of depreciation    | \$2,500,254 | \$1,760,890 |

We recorded depreciation expense related to these assets of \$504,808 and \$268,784 for the years ended December 31, 2018 and 2017, respectively.

**Note 3. Intangible Assets**

As of December 31, 2018, intangible assets consist of patent costs of \$764,891, trademarks of \$103,309 and accumulated amortization of \$330,411.

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

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 \$63,610 and \$62,099 for the years ended December 31, 2018 and 2017, respectively.

Estimated future amortization expense related to patents as of December 31, 2018, is as follows:

|                           | Total<br>Amortization |
|---------------------------|-----------------------|
| Years ending December 31, |                       |
| 2019                      | \$ 63,610             |
| 2020                      | 63,610                |
| 2021                      | 63,610                |
| 2022                      | 63,610                |
| 2023                      | 63,610                |
| Later years               | 116,430               |
|                           | \$ 434,480            |

#### **Note 4. Related Parties**

As disclosed below in Note 6, members of management and directors invested in company's convertible notes; and in Note 9, members of management and directors have received shares of stock and options in exchange for services.

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## Note 5. Short-Term Notes Payable

In March 2018, we closed an offering of \$250,000 in a short-term note payable. The short-term note bore 12% interest per annum with an original maturity date in September 2018 which was extended to December 31, 2018. During the three months ended September 30, 2018, the Company paid down \$50,000 of the short term note, and the balance of \$200,000 of the note payable was paid in full during December 2018.

## Note 6. Convertible Notes (Related and Unrelated Party)

In March 2018, we closed an offering of \$2,527,500 in convertible notes, Series CN Note 1 of 2, of which, management, directors and significant shareholders have invested \$840,000. The convertible notes bear 10% interest per annum and are due and payable on March 14, 2020. The notes are convertible at any time prior to the due date into our common stock at conversion price of \$0.88 per share or 85% of the average closing price of the common stock over the twenty consecutive trading days immediately preceding the date of note holders' election; but in no events lower than \$0.60 per share. In addition, the interest is convertible at any time prior to the due dates into our common stock at conversion price of 85% of the average closing price of the common stock over the twenty consecutive trading days immediately preceding the date of note holders' election; but in no event lower than \$0.60 per share. There were 1,331,583 warrants issued, in conjunction with the convertible note offering.

The fair value of the warrants, \$0.17 per share (\$220,548 in the aggregate), was calculated using the Black-Scholes option pricing model using the following assumptions:

|  |         |
|--|---------|
| Expected life (in years)                   | 3       |
| Volatility (based on a comparable company) | 54.82 % |
| Risk Free interest rate                    | 2.41 %  |
| Dividend yield (on common stock)           | -       |

The value of \$220,548 was recorded as a debt discount related to the issuance of the warrants.

In April 2018, we offered investors in our March 2018 Convertible Note ("Series CN Notes") the opportunity to accelerate the issuance of certain warrants associated with the CN Notes. Pursuant to the acceleration offer, Series CN Notes investors who invested an additional 10% to 20% of the Series CN Note amount, immediately received an

additional 25% warrant coverage on their initial CN Note investment, which would otherwise have been issued after one year. During April 2018, we closed the CN Note acceleration offer in the amount of \$177,300 in convertible notes, of which, management, directors and significant shareholders have invested \$30,000. The CN Note acceleration offer convertible notes bear 10% interest per annum and are due and payable on March 14, 2020. The notes are convertible at any time prior to the due date into our common stock at conversion price of \$0.88 per share or 85% of the average closing price of the common stock over the twenty consecutive trading days immediately preceding the date of note holders' election; but in no events lower than \$0.60 per share. In addition, the interest is convertible at any time prior to the due dates into our common stock at conversion price of 85% of the average closing price of the common stock over the twenty consecutive trading days immediately preceding the date of note holders' election; but in no events lower than \$0.60 per share. There were 937,373 warrants issued in conjunction with the Series CN Note acceleration offer convertible note offering.

The fair value of the warrants, \$0.25 per share (\$235,519 in the aggregate), was calculated using the Black-Scholes option pricing model using the following assumptions:

|  |        |
|--|--------|
| Expected life (in years)                   | 3      |
| Volatility (based on a comparable company) | 55.49% |
| Risk Free interest rate                    | 2.45 % |
| Dividend yield (on common stock)           | -      |

The value of \$105,199 was recorded as a debt discount related to the issuance of the warrants as using the fair value would cause the debt discount to exceed the gross proceeds received.

