

**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, 2019

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.)

**3600 Wilshire Boulevard Suite 1720, Los Angeles,
90010, California**

(Address of principal executive offices)

90010

(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 pursuant to Section 12(g) of the Act:

Title of each class

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth 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 28, 2019 was \$31,628,382

As of April 6, 2020, there were 143,247,603 outstanding shares of common stock of the registrant.



BARFRESH FOOD GROUP INC.

FORM 10-K

TABLE OF CONTENTS

| | <u>Page</u> |
|--|-------------|
| <u>PART I</u> | |
| Item 1. Business | 4 |
| Item 1A. Risk Factors | 10 |
| Item 2. Properties | 18 |
| Item 3. Legal Proceedings | 18 |
| Item 4. Mine Safety Disclosures. | 18 |
| <u>PART II</u> | |
| Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities | 18 |
| Item 6. Selected Financial Data | 19 |
| Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations | 20 |
| Item 7A. Quantitative and Qualitative Disclosures About Market Risk | 27 |
| Item 8. Financial Statements | 27 |
| Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure | 27 |
| Item 9A. Controls and Procedures | 27 |
| Item 9B. Other Information | 28 |
| <u>PART III</u> | |
| Item 10. Directors, Executive Officers and Corporate Governance | 29 |
| Item 11. Executive Compensation | 33 |
| Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters | 36 |
| Item 13. Certain Relationships and Related Transactions, and Director Independence | 39 |
| Item 14. Principal Accountant Fees and Services | 39 |
| <u>PART IV</u> | |
| Item 15. Exhibits, Financial Statement Schedules | 40 |

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”, “will likely result”, “expect”, “will continue”, “anticipate”, “seek”, “estimate”, “intend”, “plan”, “projection”, “would”, “outlook” and similar 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 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/, 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 and abroad.

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 in 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, 2019, the exclusive distribution agreement with Sysco expired, opening the possibility to expand distribution with other distributors outside of the Sysco system.

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 skus. 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 Schulze and Burch Biscuit Co., 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.

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 **barfresh** PROCESS:

FROM FROZEN PACK:

1 Tear open frozen pack and pour ingredients into blender bowl

 11 oz. single serve pack

2 Add 5 ounces of water to blender bowl

 5 oz. water

3 Blend and serve

 15 seconds in a blender

=


 Whirl Class
 16 oz.
 Blended Beverage

NO FREEZER ON THE LINE? NO PROBLEM:

1 Thaw frozen pack of ingredients in refrigerator. Once thawed, tear and pour liquid ingredients into blender bowl (use liquid within 3 days of thawing pack)

 11 oz. single serve pack

2 Add 1/2 cup of ice (6.5 oz. weighted) to blender bowl

 1/2 cup of ice (6.5 oz. weighted)

3 Blend and serve

 15 seconds in a blender

=


 Whirl Class
 16 oz.
 Blended Beverage

BARFRESH BULK SOLUTION:

1 
 1 gallon of concentrate

2 
 1 gallon of water

1:1 ratio

3 
 Any Size Finished Smoothie

=


 Any Size Finished Smoothie

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

Barfresh Single Serve



Caribbean Smoothie

sweet mango, tangy pineapple, all natural pear juice
(Single Serve)



Mango Burst Smoothie

sweet, juicy mango, all natural apple juice
(Single Serve)



Strawberry Banana Yogurt Smoothie

sweet strawberries, ripe bananas, low fat frozen yogurt, all natural pear juice
(Single Serve)



Triple Berry Smoothie

sweet strawberries, blueberries, pineapple, and pear, raspberry, blueberry juice
(Single Serve)



Caramel Macchiato Frappe

rich espresso coffee, caramel, low fat chocolate, ice cream, milk
(Single Serve & Easy Pour Bulk)



Mocha Frappe

rich espresso coffee, low fat chocolate ice cream, milk
(Single Serve)



Vanilla Bean Shake

low fat vanilla bean ice cream, milk
(Single Serve)

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

Barfresh Easy Pour BULK



Strawberry Banana Concentrate 1:1

sweet strawberries, ripe bananas, all natural pear & white grape juice
(Easy Pour Bulk)
(No Sugar Added. Available in NSA Yogurt & NSA Non-Yogurt)



Mango Pineapple Concentrate 1:1

sweet, juicy mango, all natural apple juice
(Easy Pour Bulk)
(No Sugar Added. Available in NSA Yogurt & NSA Non-Yogurt)



Caramel Macchiato Frappe

rich espresso coffee, caramel, low fat chocolate, ice cream, milk
(Single Serve & Easy Pour Bulk)



NSA Blue Raspberry Concentrate 1:1

ripe pineapple, all natural apple & pear juice
(Easy Pour Bulk)
(No Sugar Added)



NSA Green Watermelon Concentrate 1:1

refreshing watermelon, all natural apple & pear juice
(Easy Pour Bulk)
(No Sugar Added)



NSA Strawberry Kiwi Concentrate 1:1

sweet strawberries, kiwi, all natural pear juice
(Easy Pour Bulk)
(No Sugar Added)

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.

Marketing Support - Customizable



Research and Development

The Company incurred research and development expenses for the year ended December 31, 2019 in the amount of \$538,391 and for the year ended December 31, 2018 in the amount of \$674,224. The decrease in Research and Development expenses was primarily attributable to reduced 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 17 employees and 2 consultants. There are currently 12 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.

The impact of COVID-19 on the Company is evolving rapidly with events unfolding on a daily and weekly basis. The direct impact to our operations has begun to take affect at the close of the first quarter ended March 31, 2020. Specifically, our business has been impacted by dining bans targeted at restaurants to reduce the size of public gatherings. We have noted restaurant chains have closed operations and furloughed employees which would preclude our single serve products from being served at those establishments for a number of weeks. Furthermore, many school districts have closed regular attendance which could conceivably last to the end of the school year. This will directly impact the sales of our Bulk Product into that sales channel. Our headquarters are located in Los Angeles, California, where the entire state has been issued a "shelter in place" order from the Governor of California. Consequently, our staff in the headquarter office are working remotely until further notice. At this point, we have not experienced a disruption in the supply chain for manufacturing our products. The developments surrounding COVID-19 remain fluid and dynamic, and consequently, will require the Company to continue to monitor news headlines from government and health officials, as well as, the business community.

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.

If we continue to suffer losses from operations, our working capital may be insufficient to support our ability to expand our business operations as rapidly as we would deem necessary at any time, unless we are able to obtain additional financing. There can be no assurance that we will be able to obtain such financing on acceptable terms, or at all. If adequate funds are not available or are not available on acceptable terms, we may not be able to pursue our business objectives and would be required to reduce our level of operations, including reducing infrastructure, promotions, sales and marketing programs, personnel and other operating expenses. These events could adversely affect our business, results of operations and financial condition. If adequate funds are not available or if they are not available on acceptable terms, our ability to fund the growth of our operations, take advantage of opportunities, develop products or services or otherwise respond to competitive pressures, could be significantly limited.

We may need additional financing in the future, which may not be available when needed or may be costly and dilutive.

We may require additional financing to support our working capital needs in the future. The amount of additional capital we may require, the timing of our capital needs and the availability of financing to fund those needs will depend on a number of factors, including our strategic initiatives and operating plans, the performance of our business and the market conditions for debt or equity financing. Additionally, the amount of capital required will depend on our ability to meet our case sales goals and otherwise successfully execute our operating plan. We believe it is imperative to meet these sales objectives in order to lessen our reliance on external financing in the future. Although we believe various debt and equity financing alternatives will be available to us to support our working capital needs, financing arrangements on acceptable terms may not be available to us when needed. Additionally, these alternatives may require significant cash payments for interest and other costs or could be highly dilutive to our existing shareholders. Any such financing alternatives may not provide us with sufficient funds to meet our long-term capital requirements. If necessary, we may explore strategic transactions that we consider to be in the best interest of the Company and our shareholders, which may include, without limitation, public or private offerings of debt or equity securities, and other strategic alternatives; however, these options may not ultimately be available or feasible.

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.

The recent global coronavirus outbreak could harm our business and results of operations.

In March 2020 the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, customers, economies, and financial markets globally, potentially leading to an economic downturn. It has also disrupted the normal operations of many businesses, including ours. This outbreak could decrease spending, adversely affect demand for our product and harm our business and results of operations. It is not possible for us to predict the duration or magnitude of the adverse results of the outbreak and its effects on our business or results of operations at this time.

Disruption within our supply chain, contract manufacturing or distribution channels could have an adverse effect on our business, financial condition and results of operations.

Our ability, through our suppliers, business partners, contract manufacturers, independent distributors and retailers, to produce, transport, distribute and sell products is critical to our success.

Damage or disruption to our suppliers or to manufacturing or distribution capabilities due to weather, natural disaster, fire or explosion, terrorism, pandemics such as COVID-19 and influenza, labor strikes or other reasons, could impair the manufacture, distribution and sale of our products. Many of these events are outside of our control. Failure to take adequate steps to protect against or mitigate the likelihood or potential impact of such events, or to effectively manage such events if they occur, could adversely affect our business, financial condition and results of operations.

