BARFRESH FOOD GROUP INC.
Form 10-Q/A
May 30, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

(Mark One)

[X] **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 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.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**27-1994406** (I.R.S. Employer Identification No.)
8530 Wilshire Blvd., Suite 450, Beverly Hills, California (Address of principal executive offices)	**90211** (Zip Code)

310-598-7113
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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 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.

[X] Yes [ ] No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

[X] Yes [ ] No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer [ ]	Accelerated Filer [ ]	Non-Accelerated Filer (do not check if Smaller Reporting Company) [ ]
Smaller Reporting Company [X]	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 [X] No

As of May 9, 2018, there were 118,789,733 outstanding shares of common stock of the registrant.

EXPLANATORY NOTE

This form 10Q/A is filed solely for the purpose of correcting a typographical error on the cover page. The wrong box was checked. The registrant is **NOT** a shell company.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

Barfresh Food Group Inc.

Condensed Consolidated Balance Sheets

	March 31, 2018 (Unaudited)	December 31, 2017 (Audited)
Assets		
Current assets:		
Cash	$2,391,901	$1,304,916
Accounts Receivable	349,935	301,012
Inventory	1,546,051	1,415,495
Prepaid expenses and other current assets	107,114	24,496
Total current assets	4,440,001	3,045,919
Property, plant and equipment, net of depreciation	2,179,005	1,760,890
Intangible asset, net of amortization	573,334	586,943
Deposits	39,369	39,369
Total Assets	$7,231,709	$5,433,121
Liabilities And Stockholders’ Equity		
Current liabilities:		
Accounts payable	$531,826	$421,176
Accrued expenses	1,315,175	849,529
Deferred rent liability	-	495
Notes Payable	250,000	-
Total current liabilities	2,097,001	1,271,200
Convertible note - related party, net of discount	554,432	-
Convertible note, net of discount	1,175,601	-
Derivative Liabilities	1,014,323	-
Total liabilities	4,841,357	1,271,200
Commitments and contingencies (Note 7, 8, 12)		
Stockholders’ equity:		
Preferred stock, $0.000001 par value, 5,000,000 shares authorized, none issued or outstanding	-	-
	119	119

Common stock, $0.000001 par value; 300,000,000 shares authorized; 118,789,733 and 118,690,527 shares issued and outstanding at March 31, 2018 and December 31, 2017, respectively		
Additional paid in capital	38,560,122	37,992,799
Accumulated deficit	(36,169,889)	(33,830,997)
Total stockholders' equity	2,390,352	4,161,921
Total Liabilities and Stockholders' Equity	$7,231,709	$5,433,121

See the accompanying notes to the condensed consolidated financial statements

Barfresh Food Group Inc.

Condensed Consolidated Statements of Operations

For the three months ended March 31, 2018 and 2017

(Unaudited)

	2018	2017
Revenue, net	$623,071	$312,170
Cost of revenue	278,466	181,649
Gross profit	344,605	130,521
Operating expenses:		
General and administrative	2,094,664	2,433,530
Depreciation and Amortization	112,467	56,031
Total operating expenses	2,207,131	2,489,561
Operating loss	(1,862,526)	(2,359,040)
Other expenses		
Loss from derivative liability	444,736	-
Interest	30,876	-
Net (loss)	$(2,338,138)	$(2,359,040)
Per share information - basic and fully diluted:		
Weighted average shares outstanding	118,682,325	117,251,662
Net (loss) per share	$(0.02)	$(0.02)

See the accompanying notes to the condensed consolidated financial statements

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Barfresh Food Group Inc.

Condensed Consolidated Statements of Cash Flows

For the three months ended March 31, 2018 and 2017

(Unaudited)

	2018	2017
Net Cash used in operations	$(1,491,691)	$(1,614,825)
Cash flow from investing activities:		
Investment in trademark	(2,293)	(5,132)
Purchase of equipment	(172,231)	(146,440)
Sale of equipment	-	940
Net Cash used in investing activities	(174,524)	(150,632)
Cash flow from financing activities:		
Exercise of Warrant	-	35,401
Issuance of short term notes	250,000	-
Issuance of convertible notes, net of issuance costs	2,503,200	-
Repayment of long term debt	-	(960)
Net cash provided by financing activities	2,753,200	34,441
Net increase (decrease) in cash	1,086,985	(1,731,016)
Cash at beginning of period	1,304,916	9,180,947
Cash at end of period	$2,391,901	$7,449,931
Supplemental Disclosure of Non-Cash Investing and Financing Activities		
Discount on convertible notes (warrants & derivative)	$790,135	$-
Property, plant and equipment included in accounts payable	342,448	

See the accompanying notes to the condensed consolidated financial statements

Barfresh Food Group Inc.

Notes to Condensed Consolidated Financial Statements

March 31, 2018

(Unaudited)

Note 1. Basis of Presentation and Significant Accounting Policies

Throughout this report, the terms “our”, “we”, “us” and the “Company” refer to Barfresh Food Group Inc., including its subsidiaries. The accompanying unaudited condensed consolidated financial statements of Barfresh Food Group Inc. at March 31, 2018 and December 31, 2017 have been prepared in accordance with generally accepted accounting principles (“GAAP”) for interim financial statements, instructions to Form 10-Q, and Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in our annual report on Form 10-K for the year ended December 31, 2017. In management’s opinion, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation to make our financial statements not misleading have been included. The results of operations for the periods ended March 31, 2018 and 2017 presented are not necessarily indicative of the results to be expected for the full year. The December 31, 2017 balance sheet has been derived from our audited financial statements included in our annual report on Form 10-K for the year ended December 31, 2017.