In November and December 2018, three investors elected to convert their convertible note issued on March 14, 2018 into stock. The total debt converted was \$453,000 and \$30,459 accrued interest into 804,396 shares of stock.

The convertible notes consist of the following components as of the year-end:

|  |                      |
|--|----------------------|
|  | December<br>31, 2018 |
| Convertible notes                              | \$2,704,800          |
| Less: Debt discount (warrant value)            | (325,747 )           |
| Less: Debt discount (derivative value)(Note 7) | (638,988 )           |
| Less: Debt discount (issuance costs paid)      | (27,000 )            |
| Less: Note conversion                          | (453,000 )           |
| Add: Debt discount amortization                | 481,042              |
|  | \$1,741,107          |

In December 2018, we closed an offering of \$1,363,200 in convertible notes, Series CN 2 of 2, of which, management, directors and significant shareholders have invested \$560,000. The convertible notes bear 10% interest per annum and are due and payable on November 30, 2020. The notes are convertible at any time prior to the due date into our common stock at conversion price of \$0.88 per share or 85% of the average closing price of the common stock over the twenty consecutive trading days immediately preceding the date of note holders' election; but in no events lower than \$0.60 per share. In addition, the interest is convertible at any time prior to the due dates into our common stock at conversion price of 85% of the average closing price of the common stock over the twenty consecutive trading days immediately preceding the date of note holders' election; but in no event lower than \$0.60 per share. There were 678,864 warrants issued, in conjunction with the convertible note offering.

The fair value of the warrants, \$0.31 per share (\$212,763 in the aggregate), was calculated using the Black-Scholes option pricing model using the following assumptions:

|  |        |
|--|--------|
| Expected life (in years)                   | 3      |
| Volatility (based on a comparable company) | 59.00% |
| Risk Free interest rate                    | 2.83 % |
| Dividend yield (on common stock)           | -      |

The value of \$212,763 was recorded as a debt discount related to the issuance of the warrants.

The convertible notes consist of the following components as of the year-end:

|  |                      |
|--|----------------------|
|  | December<br>31, 2018 |
| Convertible notes                              | \$1,363,200          |
| Less: Debt discount (warrant value)            | (212,763 )           |
| Less: Debt discount (derivative value)(Note 7) | (697,186 )           |
| Less: Debt discount (issuance costs paid)      | (23,700 )            |
| Add: Debt discount amortization                | 38,665               |
|  | \$468,216            |

As of December 31, 2018, the outstanding balances due of the Series CN Notes, net of all related debt discount, total \$2,209,323. The related party convertible notes (net) and unrelated party convertible notes (net) represent \$841,836 and \$1,367,487, respectively as of December 31, 2018.

Future maturity of convertible notes at face value before effect of all discount, are as follow:

|                           |                               |
|---------------------------|-------------------------------|
|                           | Total<br>Convertible<br>Notes |
| Years ending December 31, |                               |
| 2019                      | \$ -                          |
| 2020                      | 3,615,000                     |
| 2021                      | -                             |
| 2022                      | -                             |

2023

-

\$ 3,615,000

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**Note 7. Derivative Liabilities**

As discussed in Note 6, Convertible Notes, the Company issued Series CN Note acceleration offer convertible notes payable that provide variable conversion provisions. The conversion terms of the convertible notes are variable based on certain factors, such as the future price of the Company's common stock. The number of shares of common stock to be issued is based on the future price of the Company's common stock, therefore the number of shares of common stock issuable upon conversion of the promissory note is indeterminate.

The fair values of the Company's derivative liabilities are estimated at the issuance date and are revalued at each subsequent reporting date. The Company recognized a derivative liability and debt discount of \$569,588 at March 14, 2018 related to the Series CN Convertible notes 1 of 2; \$69,400 at April 11, 2018 related to the Series CN Notes Warrant Acceleration; and \$697,186 at November 30, 2018 related to the Series CN Convertible note 2 of 2. The derivative liability was revalued at December 31, 2018 with a value of \$1,325,653. The Company recorded a net loss of \$87,630 for the year ended December 31, 2018 related to the derivative liability. The net loss consists of a \$110,829 gain for a portion of the derivative liability being settled upon a note holders decision to convert their outstanding principal under the terms of the convertible note agreement to equity and a loss of \$198,459 from the change in fair value.