In addition, our reliance on a limited number of manufacturers and suppliers could further increase this risk. Most of our suppliers and manufacturers produce similar products for other companies, and our products may represent a small portion of their businesses. Further, it takes a newly engaged manufacturer typically up to nine months of retrofitting/ preparation before it can begin producing our products. We have contracts in place to produce sufficient units to meet projected demand; however, if one of our manufacturers fails to perform, we would be faced with a significant interruption in our supply chain. If one of our manufacturers or suppliers fails to perform or deliver products, for any reason, our sales and results of operations could be adversely affected. Furthermore, if we are unable to meet our customers' demands due to a disruption in our supply chain, we may lose that customer which could adversely affect our business, financial condition and results of operations.

Our dependence on independent contract manufacturers could make management of our manufacturing and distribution efforts inefficient or unprofitable.

We are expected to arrange for our contract manufacturing needs sufficiently in advance of anticipated requirements, which is customary in the contract manufacturing industry for comparably sized companies. Based on the cost structure and forecasted demand for the particular geographic area where our contract manufacturers are located, we continually evaluate which of our contract manufacturers to use. To the extent demand for our products exceeds available inventory or the production capacity of our contract manufacturing arrangements, or orders are not submitted on a timely basis, we will be unable to fulfill distributor orders on demand. Conversely, we may produce more product inventory than warranted by the actual demand for it, resulting in higher storage costs and the potential risk of inventory spoilage. Our failure to accurately predict and manage our contract manufacturing requirements and our inventory levels may impair relationships with our independent distributors and key accounts, which, in turn, would likely have a material adverse effect on our ability to maintain effective relationships with those distributors and key accounts.

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 to distributors 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 distributor or retailer demand for our products, we may end up with too much inventory, resulting in higher storage costs, increased trade spending and the risk of inventory spoilage. If we fail to manage our inventory to meet demand, we could damage our relationships with our distributors and retailers and could delay or lose sales opportunities, which would unfavorably impact our future sales and adversely affect our operating results. In addition, if the inventory of our products held by our distributors and retailers is too high, they will not place orders for additional products, which would also unfavorably impact our sales and adversely affect our operating results.

Increases in costs of packaging, ingredients and contract manufacturing tolling fees may have an adverse impact on our gross margin.

Packaging costs such as paper and aluminum cans have experienced industry wide price increases in the past and there is always the risk that the company's co-packers increase their toll rates based on increases in their fixed and variable costs. If the Company is unable to pass on these costs, the gross margin will be significantly impacted.

Litigation or legal proceedings could expose us to significant liabilities and damage our reputation.

We may become party to litigation claims and legal proceedings. Litigation involves significant risks, uncertainties and costs, including distraction of management attention away from our business operations. We evaluate litigation claims and legal proceedings to assess the likelihood of unfavorable outcomes and to estimate, if possible, the amount of potential losses. Based on these assessments and estimates, we establish reserves and disclose the relevant litigation claims or legal proceedings, as appropriate. These assessments and estimates are based on the information available to management at the time and involve a significant amount of management judgment. Actual outcomes or losses may differ materially from those envisioned by our current assessments and estimates. Our policies and procedures require strict compliance by our employees and agents with all U.S. and local laws and regulations applicable to our business operations, including those prohibiting improper payments to government officials. Nonetheless, our policies and procedures may not ensure full compliance by our employees and agents with all applicable legal requirements. Improper conduct by our employees or agents could damage our reputation or lead to litigation or legal proceedings that could result in civil or criminal penalties, including substantial monetary fines, as well as disgorgement of profits.

We have identified a material weakness in our disclosure controls and procedures and internal control over financial reporting. If not remediated, our failure to establish and maintain effective disclosure controls and procedures and internal control over financial reporting could result in material misstatements in our financial statements and a failure to meet our reporting and financial obligations, each of which could have a material adverse effect on our financial condition and the trading price of our common stock.

Maintaining effective internal control over financial reporting and effective disclosure controls and procedures are necessary for us to produce reliable financial statements. As discussed in Item 9A – “Controls and Procedures” of this Form 10-K, we have re-evaluated our internal control over financial reporting and our disclosure controls and procedures and concluded that they were not effective as of December 31, 2019, due to inadequate segregation of duties.

A material weakness is defined as a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. The material weakness we identified is inadequate segregation of duties.

The Company is committed to remediating its material weaknesses as promptly as possible. Implementation of the Company's remediation plans has commenced and is being overseen by the audit committee. However, there can be no assurance as to when these material weaknesses will be remediated or that additional material weaknesses will not arise in the future. Even effective internal control can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. Any failure to remediate the material weaknesses or the development of new material weaknesses in our internal control over financial reporting, could result in material misstatements in our financial statements, which in turn could have a material adverse effect on our financial condition and the trading price of our common stock and we could fail to meet our financial reporting obligations.

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.

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, price volatility 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 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, 2019 | 0.35 | 0.26 |
| September 30, 2019 | 0.45 | 0.44 |
| June 30, 2019 | 0.68 | 0.40 |
| March 31, 2019 | 0.70 | 0.58 |
| 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 |

Holders

At April 6, 2020, there were 143,247,603 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 8-K.

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, 2019, with respect to equity securities authorized for issuance under our equity compensation plans:

| Plan Category | Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a) | Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b) | Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in Column (a))(c) |
|--|--|--|--|
| Equity compensation plans approved by security holders | 7,813,357 | \$ 0.60 | 6,986,643 |
| Equity compensation plans not approved by security holders | - | \$ - | - |
| TOTAL | 7,813,357 | \$ 0.60 | 6,986,643 |

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, 2019 and for the fiscal year ended December 31, 2018. 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 and abroad.

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, 2019, the exclusive distribution agreement with Sysco expired, opening the possibility to expand distribution with other distributors outside of the Sysco system.

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 Barfresh single serve skus. 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 the Barfresh 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 Schulze & 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 2018, 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 2018, 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, 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 4,000,000 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 raised \$4.3 million and issued 7,141,454 shares, and no additional warrants were issued.

On March 23, 2020, the Company completed additional funding, including a Private Placement Offering for common shares priced at \$0.50 per share (subject to adjustment) resulting in the receipt of proceeds in the amount of \$3.825 million and the issuance of 7,650,000 shares. The investors of this Private Placement Offering will be granted O warrants to be eligible to purchase an additional 0.50 shares for every share issued to each purchaser, exercisable for a period of 3 years at an exercise price of \$0.60 per share (subject to adjustment). If the volume-weighted average trading price for the 20 consecutive trading days that conclude upon 6 months after the initial closing (the “Six Month Price”) exceeds or equals \$0.50 per share (the “Target Price”), the per share purchase price will not be adjusted. If the Six Month Price is less than the Target Price, the per share purchase price will be automatically reduced to the Six Month Price, but in no event less than \$0.35 per share, in which case the Company shall issue to each investor, pro-rata based on such investor’s investment: (a) shares in a quantity that equals the difference between the number of shares issued to such purchaser at closing and the number of shares that would have been issued to such purchaser at closing at the Six Month Price; and (b) a warrant for a number of shares of common stock equal to 50% of the difference between the number of shares issued to such investor at closing and the number of shares that would have been issued to such investor at closing at the Six Month Price, with an exercise price equal to the sum of \$0.10 per share and the Six Month Price, but in no event less than \$0.45 per share. The exercise price per share for each warrant will automatically adjust to the sum of \$0.10 per share and the Six-Month Price, but in no event less than \$0.45 per share.

In addition, the Company obtained a 24 month extension on \$1,071,000 in principal, and conversion of \$720,000 of principal of the Milestone I Convertible Notes at a conversion price of \$0.50 per share. The remaining \$110,166 was extended for thirty days. The interest rate on the principal balance of the extended Milestone I Convertible Notes was amended to 15%. Furthermore, the Company obtained a 12 month extension on \$168,000 in principal, and conversion of \$1,128,000 in principal of the Milestone II Convertible Notes. The remaining \$67,200 was extended for thirty days. The Convertible Noteholders of the Milestone I and II Convertible Notes were granted additional interest depending upon their election to convert or extend their Convertible Notes.

Currently we have 17 employees and 2 consultants. There are currently 12 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 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 the time of delivery to a customer warehouse. 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 \$71,626, or 2%, from \$4,235,159 in 2018 to \$4,306,785 in 2019. 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 2019 was \$1,928,210 as compared to \$2,033,396 in 2018. Our gross profit was \$2,313,209 (54%) and \$2,144,664 (51%) for 2019 and 2018, respectively. This improvement was driven by a number of factors, including leverage due to larger scale of production and product mix. We anticipate that our gross profit percentage for 2020 will be comparable to that of 2019. Depreciation from manufacturing equipment was \$65,366 and \$57,099 for December 31, 2019 and 2018, respectively.