Basis of Consolidation

The condensed consolidated financial statements include the financial statements of the Company and our wholly owned subsidiaries Barfresh Inc. and Barfresh Corporation, Inc.

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 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 March 31, 2018 and December 31, 2017. However, we believe that the financial institution where the cash on deposit that exceeds $250,000 is financially sound and the risk of loss is minimal.

Fair Value Measurement

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

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

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

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

Our financial instruments consist of accounts receivable, accounts payable, accrued expenses, notes payable and derivative liabilities. The carrying value of our financial instruments approximates fair value.

Barfresh Food Group Inc.

Notes to Condensed Consolidated Financial Statements

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(Unaudited)

Inventory

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

Intangible Assets

Intangible assets are comprised of patents, net of amortization, and trademarks. The patent costs are being amortized over the life of the patents, which is twenty years from the date of filing the patent applications. 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, legal fees and similar costs relating to patents have been capitalized. In accordance with ASC 350 legal costs related to trademarks have been capitalized. We have determined that trademarks have an indeterminable life and therefore are not being amortized.

Property, Plant and Equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment loss, if any. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets. Leasehold improvements are being amortized over the shorter of the useful life of the asset or the lease term that includes any expected renewal periods deemed to be reasonably assured. The estimated useful lives used for financial statement purposes are:

Furniture and fixtures: 5 years

Equipment: 7 years

Leasehold improvements: 2 years

Vehicle: 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.

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.

Barfresh Food Group Inc.

Notes to Condensed Consolidated Financial Statements

March 31, 2018

(Unaudited)

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.

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 September 30, 2017 and 2016 any equivalents would have been anti-dilutive as we had losses for the periods then ended.

Research and Development

Expenditures for research activities relating to product development and improvement are charged to expense as incurred. We incurred $190,341 and $114,601 for the three-month periods ended March 31, 2018 and 2017, 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”).

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.

Recent pronouncements

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

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(Unaudited)

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

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

Note 2. Property Plant and Equipment

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

	2018	2017
Furniture and fixtures	$1,524	$1,524
Equipment	2,456,190	1,952,538
Leasehold Improvements	4,886	4,886
Vehicles	29,696	29,696
	2,492,296	1,988,644
Less: accumulated depreciation	(762,221)	(665,657)
	1,730,075	1,322,987
Equipment not yet placed in service	448,930	437,903
Property and equipment, net of depreciation	$2,179,005	$1,760,890

We recorded depreciation expense related to these assets of $96,564 and $40,632 for the three-month periods ended March 31, 2018 and 2017, respectively.

Note 3. Intangible Assets

As of March 31, 2018, intangible assets consist of patent costs of $764,891, trademarks of $91,146 and accumulated amortization of $282,703.

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 $15,903 and $15,399 for the three months ended March 31, 2018 and 2017, respectively.

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

	Total Amortization
Years ending December 31,	
2018	47,708
2019	63,610
2020	63,610
2021	63,610
2022	63,610
Later years	180,040
	$ 482,188

Barfresh Food Group Inc.

Notes to Condensed Consolidated Financial Statements

March 31, 2018

(Unaudited)

Note 4. Related Parties

As disclosed below in Note 6, members of management and directors invested in company’s convertible notes; and in Note 7, members of management and directors have received shares of stock and options in exchange for services.

Note 5. Short-Term Notes Payable

In March 31, 2018, we closed an offering of $250,000 in short-term notes payable. The short-term notes bear 12% interest per annum with maturity date in September 2018.

Note 6. Convertible Notes

During the three months needed March 31, 2018, we closed an offering of $2,527,500 in convertible notes, of this which, management, directors and significant shareholders have invested $810,000. 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 events 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	3
Volatility (based on a comparable company)	54.816%
Risk Fee interest rate	2.41 %
Dividend yield (on common stock)	-

Interest expense for the three months ended March 31, 2018, includes direct interest of $11,772, amortization of debt discount of $16,967.

	March 31, 2018
Convertible notes	$2,527,500
Less: Debt discount (warrant value)	(220,548)
Less: Debt discount (derivative value)	(569,587)
Less: Debt discount (issuance costs paid)	(24,300)
Add: Debt discount amortization	16,967
	$1,730,032

Note 7. Derivative Liabilities

As discussed in Note 6, Convertible Notes, the Company issued 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.

Barfresh Food Group Inc.

Notes to Condensed Consolidated Financial Statements

March 31, 2018

(Unaudited)

The fair values of the Company's derivative liabilities were estimated at the issuance date and are revalued at each subsequent reporting date. The Company recognized current derivative liabilities of $569,587 at March 14, 2018. The change in fair value of the derivative liabilities resulted in a loss of $444,736 for the three months ended March 31, 2018, which has been reported as loss on fair value of derivative liability in the statements of operations.

The fair value of the derivative liability was calculated using the Black-Scholes opt model using the following assumptions.

	March 14, 2018	March 31, 2018
Expected life	2.00	1.96