The fair value of the derivative liability for CN Convertible Note 1 of 2 and CN Note Warrant Acceleration was calculated using the Black-Scholes model using the following assumptions.

|  | 14-Mar-18 |   | 11-Apr-18 |   | 31-Dec-18 |   |
|--|-----------|---|-----------|---|-----------|---|
| Expected life                            | 2         |   | 1.96      |   | 1.20      |   |
| Volatility (based on comparable company) | 49.00     | % | 53.93     | % | 72.03     | % |
| Risk Free interest rate                  | 2.41      | % | 2.32      | % | 2.48      | % |
| Dividend yield (on common stock)         | -         |   | -         |   | -         |   |

The fair value of the derivative liability for CN Convertible Note 2 of 2 was calculated using the Black-Scholes model using the following assumptions.

|  | 30-Nov-18 |   | 31-Dec-18 |   |
|--|-----------|---|-----------|---|
| Expected life                            | 2         |   | 1.92      |   |
| Volatility (based on comparable company) | 61.17     | % | 63.70     | % |
| Risk Free interest rate                  | 2.80      | % | 2.48      | % |
| Dividend yield (on common stock)         | -         |   | -         |   |

Reconciliation of the derivative liability measured at fair value on a recurring basis with the use of significant unobservable inputs (level 3) from December 31, 2017 to December 31, 2018:

|   |              |
|---|--------------|
| December 31, 2017                             | \$-          |
| Initial value - March 14, 2018                | 569,588      |
| Initial value - April 11, 2018                | 69,400       |
| Initial value - November 30, 2018             | 697,186      |
| Fair value of settlement from debt conversion | (208,980 )   |
| Loss from change in value                     | 198,459      |
| For the period ended December 31, 2018        | \$ 1,325,653 |

The following table presents the Company's fair value hierarchy for applicable assets and liabilities measured at fair value as of December 31, 2018.

|                      | Level 1 | Level 2 | Level 3   | Total        |
|----------------------|---------|---------|-----------|--------------|
| Derivative Liability | \$ -    | -       | 1,325,653 | \$ 1,325,653 |

#### Note 8. Commitments and Contingencies

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

|                               |          |
|-------------------------------|----------|
| For years ending December 31, |          |
| 2019                          | 43,462   |
|                               | \$43,462 |

We incurred lease expense of \$167,530 and \$132,620 for the years ended December 31, 2018 and 2017, respectively.

**Note 9. Stockholders' Equity**

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

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

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

During the year ended December 31, 2018, we issued 180,265 shares of common stock, valued at \$90,167 for services. We also issued 183,240 shares of our common stock, with a value of \$100,000, to certain members of our Board of Directors in lieu of cash payments for Director fees. Also, we have 786,890 shares issued in connection with formerly issued restricted stock grants that vested during 2018. In addition, we issued 227,111 options to purchase our common stock to certain members of the Board of Directors in lieu of cash payments for Director fees, valued at \$100,000. The exercise price of the options ranged from \$0.50 to \$0.595 per share, vest immediately, and are exercisable for periods of 8 years. In addition, we issued 1,315,000 options to purchase our common stock to employees and executives. The exercise price of the options is \$0.52 per share, vest after 3 years, and are exercisable for periods of 8 years.

The fair value of the options issued (\$543,550, in the aggregate) was calculated using the Black-Sholes option pricing model, based on the criteria shown below.

|  |                |
|--|----------------|
| Expected life (in years)                   | 5.5 to 8       |
| Volatility (based on a comparable company) | 59.82%-70.29 % |
| Risk Free interest rate                    | 2.78%-2.93 %   |
| Dividend yield (on common stock)           | -              |



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The shares of our common stock were valued at the trading price on the date of grant, \$0.47 and \$0.52 per share

During the same period, we cancelled 321,183 options to purchase our common stock.

Holders of 1,933,333 warrants exercised those warrants for cash proceeds of \$925,000 and received 1,933,333 shares of our common stock.

Holders of 250,000 N warrants elected to exercise those warrant on a cashless basis and received 84,488 shares of our common stock.

Holders of 737,887 options elected to exercise those warrants on a cashless basis and received 107,821 shares of our common stock.