Operating expenses

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

Our general and administrative expenses decreased \$962,859 (12%) from \$7,813,425 in 2018 to \$6,850,566 in 2019, with the improvement driven by lower personnel expenses resulting from reduced headcount, reduced stock-based compensation expense from terminated employees, and reduced marketing and selling expense from a renegotiated distribution agreement. The following is a breakdown of our general and administrative expenses for the years 2019 and 2018.

| | Twelve months ended December 31, 2019 | Twelve months ended December 31, 2018 | Change | Percent |
|----------------------------------|--|--|---------------------|--------------|
| Personnel costs | \$ 2,837,685 | \$ 3,027,548 | \$ (189,863) | (6)% |
| Stock based compensation/options | 225,026 | 498,768 | (273,742) | (55)% |
| Legal and professional fees | 305,155 | 463,991 | (158,836) | (34)% |
| Travel | 358,455 | 432,140 | (73,685) | (17)% |
| Rent | 92,608 | 201,100 | (108,492) | (54)% |
| Marketing and selling | 568,107 | 750,059 | (181,952) | (24)% |
| Consulting fees | 118,971 | 60,359 | 58,612 | 97% |
| Director fees | 245,386 | 241,000 | 4,386 | 2% |
| Research and development | 538,391 | 674,224 | (135,833) | (20)% |
| Shipping Expense and storage | 751,237 | 864,871 | (113,634) | (13)% |
| Other expenses | 809,545 | 599,365 | 210,180 | 35% |
| | <u>\$ 6,850,566</u> | <u>\$ 7,813,425</u> | <u>\$ (962,859)</u> | <u>(12)%</u> |

Personnel cost represents the cost of employees including salaries, bonuses, employee benefits and employment taxes for the years 2019 and 2018 and continues to be our largest cost. Personnel cost decreased \$189,863 (6%) from \$3,027,548 to \$2,837,685. At year end 2018 we had 26 full time employees, and we currently have 17 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 \$225,026, a decrease of \$273,742, or 55%, from the year ago expense of \$498,768. 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 decreased 34%, or \$158,836, from \$463,991 in 2018 to \$305,155 in 2019. The decrease was primarily due to reduced legal services required. We anticipate legal fees related to our business and financing activities to decrease as we have renegotiated arrangements with existing service providers.

Travel expenses decreased \$73,685 (17%) from \$432,140 in 2018 to \$358,455 in 2019. The decrease is primarily due to reduced travel associated with terminated employees. We anticipate that travel expenses for 2020 will be comparable to the current year.

Rent expense is primarily for our location in Los Angeles, California. Rent expense for the Los Angeles office is approximately \$6,500 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, with monthly rent expense of \$14,488. 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 decreased \$181,952 (24%) from \$750,059 in 2018 to \$568,107 in 2019. Lower marketing and selling expenses were primarily due to lower percentage commission associated with a renegotiated distribution agreement.

Consulting fees increased \$58,612 (97%), from \$60,359 in 2018, to \$118,971 in 2019. The increase was due primarily to services related to consulting to improve sales operations. Our consulting fees vary based on needs. We engaged consultants in the areas of sales operations during the both 2019 and 2018. The need for future consulting services will be variable.

Director fees increased \$4,386, or 2%, from \$241,000 in 2018 to \$245,386 in 2019 due to director and officer insurance premiums. Annual director fees are anticipated at \$50,000 per non-employee director.

Research and development expenses decreased \$135,833, (20%) from \$674,224 in 2018 to \$538,391 in 2019 due to reduced product development activity with national accounts and fewer market tests. 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 decreased \$113,634 (13%) from \$864,871 in 2018 to \$751,237 in 2019. Shipping and storage expense as a percentage of revenue decreased from 20% in 2018 to 17% in 2019. 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. Other expense increased \$210,180, from \$599,364 in 2018 to \$809,544 in 2019, driven mainly by equipment repair, recruiting, and insurance expense.

We had operating losses of \$5,187,204 in 2019 and \$6,180,080 in 2018. The improvement of \$992,876 or 16%, was primarily due to higher gross profit margin, and lower G&A expenses.

Interest expense for 2019 is \$1,213,263 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%. 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 2019 includes amortization of \$881,871 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 gain of \$1,114,625 for the year ended December 31, 2019. The gain was driven by the decrease in the stock price of the Company.

The warrant modification was revalued at February 22, 2019 with a value of \$849,505. The difference in fair value immediately before and after the modification of the warrant resulted in a loss of \$307,460.

We had net losses of \$5,593,302 and \$7,322,823 for the years 2019 and 2018, respectively. This reduction in net loss, in the amount of \$1,729,521, or 24%, 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 gain from derivative liability, in 2019.

Liquidity and Capital Resources

As of December 31, 2019, we had a working capital surplus of \$146,337 as compared with a working capital surplus of \$652,360 at December 31, 2018. The reduction in working capital surplus is primarily due to the reduction in inventory and an increase in accrued interest, partially offset by a reduction in accrued liabilities.

During the twelve-month period ended December 31, 2019, we used cash of \$3,353,326 in operations, \$466,216 for the purchase of equipment, and \$5,324 for patents and trademarks. The Company received \$1,500,357 in cash for warrant exercises, \$2,400,000 in cash for issuance of stock and paid \$25,686 in operating leases.

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 of 2018, 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 of 2018, 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 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 4,000,000 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.

On March 23, 2020, the Company completed additional funding, including a Private Placement Offering for common shares priced at \$0.50 per share (subject to adjustment), resulting in the receipt of proceeds in the amount of \$3.825 million and the issuance of 7,650,000 shares. The investors of this Private Placement Offering will be granted O warrants to be eligible to purchase an additional 0.50 shares for every share issued to each purchaser, exercisable for a period of 3 years at an exercise price of \$0.60 per share (subject to adjustment) but in no event less than \$0.45 per share. If the volume-weighted average trading price for the 20 consecutive trading days that conclude upon 6 months after the initial closing (the "Six Month Price") exceeds or equals \$0.50 per share (the "Target Price"), the per share purchase price will not be adjusted. If the Six Month Price is less than the Target Price, the per share purchase price will be automatically reduced to the Six Month Price, but in no event less than \$0.35 per share, in which case the Company shall issue to each investor, pro-rata based on such investor's investment: (a) shares in a quantity that equals the difference between the number of shares issued to such purchaser at closing and the number of shares that would have been issued to such purchaser at closing at the Six Month Price; and (b) a warrant for a number of shares of common stock equal to 50% of the difference between the number of shares issued to such investor at closing and the number of shares that would have been issued to such investor at closing at the Six Month Price, with an exercise price equal to the sum of \$0.10 per share and the Six Month Price, but in no event less than \$0.45 per share. The exercise price per share for each warrant will automatically adjust to the sum of \$0.10 per share and the Six-Month Price, but in no event less than \$0.45 per share. In addition, the Company obtained a 24 month extension on \$1,071,000 in principal, and conversion of \$720,000 of principal of the Milestone I Convertible Notes at a conversion price of \$0.50 per share. The remaining \$110,166 was extended for thirty days. The interest rate on the principal balance of the extended Milestone I Convertible Notes was amended to 15%. Furthermore, the Company obtained a 12 month extension on \$168,000 in principal, and conversion of \$1,128,000 in principal of the Milestone II Convertible Notes. The remaining \$67,200 was extended for thirty days. The Convertible Noteholders of the Milestone I and II Convertible Notes were granted additional interest depending upon their election to convert or extend their Convertible Notes.

The impact of COVID-19 on the Company is evolving rapidly with events unfolding on a daily and weekly basis. The direct impact to our operations has begun to take affect at the close of the first quarter ended March 31, 2020. Specifically, our business has been impacted by dining bans targeted at restaurants to reduce the size of public gatherings. We have noted restaurant chains have closed operations and furloughed employees which would preclude our single serve products from being served at those establishments for a number of weeks. Furthermore, many school districts have closed regular attendance which could conceivably last to the end of the school year. This will directly impact the sales of our Bulk Product into that sales channel. Our headquarters are located in Los Angeles, California, where the entire state has been issued a "shelter in place" order from the Governor of California. Consequently, our staff in the headquarter office are working remotely until further notice. At this point, we have not experienced a disruption in the supply chain for manufacturing our products. The developments surrounding COVID-19 remain fluid and dynamic, and consequently, will require the Company to continue to monitor news headlines from government and health officials, as well as, the business community.

Our operations to date have been financed by the sale of securities, the issuance of convertible debt and the issuance of short-term debt, including related party advances. If we are unable to generate sufficient cash flow from operations with the capital raised we will be required to raise additional funds either

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

We have entered into a direct lease for new premises covering the period April 1, 2019 to March 31, 2023. The aggregate minimum requirements under the non-cancellable direct lease as of December 31, 2019 is \$254,368.