The total amount of equity-based compensation included in additional paid in capital for the years ended December 31, 2018 and 2017 was \$598,768 and \$1,550,718, respectively,

The following is a summary of outstanding stock options issued to employees and directors as of December 31, 2018:

|                                | Number     | Exercise           | Average remaining | Aggregate                           |
|--------------------------------|------------|--------------------|-------------------|-------------------------------------|
|                                | of Options | price per share \$ | term in years     | intrinsic value at date of grant \$ |
| Outstanding January 1, 2017    | 5,862,442  | .45 - .87          |                   | -                                   |
| Issued                         | 1,924,977  | .40 - .79          |                   |                                     |
| Cancelled                      | (122,000 ) |                    |                   |                                     |
| Exercised                      | (950,000 ) |                    |                   |                                     |
| Outstanding December 31, 2017  | 6,715,419  | .40 - .87          |                   |                                     |
| Issued                         | 1,542,111  | .50 - .60          |                   |                                     |
| Cancelled                      | (321,183 ) |                    |                   |                                     |
| Exercised                      | (508,333 ) |                    |                   |                                     |
| Outstanding December 31, 2018  | 7,428,014  | .40 - .87          | 5.48              |                                     |
| Exercisable , December 31 2018 | 3,586,396  | .40 - .87          | 4.34              | -                                   |

As of December 31, 2018, the Company has \$698,701 of total unrecognized share-based compensation expense related to unvested options, which is expected to be amortized over the remaining weighted average period of 5.48 years.

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**Note 10. Outstanding Warrants**

The following is a summary of all outstanding warrants as of December 31, 2018:

|   | Number of<br>warrants | price per share | remaining<br>term<br>in years | intrinsic<br>value<br>at date<br>of<br>grant |
|---|-----------------------|-----------------|-------------------------------|--|
| Warrants issued in connection with private placements of common stock | 21,029,808            | \$0.53 - \$1.00 | 2.02                          | \$ -   |
| Warrants issued in connection with private placement of notes         | 1,335,000             | \$1.00          | 2.00                          | \$ -   |
| Warrants issued in connection with convertible note                   | 2,940,779             | \$0.70          | 2.37                          | \$ -   |

**Note 11. Income Taxes**

Income tax provision (benefit) for the years ended December 31, 2018 and 2017 is summarized below:

|                               | 2018        | 2017      |
|-------------------------------|-------------|-----------|
| Current:                      |             |           |
| Federal                       | \$-         | \$-       |
| State                         | -           | -         |
| Total current                 | -           | -         |
| Deferred:                     |             |           |
| Federal                       | (922,100 )  | (746,700) |
| State                         | (144,700 )  | (117,200) |
| Total deferred                | (1,066,800) | (863,900) |
| Change in valuation allowance | \$1,066,800 | \$863,900 |

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:

|  | 2018 |   | 2017 |   |
|--|------|---|------|---|
| Income tax provision at the federal statutory rate | 21.0 | % | 34.0 | % |
| State income taxes, net of federal benefit         | 3.3  | % | 3.3  | % |

|   |          |           |
|---|----------|-----------|
| Permanent Difference                    | (2.5 %)  | (5.46 %)  |
| Effect of rate change                   | - %      | (41.53 %) |
| Effect of change in valuation allowance | (21.8 %) | 9.69 %    |
|   | - %      | - %       |

Components of the net deferred income tax assets at December 31, 2018 and 2017 were as follows:

|                              | 2018        | 2017        |
|------------------------------|-------------|-------------|
| Net operating loss carryover | \$7,969,000 | \$6,902,200 |
| Valuation allowance          | (7,969,000) | (6,902,200) |
|                              | \$-         | \$-         |

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 \$7,969,000 and \$6,902,200 allowance at December 31, 2018 and 2017, respectively, is necessary to reduce the deferred tax assets to the amount that will more likely than not be realized. The increase in the valuation allowance for the current period is \$1,066,800.

As of December 31, 2018, we have a net operating loss carry forward of approximately \$32,795,300. The loss will be available to offset future taxable income. If not used, this carry forward will expire as follows:

|      |             |
|------|-------------|
| 2030 | \$1,000     |
| 2031 | \$63,800    |
| 2032 | \$345,900   |
| 2033 | \$1,840,300 |
| 2034 | \$2,324,100 |
| 2035 | \$2,987,300 |
| 2036 | \$5,061,700 |
| 2037 | \$8,464,700 |
| 2038 | \$7,315,400 |
| 2039 | \$4,391,100 |

As of December 31, 2018, we did not have any significant unrecognized uncertain tax positions. The 2018 net operating loss carry forward of \$4,391,100 does not expire under the Tax Cut and Job Act of 2017.