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 Vice President Finance, 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 Vice President Finance concluded that the Company's disclosure controls and procedures were not effective as of December 31, 2019, due to inadequate segregation of duties.

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, 2019. 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 Vice President Finance, 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 Vice President Finance concluded that the Company's disclosure controls and procedures were not effective as of December 31, 2019.

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

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

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

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

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

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

Changes in Internal Control over Financial Reporting

During the fourth quarter of the year ended December 31, 2019, there was a significant reduction in headcount, specifically in the areas of finance, operations and administration. The decrease in staffing gave rise to a material weakness over our internal control over financial reporting. The Company will evaluate the staffing necessary to reinstate the documentation standards sufficient to ensure proper implementation of internal control procedures over the coming quarters.

Item 9B. Other Information.

None

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Directors and Executive Officers

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

| <u>Name</u> | <u>Age</u> | <u>Position</u> |
|-----------------------|------------|---|
| Riccardo Delle Coste | 42 | President, Chief Executive Officer and Chairman |
| Raffi Loussararian | 52 | Vice President Finance |
| Steven Lang | 67 | Director |
| Arnold Tinter | 74 | Secretary and Director |
| Joseph M. Cugine | 57 | Director |
| Isabelle Ortiz-Cochet | 58 | Director |
| Alexander H. Ware | 58 | Director |

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

Raffi Loussararian joined Barfresh as Vice President, Finance on July 29, 2019. He was appointed as the Principal Accounting Officer on September 11, 2019. Mr. Loussararian has 29 years of progressive finance and accounting experience. Most recently, Mr. Loussararian served in the role of Vice President of Finance and consulted for various beverage brands including Diabolo Beverage 2011- 2019 and Neurobrands from 2009- 2011. Prior to that, Mr. Loussararian served as Vice President Finance and Controller for LegalZoom 2006-2008 and eBay Rent.com from 2005-2006. Mr. Loussararian began his career at Ernst & Young from 1991-1995.

Mr. Loussararian holds a B.S. in Accounting and Finance from California State University, Northridge. Mr. Loussararian is a Certified Public Accountant in the State of California.

Qualifications: Mr. Loussararian has over 29 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, and served temporarily as Principal Accounting Officer. Mr. Tinter founded Corporate Finance Group, Inc., a consulting firm located in Denver, Colorado, in 1992, and is its President. Corporate Finance Group, Inc., is involved in financial consulting in the areas of strategic planning, mergers and acquisitions and capital formation. He has been the chief financial officer and a director of other public companies: From 2012 to 2016, LifeApps Digital Media Inc. and Arvana Inc. From 2006 to 2010 he was the chief financial officer of Spicy Pickle Franchising, Inc. In all of the companies his responsibilities included oversight of all accounting functions, including SEC reporting, strategic planning and capital formation. From May 2015 to 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 Ridgefield Playhouse and R4 Technology. He received his B.S. degree from St. Joseph's University in Philadelphia.

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

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's 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.

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 Pohlads 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.

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. Mr. Cugine has agreed to reduce his salary to \$25,000 annually, waived his rights to automatic performance bonuses and options not yet to be granted. 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 Raffi Loussarian on July 29, 2019, to which he agreed to serve as Vice President, Finance. Pursuant to the employment agreement, Mr. Loussarian received a base salary of \$175,000 and performance bonuses of 25% of his base salary, based upon performance targets determined by the Board of Directors. In addition, Mr. Loussarian was granted 3-year options to purchase up to 150,000 shares of common stock of Barfresh. Option grants vest ratably according to the option schedule on each anniversary of the date of commencement of Mr. Loussarian's employment. All options granted under the employment agreement are subject to the Company's 2015 Equity Incentive Plan.

Term of Office

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

Director Independence

We use the definition of “independence” standards as defined in the NASDAQ Stock Market Rule 5605(a)(2) provides that an “independent director” is a person other than an officer or employee of the company or any other individual having a relationship, which, in the opinion of the Company’s board of directors, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. We determined, as of December 31, 2018, that five of our seven directors are independent, which constitutes a majority. One of our directors, Alice Elliot, resigned effective April 1, 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 Alexander Ware. 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, Arnold Tinter, and Alex Ware are independent members of the audit committee, as defined above. The members of the compensation committee are Arnold Tinter, Joe Cugine, 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, Steven Lang, and Isabelle Ortiz-Cachet. 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 Vice President Finance 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, we believe that during the fiscal year ended December 31, 2019 our directors, executive officers and persons who own more than 10% of our common stock complied with all Section 16(a) filing requirements with the exception of the following:

- Joseph Cugine, late filing of Form 4
- Joseph Tesoriero, late filing of Form 4
- Isabelle Ortiz-Cochet, late filing of Form 4

- Alexander H. Ware, late filing of Form 4
- Steve Lang, late filing of Form 4
- Riccardo Delle Coste, late filing 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 Value and Nonqualified Deferred Compensation Earnings (\$) | All Other Compensation (\$) | Total (\$) |
|--|--------|----------------|---------------|-------------------------|--------------------------|--|--|-----------------------------------|---------------|
| Riccardo Delle Coste, Chief Executive Officer | 2019 | 350,000(1) | - | - | 82,500(2) | | | 10,800(4) | 443,300 |
| | 2018 | 350,000(1) | - | - | 92,500(3) | | | 10,800(4) | 453,300 |
| Raffi Loussararian Vice President Finance | 2019 | 74,936 | | | 51,000(5) | | | | 125,936 |
| | 2018 | | | | | | | | |
| Joseph Tesoriero, Chief Financial Officer | 2019 | 105,738(6) | - | - | | | | | 105,738 |
| | 2018 | 290,000 | - | - | 92,500(7) | | | | 382,500 |

1. Of the salary earned, in 2019 \$232,835 was paid and \$117,165 was deferred and in 2018 \$164,096 was paid and \$185,904 was deferred.
2. Represents a stock option grant 250,000 options shares issued 5/20/19 with an exercise price of \$0.45, which vest ratably according to the option schedule on each anniversary over the next three years and are exercisable until 5/20/27.
3. Represents a stock option grant 250,000 options shares issued 7/25/18 with an exercise price of \$0.52, which vest ratably according to the option schedule on each anniversary over the next three years and are exercisable until 7/25/26.
4. Represents the car allowance paid to Mr. Delle Coste
5. Represents a stock option grant 150,000 shares issued 7/29/19 with an exercise price of .45 which vest ratably according to the option schedule on each anniversary over the next three years and are exercisable until 7/29/27.
6. Of the salary earned, in 2019 \$105,738 was paid and in 2018 \$142,379 was paid and \$147,621 was deferred.
7. Represents a stock option grant 250,000 options shares issued 7/25/2018 with an exercise price of \$0.52, which vest ratably according to the option schedule on each anniversary over the next three years and are exercisable until 7/25/2026.

Outstanding Equity Awards at Fiscal Year-End Table

| Name | Option Awards | | | Stock Awards | | |
|----------------------|---|--|----------------------------|------------------------|---|--|
| | 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 | 250,000(1) | | 0.61 | 5/25/24 | | |
| | 125,000(1) | | 0.72 | 11/25/24 | | |
| | 166,667(2) | 83,333(2) | 0.55 | 9/15/25 | | |
| | 83,333(3) | 166,667(3) | 0.52 | 7/26/26 | | |
| | | 250,000(4) | 0.45 | 5/20/27 | | |
| Raffi Loussararian | 150,000(5) | | 0.45 | 7/29/27 | | |
| Joseph Tesoriero | 500,000(1) | | 0.82 | 5/1/23 | | |
| | 175,000(1) | | 0.61 | 5/25/24 | | |
| | 54,567(1) | | 0.72 | 11/25/24 | | |
| | 200,000(1) | | 0.77 | 7/15/25 | | |
| | 116,667(1) | | 0.55 | 9/15/25 | | |
| | 83,333(1) | | 0.52 | 7/26/26 | | |

1. Fully vested.
2. Vest ratably in equal increments on 9/15/18, 9/15/19 and 9/15/20.
3. Vest ratably in equal increments on 7/26/19, 7/26/20, and 7/26/21.
4. Vest ratably in equal increments on 5/20/20, 5/20/21, and 5/20/22.
5. Vest ratably in equal increments on 7/29/20, 7/29/21, and 7/29/22.

Compensation of Directors

The following table summarizes the compensation paid to our directors that were not employees for the fiscal year ended December 31, 2019. 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 Earned or Paid in Cash (\$) | Stock Awards (\$) | Option Awards (\$) | Non-Equity Incentive Plan Compensation (\$) | Nonqualified Deferred Compensation Earnings (\$) | All Other Compensation (\$) | Total (\$) |
|-----------------------|---|-------------------------|--------------------------|--|--|-----------------------------------|---------------|
| Arnold Tinter | 50,000 | | | | | 12,000(1) | 62,600 |
| Steven Lang | | | 50,000 | | | | 50,000 |
| Isabelle Ortiz-Cochet | | | 50,000 | | | | 50,000 |
| Alex Ware | | 50,000 | | | | | 50,000 |
| Alice Elliot | | | 25,000(2) | | | | 25,000 |

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

(2) Alice Elliot resigned from the Board on April 1, 2019

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. Mr. Cugine has agreed to reduce his salary to \$25,000 and waive his rights to automatic performance bonuses and options not yet granted.