**Note 12. Business Segments and Customer Concentrations.**

During the years ended December 31, 2018 and 2017, we operated in one segment.

The following is a breakdown of customers representing more than 10% of sales for the year ended December 31, 2017:

|            | Revenue<br>from<br><br>customer | Percentage<br>of total<br>revenue |   |
|------------|---------------------------------|-----------------------------------|---|
| Customer A | \$1,243,341                     | 62.3                              | % |

The following is a breakdown of customers representing more than 10% of sales for the year ended December 31, 2018:

|            | Revenue<br>from<br><br>customer | Percentage<br>of total<br>revenue |   |
|------------|---------------------------------|-----------------------------------|---|
| Customer A | \$1,465,189                     | 32.84                             | % |
| Customer B | 522,512                         | 11.71                             | % |

**Note 13. Liquidity**

We have a history of operating losses and negative cash flow. As our operations grow, we expect to experience significant increases in our working capital requirements. These conditions raise substantial doubt over the Company's ability to meet all of its obligations over the twelve months following the filing of this Form 10-K. Management has evaluated these conditions, and concluded that current plans will alleviate this concern. As of December 31, 2018, we had \$1,041,569 of cash on the balance sheet. We have continued to significantly reduce core operating expenses, reducing total General and Administrative Expense in 2018 by \$1.7 million, or 18%, as compared with 2017. In addition, in the first quarter of 2019, the Company completed \$4.3 million of funding efforts. These efforts included a Private Placement Offering for common shares priced at .60 cents per share, resulting in the receipt of capital

investment in the amount of \$2.4 million and the issuance of 3,833,333 shares. In addition, the Company offered to reduce the exercise price on its I Warrants from \$1 to .60 cents, for a limited time. During the time this offer was open, I Warrant holders converted 2,841,454 warrants at .60 cents, resulting in the receipt of capital investment in the amount of \$1.7 million. In addition, during the first quarter of 2019, one investor exercised G series warrants, resulting in the receipt of capital investment in the amount of \$180,000. In addition, during the first quarter of 2019, the Company settled certain Executive Deferred Compensation payments with a combination of cash and warrants. The total amount of Deferred Executive compensation settled is \$730,869. One-third of that total or \$243,623, was paid in cash. The remaining balance of \$487,246 was settled by granting the Executives warrants exercisable for five years to purchase the Company's stock at an exercise price of \$0.70 per share, the closing price of our common stock on March 19, 2019, resulting in additional cash savings to the Company. Management has concluded that these actions have mitigated the substantial doubt of our ability to continue as a going concern. However, the Company cannot predict, with certainty, the outcome of its action to generate liquidity, including the availability of additional financing, or whether such actions would generate the expect liquidity as planned.

#### **Note 14. Subsequent Events**

During the first quarter of 2019, the Company completed additional funding efforts, including a Private Placement Offering for common shares priced at \$0.60 per share, resulting in the receipt of proceeds in the amount of \$2.4 million and the issuance of 3,833,333 shares. In addition, during the first quarter of 2019, the Company offered to reduce the exercise price on its I Warrants from \$1 to \$0.60, for a limited time. During the time this offer was open, I Warrant holders converted 2,841,454 warrants at \$0.60, resulting in the receipt of proceeds in the amount of \$1.7 million. In addition, during the first quarter of 2019, one investor exercised G series warrants, resulting in the receipt of proceeds in the amount of \$180,000, and the issuance of 300,000 shares. In total, during the first quarter of 2019, the Company has raised \$4.3 million and issued 7,141,454 shares, and no additional warrants.

Effective March 31, 2019, the Company paid all outstanding Executive Deferred Compensation amounts. The total amount settled is \$730,869, comprised of \$603,294 outstanding at December 31, 2018, and \$127,575 additional deferrals recorded during the first quarter of 2019. One-third of the total outstanding Executive Deferred Compensation amount, or \$243,623, was paid in cash. The remaining balance was settled by granting the Executives a warrant exercisable for five years to purchase the Company's stock at an exercise price of \$0.70 per share, the closing price of our common stock on March 19, 2019. The total number of the warrants issued of 1,827,173 was determined using the Black Sholes valuation methodology, and by placing a fifty percent premium on the cash value of the remaining two thirds of total outstanding Executive Deferred Compensation as of March 31, 2019.

The Company entered into an agreement to lease office space, beginning April 1, 2019 through March 31, 2023. For the first twelve months base rent is \$6,175 with annual increases of approximately 3%.