The Company entered into an executive employment agreement with Raffi Loussarian on July 29, 2019, to which he agreed to serve as Vice President, Finance. Pursuant to the employment agreement, Mr. Loussarian received a base salary of \$175,000 and performance bonuses of 25% of his base salary, based upon performance targets determined by the Board of Directors. In addition, Mr. Loussarian was granted 3-year options to purchase up to 150,000 shares of common stock of Barfresh. Option grants vest ratably on each anniversary of the date of commencement of Mr. Loussarian's employment. All 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 April 2, 2020 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 April 6, 2020. As of April 6, 2020, the Company had 143,247,603 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 April 6, 2020 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 April 6, 2020 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 ⁽¹⁾ | Common Stock | |
|--|---|----------------------|
| | Amount and nature of beneficial ownership | Percent of class o/s |
| Riccardo Delle Coste ^{(2) (3) (4) (5) (6)} | 21,732,234 | 14.99% |
| Steven Lang ^{(7) (8) (9) (10) (11)} | 21,048,127 | 14.60% |
| Joseph Tesoriero ^{(12) (13) (14)} | 2,285,574 | 1.58% |
| Arnold Tinter ⁽¹⁵⁾ | 800,000 | 0.56% |
| Joe Cugine ^{(16) (17) (18)} | 3,616,506 | 2.50% |
| Alexander Ware ^{(19) (20) (21)} | 585,072 | 0.41% |
| Isabelle Ortiz-Cochet 2 Allee De Longchamp Suresnes, France ^{(22) (23)} | 370,883 | 0.26% |
| Raffi Loussarian ⁽²⁴⁾ | - | - |
| Alice Elliot ^{(25) (26) (27) (28)} | 884,429 | 0.62% |
| All directors and officers as a group (8 persons) | 51,322,825 | 34.19% |
| Unibel 2 Allee De Longchamp Suresnes, France 92150 ^{(29) (30) (31)} | 27,841,658 | 18.23% |
| IBEX Investors LLC (fka) Lazarus Investment Partners LLLP ^{(32) (33)} 3200 Cherry Creek South Drive Suite 670 Denver, CO 80209 | 20,745,766 | 14.08% |

- 1 The address of those listed, except as noted is c/o Barfresh Food Group Inc., 3600 Wilshire Blvd., Suite 1720 Los Angeles CA 90010.
- 2 Mr. Delle Coste is the Chief Executive Officer, President and a Director of the Company.
- 3 Includes 19,438,341 shares owned by R.D. Capital Holdings PTY Ltd. and of which Riccardo Delle Coste is deemed to be a beneficial owner.
- 4 Includes 624,999 shares underlying options granted.
- 5 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. Also includes 26,614 shares underlying warrants issued in connection with the conversion of debt.
- 6 Includes 50,000 shares underlying convertible debt
- 7 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 553,136 shares underlying options granted.
- 10 Includes 190,170 shares underlying warrants issued in connection with a promissory note the holder of which is Sidra PTY Limited. Also includes 159,683 shares underlying warrants issued in connection with the conversion of debt.
- 11 Includes 300,000 shares underlying convertible debt.
- 12 Mr. Tesoriero was formerly the Chief Financial Officer of the Company.
- 13 Includes 1,111,378 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 Mr. Cugine is President of a subsidiary of the Company and a Director.
- 17 Includes 1,183,791 shares underlying options granted.
- 18 Includes 457,830 shares underlying warrants issued in connection with purchase of common shares. Also includes 62,614 shares underlying warrants issued in connection with the conversion of debt.
- 19 Mr. Ware is a Director of the Company.
- 20 Includes 435,518 shares owned by The Alexander Ware Revocable Trust of which Mr. Ware is deemed to be a beneficial owner.
- 21 Includes 78,125 shares underlying warrants issued to The Alexander Ware Revocable Trust in connection with purchase of common shares.
- 22 Ms. Ortiz-Cochet was a Director of the Company
- 23 Includes 370,883 shares underlying options granted.
- 24 Raffi Loussararian is the Principal Financial Officer of the Company.
- 25 Ms. Elliot was a Director of the Company. She resigned effective March 31, 2019.
26. Includes 360,000 shares owned by Elliot-Herbst LP of which Alice Elliot is deemed to be a beneficial owner.
- 27 Includes 64,599 shares owned by Elliot-Herbst Family LLC of which Ms. Elliot is deemed to be a beneficial owner
- 28 Includes 368,210 shares underlying options granted.
- 29 Includes 7,812,500 shares underlying warrants issued in connection with the purchase of common stock.
- 30 Includes 447,336 shares underlying warrants issued in connection with a convertible promissory note.
- 31 Includes 1,252,274 shares underlying warrants issued in connection with the purchase of common stock
- 32 Includes 2,633,333 and 1,500,000 shares underlying warrants issued in connection with the purchase of common stock.
- 33 Includes 3,000,000 shares owned personally by Justin Borus, who serves as manager of Ibex Investments LLC.

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 2019 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, 2019 that four of our six 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, 2019 and December 31, 2018 were as follows.

| | 2019 | 2018 |
|--------------------|-----------|-----------|
| Audit fees | \$ 85,195 | \$ 71,982 |
| Audit related fees | - | - |
| Tax fees | 8,375 | 15,181 |
| All other fees | - | - |
| Total | \$ 93,570 | \$ 87,166 |

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, 2019 and December 31, 2018 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, 2019 or December 31, 2018, that are not reported under Audit Fees.

Tax Fees. The aggregate tax fees billed for the years end December 31, 2019 and 2018 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, 2019 or December 31, 2018.

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 13, 2020

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.

| <u>Signature</u> | <u>Capacity</u> | <u>Date</u> |
|--|---|----------------|
| <u><i>/s/ Riccardo Delle Coste</i></u> Riccardo Delle Coste | Chief Executive Officer and Director (Principal Executive Officer) | April 13, 2020 |
| <u><i>/s/ Raffi Loussararian</i></u> Raffi Loussararian | Vice President Finance (Principal Financial Officer) | April 13, 2020 |
| <u><i>/s/ Steven Lang</i></u> Steven Lang | Director | April 13, 2020 |
| <u><i>/s/ Arnold Tinter</i></u> Arnold Tinter | Director | April 13, 2020 |
| <u><i>/s/ Joseph M. Cugine</i></u> Joseph M. Cugine | Director | April 13, 2020 |
| <u><i>/s/ Isabelle Ortiz-Cochet</i></u> Isabelle Ortiz-Cochet | Director | April 13, 2020 |
| <u><i>/s/ Alexander H. Ware</i></u> Alexander Ware | Director | April 13, 2020 |

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 | <u>Form of Series G Warrant (incorporated by reference to Exhibit 4.1 to Current Report on Form 8-K as filed February 16, 2015)</u> |
| 4.10 | <u>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)</u> |
| 4.11 | <u>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)</u> |
| 4.12 | <u>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)</u> |
| 4.13 | <u>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)</u> |
| 4.14 | <u>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)</u> |
| 4.15 | <u>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)</u> |
| 4.16 | <u>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)</u> |
| 4.17 | <u>Form of Series L Warrant (incorporated by reference to Exhibit 4.17 to Registration Statement on Form S-1, No. 333-228030)</u> |
| 4.18 | <u>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)</u> |
| 4.19 | <u>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)</u> |

- 4.20 [Description of Securities Registered Under Section 12 of the Securities Exchange Act of 1934, as amended.](#)
- 4.21 [Form of Series O Warrant*](#)
- 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 \(Incorporated by reference to Exhibit 10.4 to Registration Statement on Form S-1 No. 333-203340\)](#)
- 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 [Form of Series D Warrant Exercise Offer dated July 25, 2018 \(incorporated by reference to Exhibit 10.13 to Registration Statement on Form S-1, No. 333-228030\)](#)
- 10.13 [Form of Securities Purchase Agreement dated February 14, 2018 by and between Barfresh Food Group, Inc. and certain investors \(incorporated by reference to Exhibit 10.14 to Registration Statement on Form S-1, No. 333-228030\)](#)
- 10.14 [Form of Securities Purchase Agreement dated March 15, 2020 by and between Barfresh Food Group, Inc. and certain investors*](#)
- 21.1 [Subsidiaries *](#)
- 31.1 [Certification of Principal Executive Officer, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 \(filed herewith\)*](#)
- 31.2 [Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 \(filed herewith\)*](#)
- 32.1 [Certification of Principal Executive Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*](#)
- 32.2 [Certification of Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*](#)
- 101.INS XBRL INSTANCE.
- 101.XSD XBRL SCHEMA.
- 101.PRE XBRL PRESENTATION.
- 101.CAL XBRL CALCULATION.
- 101.DEF XBRL DEFINITION.
- 101.LAB XBRL LABEL.
- * Filed herewith
- + Compensatory plan

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

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

Barfresh Food Group Inc.

Index to Consolidated Financial Statements

| | <u>Page</u> |
|---|--------------------|
| <u>Report of Independent Registered Public Accounting Firm</u> | F-2 |
| <u>Consolidated Balance Sheets as of December 31, 2019 and 2018</u> | F-3 |
| <u>Consolidated Statements of Operations for the Years Ended December 31, 2019 and 2018</u> | F-4 |
| <u>Consolidated Statements of Stockholders' Equity (Deficit) for the Years Ended December 31, 2019 and 2018</u> | F-5 |
| <u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2019 and 2018</u> | F-6 |
| <u>Notes to Consolidated Financial Statements</u> | F-7 |

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
Barfresh Food Group, Inc.
Los Angeles, 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, 2019 and 2018, 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, 2019 and 2018, 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 13, 2020

Barfresh Food Group Inc.
Consolidated Balance Sheets
December 31, 2019 and 2018

| | 2019 | 2018 |
|---|---------------------|---------------------|
| Assets | | |
| Current assets: | | |
| Cash | \$ 999,989 | \$ 1,041,569 |
| Restricted cash | 91,385 | - |
| Accounts receivable, net | 284,668 | 357,304 |
| Inventory, net | 634,746 | 1,226,463 |
| Prepaid expenses and other current assets | 17,606 | 98,457 |
| Total current assets | 2,028,394 | 2,723,793 |
| Property, plant and equipment, net of depreciation | 2,406,317 | 2,500,254 |
| Operating lease right-of-use assets, net | 203,287 | - |
| Intangible assets, net of amortization | 479,503 | 537,789 |
| Deposits | 8,304 | - |
| Total Assets | \$ 5,125,805 | \$ 5,761,836 |
| Liabilities and Stockholders' Equity (Deficit) | | |
| Current liabilities: | | |
| Accounts payable | \$ 625,068 | \$ 1,101,882 |
| Accrued expenses | 250,125 | 175,259 |
| Accrued payroll | 215,601 | 638,706 |
| Accrued vacation | 95,851 | 155,586 |
| Accrued interest | 487,978 | - |
| Lease liability | 56,692 | - |
| Convertible note, net of discount | 150,742 | - |
| Total current liabilities | 1,882,057 | 2,071,433 |
| Long term liabilities: | | |
| Accrued interest | - | 190,475 |
| Lease liability less current portion | 159,177 | - |
| Convertible note - related party, net of discount | 1,181,942 | 841,836 |
| Convertible note, net of discount | 1,407,877 | 1,367,487 |
| Derivative liabilities | 211,028 | 1,325,653 |
| Total liabilities | 4,842,081 | 5,796,884 |
| Commitments and contingencies (Note 7,8,9 and 14) | | |
| Stockholders' equity (deficit): | | |
| Preferred stock, \$0.000001 par value, 5,000,000 shares authorized, none issued or outstanding | - | - |
| Common stock, \$0.000001 par value; 295,000,000 shares authorized; 130,341,737 and 122,770,960 shares issued and outstanding at December 31, 2019 and December 31, 2018, respectively | 130 | 123 |
| Additional paid in capital | 47,030,716 | 41,118,649 |
| Accumulated deficit | (46,747,122) | (41,153,820) |
| Total stockholders' equity (deficit) | 283,724 | (35,048) |
| Total Liabilities and Stockholders' Equity (Deficit) | \$ 5,125,805 | \$ 5,761,836 |

See the accompanying notes to the consolidated financial statements

Barfresh Food Group Inc.
Consolidated Statements of Operations
For the years ended December 31, 2019 and 2018

| | 2019 | 2018 |
|--|----------------|----------------|
| Revenue | \$ 4,306,785 | \$ 4,235,159 |
| Cost of revenue | 1,928,210 | 2,033,396 |
| Depreciation of manufacturing equipment | 65,366 | 57,099 |
| Gross profit | 2,313,209 | 2,144,664 |
| Operating expenses: | | |
| General and administrative | 6,850,566 | 7,813,425 |
| Depreciation and amortization | 649,847 | 511,319 |
| Total operating expenses | 7,500,413 | 8,324,744 |
| Operating loss | (5,187,204) | (6,180,080) |
| Other expenses | | |
| Other (income) loss from derivative liability | (1,114,625) | 87,630 |
| Warrant modification | 307,460 | 290,300 |
| Interest | 1,213,263 | 764,813 |
| Total other expense | 406,098 | 1,142,743 |
| Net (loss) | \$ (5,593,302) | \$ (7,322,823) |
| Per share information - basic and fully diluted: | | |
| Weighted average shares outstanding | 128,510,646 | 119,599,191 |
| Net (loss) per share | \$ (0.04) | \$ (0.06) |

See the accompanying notes to the consolidated financial statements

Barfresh Food Group, Inc.
Statement of Stockholders' Equity
For the Period from January 1, 2018 to December 31, 2019

| | Common Stock | | Additional paid in Capital | Accumulated (Deficit) | Total |
|--|--------------|--------|----------------------------------|--------------------------|--------------|
| | Shares | Amount | | | |
| Balance January 1, 2018 | 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) |
| Exercise of warrants | 3,196,180 | 3 | 1,884,873 | - | 1,884,876 |
| Issuance of stock and options for services | 374,597 | - | 335,914 | - | 335,914 |
| Equity based compensation | - | - | 225,026 | - | 225,026 |
| Warrants issued to Management | - | - | 758,798 | - | 758,798 |
| Issuance of stock for capital raise | 4,000,000 | 4 | 2,399,996 | - | 2,400,000 |
| Warrant modification | - | - | 307,460 | - | 307,460 |
| Net (loss) for the year | - | - | - | (5,593,302) | (5,593,302) |
| Balance December 31, 2019 | 130,341,737 | \$ 130 | \$ 47,030,716 | \$ (46,747,122) | \$ 283,724 |

See the accompanying notes to the consolidated financial statements

Barfresh Food Group Inc.
Consolidated Statements of Cash Flows
For the years ended December 31, 2019 and 2018

| | 2019 | 2018 |
|--|---------------------|---------------------|
| Net income | \$ (5,593,302) | \$ (7,322,823) |
| Adjustments to reconcile net income to net cash from operating activities | | |
| Depreciation | 651,603 | 504,808 |
| Amortization | 63,610 | 63,610 |
| Amortization of ROU Asset | 38,268 | |
| Bad debt expense | 89,397 | 61,788 |
| Change in Inventory Reserve | 69,414 | 31,237 |
| Interest expense related to debt discount | 881,871 | 519,707 |
| Warrant Modification Expense | 307,460 | 290,300 |
| Stock-Based Compensation | 225,026 | 598,768 |
| Loss on Derivative | (1,114,625) | 87,630 |
| Gain on sale of assets | - | (13,118) |
| Stock and options issued for Services | 335,914 | 190,167 |
| Changes in assets and liabilities | | |
| Receivables - trade | (16,757) | (148,055) |
| Inventories | 456,938 | 213,346 |
| Prepaid expenses & Other assets | 41,482 | (4,617) |
| Deposits | 31,065 | - |
| Accounts payable | (502,898) | 458,507 |
| Accrued Expenses | 350,780 | 120,022 |
| Accrued Interest | 331,432 | 220,934 |
| Deferred rent | - | (495) |
| Net Cash (used for) Operating Activities | (3,353,326) | (4,128,284) |
| Investing Activities | | |
| Purchase of property and equipment | (466,216) | (1,106,574) |
| Proceeds from sale of equipment | - | 37,967 |
| Purchase of Intangibles | (5,324) | (14,456) |
| Net Cash (used for) Investing Activities | (470,738) | (1,083,063) |
| Financing Activities | | |
| Cash received for Warrant Exercises | 1,500,357 | 925,000 |
| Cash paid for debt offering costs | - | (45,000) |
| Cash received for Stock | 2,400,000 | - |
| Issuance of convertible notes | - | 4,318,000 |
| Repayment of short-term debt | - | (250,000) |
| Payments of operating leases | (25,686) | - |
| Net Cash from Financing Activities | 3,874,671 | 4,948,000 |
| Net Change in Cash and Restricted Cash | 49,805 | (263,347) |
| Cash and Restricted Cash, Beginning of Year | 1,041,569 | 1,304,916 |
| Cash and Restricted Cash, End of Year | <u>\$ 1,091,374</u> | <u>\$ 1,041,569</u> |
| Non-Cash Financing and Investing Activities | | |
| Total property and equipment included in accounts payable | 26,084 | 216,768 |
| Discount on convertible notes | - | 1,874,684 |
| Convertible notes principal and interest settled through warrant exercise | 384,563 | 580,854 |
| Operating lease right-of-use asset | 241,555 | - |
| Deferred compensation settled through issuance of warrants | 758,798 | - |

See the accompanying notes to the financial statements

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, 2019 and 2018. 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.

Restricted Cash

In the third quarter of 2019, the Company adopted FASB ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (“ASU 2016-18”), which enhances and clarifies the guidance on the classification and presentation of restricted cash in the statement of cash flows and requires additional disclosures about restricted cash balances. At December 31, 2019, the Company had \$91,385 in restricted cash related to our co-packing agreement with Yarnell Operations, LLC.

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, 2019 and 2018, the company’s allowance for doubtful accounts was \$141,788 and \$61,788 respectively. There was \$89,397 of bad debt expense recorded for the year ended December 31, 2019 and \$61,788 of bad debt expense for the year ended December 31, 2018. 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 net 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, 2019 and 2018, the Company's inventory reserve was \$100,651 and \$31,237 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 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 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 services 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 the time of delivery to a customer warehouse. 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 \$538,391 and \$674,224, in research and development expenses for the years ended December 31, 2019 and 2018, respectively.

Shipping and Storage Costs

Shipping and handling costs are included in general and administrative expenses. For the years ended December 31, 2019 and 2018, shipping and handling costs totaled \$751,237 and \$864,871, respectively.

Rent Expense

As of January 1, 2019, the Company adopted ASC 842. ASC 842 replaced the prior lease accounting guidance in its entirety. As disclosed in Note 7, we entered into a new office space lease that took effect on April 1, 2019 and recorded a right-of-use asset and corresponding liability for amounts that approximate our future commitments of \$241,555. Lease expense for finance leases consists of the amortization of the ROU asset on a straight-line basis over the asset's estimated useful life and is included in operating expenses in the consolidated statement of income.

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, 2019 and 2018 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, 2019 and 2018 any equivalents would have been anti-dilutive as we had losses for the periods then ended.

Stock Based Compensation

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

Recent pronouncements

From time to time, new accounting pronouncements are issued that we adopt as of the specified effective date. We believe that the impact of recently issued standards 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 have one material lease subject to adoption of this standard, effective January 1, 2019. As disclosed in Note 8, we entered into a new office space lease that took effect on April 1, 2019 and recorded a right-of-use asset and corresponding liability for amounts that approximate our future commitments of \$241,555.

Note 2. Inventory

Inventory consists of the following at December 31:

| | 2019 | 2018 |
|------------------------------------|-------------------|---------------------|
| Raw materials | \$ 286,027 | \$ 43,256 |
| Finished goods, net of reserve | 332,083 | 1,127,656 |
| Capitalized equipment depreciation | 16,636 | 55,551 |
| Inventory, net | <u>\$ 634,746</u> | <u>\$ 1,226,463</u> |

The Company has recorded a reserve for slow moving and potentially obsolete inventory. The reserve at December 31, 2019 and 2018 was \$100,651 and \$31,237 respectively.

Note 3. Property Plant and Equipment

Major classes of property and equipment at December 31, 2019 and 2018 consist of the following:

| | 2019 | 2018 |
|--|---------------------|---------------------|
| Furniture and fixtures | \$ 1,524 | \$ 1,524 |
| Manufacturing Equipment and customer equipment | 3,521,636 | 3,118,391 |
| Leasehold Improvements | 4,886 | 4,886 |
| Vehicles | 29,696 | 29,696 |
| | <u>3,557,742</u> | <u>3,154,497</u> |
| Less: accumulated depreciation | (1,787,967) | (1,190,846) |
| | <u>1,769,775</u> | <u>1,963,651</u> |
| Equipment not yet placed in service | 636,542 | 536,605 |
| Property and equipment, net of depreciation | <u>\$ 2,406,317</u> | <u>\$ 2,500,254</u> |

We recorded depreciation expense related to these assets of \$586,237 and \$447,709 for the years ended December 31, 2019 and 2018, respectively. Depreciation expense in Cost of Goods Sold was \$65,366 and \$57,099 for the years ended December 31, 2019 and 2018 respectively.

Note 4. Intangible Assets

As of December 31, 2019, intangible assets consist of patent costs of \$764,891, trademarks of \$108,632 and accumulated amortization of \$394,020.

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

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 \$63,610 for the years ended December 31, 2019 and 2018, respectively.

Estimated future amortization expense related to patents as of December 31, 2019, is as follows:

| Years ending December 31, | <u>Total Amortization</u> |
|---------------------------|---------------------------|
| 2020 | \$ 63,610 |
| 2021 | 63,610 |
| 2022 | 63,610 |
| 2023 | 63,610 |
| Later years | 116,431 |
| | <u>\$ 370,871</u> |

Note 5. 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.

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 event 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 event 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 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.

In March 2019, an investor elected to exercise I-Warrants by using part of the investor's convertible note. The total debt settled was \$350,634 of principal and \$33,929 of accrued interest.

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

| | 31-Dec-19 | 31-Dec-18 |
|--|---------------------|---------------------|
| Convertible notes | \$ 2,704,800 | \$ 2,704,800 |
| Less: Debt discount (warrant value) | (325,747) | (325,747) |
| Less: Debt discount (derivative value)(Note 7) | (638,988) | (638,988) |
| Less: Debt discount (issuance costs paid) | (27,000) | (27,000) |
| Less: Note conversion | (803,634) | (453,000) |
| Add: Debt discount amortization | 898,940 | 481,042 |
| | <u>\$ 1,808,371</u> | <u>\$ 1,741,107</u> |

The total of \$1,808,371 shown in the table above at December 31, 2019, plus the total of \$932,190 from the table below equals the total presented in the balance sheet of Long Term Liabilities: Convertible Note – related party net of discount, of \$1,181,942, Convertible Note – net of Discount of \$1,407,877, and Current Liabilities: Convertible Note – net of Discount 150,742. The total of \$1,741,107 in the table above at December 31, 2018, plus the total of \$468,216 from the table below (\$2,209,323) agrees to the total presented in the balance sheet of Long Term Liabilities: Convertible note – related party, net of discount of \$841,836, and Convertible Note, net of discount, of \$1,367,487.

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 event 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:

| | 31-Dec-19 | 31-Dec-18 |
|--|-------------------|-------------------|
| Convertible notes | \$ 1,363,200 | \$ 1,363,200 |
| Less: Debt discount (warrant value) | (212,763) | (212,763) |
| Less: Debt discount (derivative value)(Note 7) | (697,186) | (697,186) |
| Less: Debt discount (issuance costs paid) | (23,700) | (23,700) |
| Add: Debt discount amortization | 502,639 | 38,665 |
| | <u>\$ 932,190</u> | <u>\$ 468,216</u> |

The total shown in the above table of \$932,190 at December 31, 2019, plus the total from table above \$1,808,371 agrees to the total presented in the balance sheet of Long Term Liabilities: Convertible Note – related party net of discount, of \$1,181,942, Convertible Note – net of Discount of \$1,407,877, and Current Liabilities: Convertible Note – net of discount of 150,742. The total in the first table above of \$1,741,107 at December 31, 2018, plus the total from the second table above of \$468,216 (\$2,209,323) agrees to the total presented in the balance sheet of Long Term Liabilities: Convertible note – related party, net of discount of \$841,836, and Convertible Note, net of discount, of \$1,367,487.

As of December 31, 2019, the outstanding balances due of the Series CN Notes, net of all related debt discount, total \$2,740,561. The Long Term Liabilities of related party convertible notes (net) and unrelated party convertible notes (net) represent \$1,181,942 and \$1,407,877, respectively as of December 31, 2019. The Current Liabilities of Convertible Notes, (net) represent 150,742 as of December 31, 2019. Per Note 14, Subsequent Events, the Company restructured its Milestone I and II Convertible Notes through both conversion and extension. The remaining principal balance outstanding as of March 23, 2020 is \$1,407,000.

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

| Years ending December 31, | Total Convertible Notes |
|---------------------------|----------------------------|
| 2020 | \$ 177,366 |
| 2021 | 168,000 |
| 2022 | 1,071,000 |
| 2023 | - |
| 2024 | - |
| | <u>\$ 1,416,366</u> |

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, 2019 and 2018 with a value of \$211,028 and \$1,325,653. The Company recorded a net gain of \$1,114,625 and a net loss of \$87,630 for the years ended December 31, 2019 and 2018 respectively related to the derivative liability. The 2018 net loss consists of a \$110,829 gain for a portion of the derivative liability being settled upon a noteholders decision to convert their outstanding principal to equity under the terms of the convertible note agreement, 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.

| | 31-Dec-19 | 31-Dec-18 |
|--|-----------|-----------|
| Expected life | 0.21 | 1.2 |
| Volatility (based on comparable company) | 86.4% | 72.03% |
| Risk Free interest rate | 1.58% | 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.

| | 31-Dec-19 | 31-Dec-18 |
|--|-----------|-----------|
| Expected life | 0.93 | 1.92 |
| Volatility (based on comparable company) | 104.89% | 63.7% |
| Risk Free interest rate | 1.58% | 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, 2018 to December 31, 2019:

| | |
|---|--------------|
| January 1, 2018 | \$ - |
| Initial value - March 14, 2018 | 569,588 |
| Initial value - April 18, 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 |
| Loss from change in value | (1,114,625) |
| For the period ended December 31, 2019 | \$ 211,028 |

The following table presents the Company's fair value hierarchy for applicable assets and liabilities measured at fair value as of December 31, 2019 and December 31, 2018.

| | Level 1 | Level 2 | Level 3 | Total |
|------------------------------------|---------|---------|-----------|--------------|
| Derivative Liability December 2019 | \$ - | - | 211,028 | \$ 211,028 |
| Derivative Liability December 2018 | \$ - | - | 1,325,653 | \$ 1,325,653 |

Note 8. Commitments and Contingencies

We lease office space under non-cancelable operating lease which expires on March 31, 2023. We incurred lease expense of \$92,608 and \$167,530 for the years ended December 31, 2019 and 2018, respectively. As of December 31, 2019, our right of use asset and related liability was \$203,287 and \$215,689, respectively.

In determining the present value of our operating lease right-of-use asset and liability, we used a 10% discount rate (which approximates our borrowing rate). The remaining term on the lease is 3.25 years.

The following table presents the future operating lease payment as of December 31, 2019.

| | |
|------------------------|------------|
| 2020 | \$ 75,748 |
| 2021 | 78,021 |
| 2022 | 80,361 |
| 2023 | 20,238 |
| Total Lease payments | 254,368 |
| Less: imputed interest | (38,499) |
| Total lease liability | \$ 215,869 |

Note 9. Stockholders' Equity

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) | - |

During the year ended December 31, 2019, we issued 282,944 shares of common stock, valued at \$169,040 for services. We also issued 91,653 shares of our common stock, with a value of \$50,000, to a member of our Board of Directors in lieu of cash payments for Director fees. In addition, we issued 281,343 options to purchase our common stock to certain member of the Board of Directors in lieu of cash payments for Director fees valued at \$116,874. The exercise price of the options ranged from \$0.47 to \$0.65 per share, vest immediately, and are exercisable for periods of 8 years. In addition, we issued 875,000 options to purchase our common stock to employees and executives. The exercise price of the options ranged from \$0.45 to \$0.73 per share, vest after 3 years, and are exercisable for periods of 8 years.

The fair value of the options issued (\$237,850, 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% to 77.19% |
| Risk Free interest rate | 1.79% to 2.78% |
| Dividend yield (on common stock) | - |

The shares of our common stock were valued at the trading price on the date of grant, \$0.45 and \$0.73 per share

During the same period, we cancelled 1,387,333 options to purchase our common stock, which was primarily driven by the resignation of executives.

The Holders of 2,841,454 I warrants elected to exercise those warrant on a cash basis of \$1,320,313 and cashless basis of \$384,563 to offset convertible note and accrued interest; and received 2,841,454 shares of our common stock.

The Holder of 300,000 G warrants elected to exercise those warrant on a cash basis of \$180,000 and received 300,000 shares of our common stock.

During the first quarter of 2019, the Company completed additional funding 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 4,000,000 shares.

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 \$771,113. 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 total amount of equity-based compensation included in additional paid in capital for the years ended December 31, 2019 and 2018 was 225,026 and \$598,768, respectively,

The following is a summary of outstanding stock options issued to employees and directors as of December 31, 2019:

| | Number of Options | Exercise price per share \$ | Average remaining term in years | Aggregate intrinsic value at date of grant \$ |
|-------------------------------|----------------------|-----------------------------------|---------------------------------------|--|
| Outstanding January 1, 2018 | 6,715,419 | .40 - .87 | 5.48 | |
| Issued | 1,542,111 | .50 - .60 | | |
| Cancelled | (321,183) | | | |
| Exercised | (508,333) | | | |
| Outstanding December 31, 2018 | 7,428,014 | .40 - .87 | 5.48 | - |
| Issued | 1,156,343 | .45 - .73 | | |
| Cancelled | (1,387,333) | | | |
| Outstanding December 31, 2019 | 7,197,024 | .40 - .87 | 4.55 | |
| Exercisable, December 31 2019 | 3,706,606 | .40 - .87 | 3.45 | - |

As of December 31, 2019, the Company has \$967,826 of total unrecognized share-based compensation expense related to unvested options, which is expected to be amortized over the remaining weighted average period of 4.55 years.

Note 10. Outstanding Warrants

The following is a summary of all outstanding warrants as of December 31, 2019:

| | Number of warrants | price per share | remaining term in years | intrinsic value at date of grant |
|--|--------------------|------------------|-------------------------|----------------------------------|
| Warrants issued in connection with private placements of common stock | 17,902,957 | \$ 0.53 - \$1.00 | 1.30 | \$ - |
| Warrants issued in connection with private placement of notes | 1,335,000 | \$ 1.00 | 1.00 | \$ - |
| Warrants issued in connection with convertible note | 2,468,259 | \$ 0.70 | 1.40 | \$ - |
| Warrants issued in connection with settlement of deferred compensation | 1,595,611 | \$ 0.70 | 4.25 | \$ - |

Note 11. Income Taxes

Income tax provision (benefit) for the years ended December 31, 2019 and 2018 is summarized below:

| | 2019 | 2018 |
|-------------------------------|--------------|--------------|
| Current: | | |
| Federal | \$ - | \$ - |
| State | - | - |
| Total current | - | - |
| Deferred: | | |
| Federal | (937,500) | (922,100) |
| State | (1,488,500) | (144,700) |
| Total deferred | (2,426,000) | (1,066,800) |
| Change in valuation allowance | \$ 2,426,000 | \$ 1,066,800 |

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:

| | 2019 | 2018 |
|--|-----------|-----------|
| Income tax provision at the federal statutory rate | 21.0% | 21.0% |
| State income taxes, net of federal benefit | 6.9% | 3.3% |
| Permanent Difference | (2.5%) | (2.5%) |
| Effect of rate change | -% | -% |
| Effect of change in valuation allowance | (21.8%) | (21.8%) |
| | <u>-%</u> | <u>-%</u> |

Components of the net deferred income tax assets at December 31, 2019 and 2018 were as follows:

| | 2019 | 2018 |
|------------------------------|---------------|--------------|
| Net operating loss carryover | \$ 10,395,000 | \$ 7,969,000 |
| Valuation allowance | (10,395,000) | (7,969,000) |
| | <u>\$ -</u> | <u>\$ -</u> |

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 \$10,395,000 and \$7,969,000 allowance at December 31, 2019 and 2018, 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 \$2,426,000.

As of December 31, 2019, we have a net operating loss carry forward of approximately \$37,259,800. 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 |
| 2040 | \$ 4,464,500 |

As of December 31, 2019, we did not have any significant unrecognized uncertain tax positions. The 2019 net operating loss carry forward of \$4,464,500 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, 2019 and 2018, we operated in one segment.

The following is a breakdown of customers representing more than 10% of sales for the year ended December 31, 2019:

| | Revenue from customer | Percentage of total revenue |
|------------|--------------------------|-----------------------------------|
| Customer A | \$ 1,641,333 | 38.14% |
| Customer B | \$ 739,956 | 17.19% |

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

| | Revenue from customer | Percentage of total 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, 2019, we had \$1,091,374 of cash on the balance sheet. We have continued to significantly reduce core operating expenses, reducing total General and Administrative Expense in 2019 by \$962,859, or 12%, as compared with 2018. In addition, in the first quarter of 2020, the Company completed \$3.825 million of funding. These financings included a Private Placement Offering for common shares priced at \$0.50 cents per share. Moreover, on March 23, 2020 the Company obtained extensions or conversion of its Milestone I and II Convertible Notes as described in Note 14.

Management has concluded that these actions have alleviated the substantial doubt of our ability to continue as a going concern. However, the Company cannot predict, with certainty, the outcome of its action to generate liquidity, including the availability of additional financing, or whether such actions would generate the expected liquidity as planned.

Note 14. Subsequent Events

On March 23, 2020, the Company completed additional funding including a Private Placement Offering for common shares priced at \$0.50 per share (subject to adjustment), resulting in the receipt of proceeds in the amount of \$3.825 million and the issuance of 7,650,000 shares. The investors of this Private Placement Offering will be granted O warrants to be eligible to purchase an additional 0.50 shares for every share issued to each purchaser, exercisable for a period of 3 years at an exercise price of \$0.60 per share, (subject to adjustment). If the volume-weighted average trading price for the 20 consecutive trading days that conclude upon 6 months after the initial closing (the "Six Month Price") exceeds or equals \$0.50 per share (the "Target Price"), the per share purchase price will not be adjusted. If the Six Month Price is less than the Target Price, the per share purchase price will be automatically reduced to the Six Month Price, but in no event less than \$0.35 per share, in which case the Company shall issue to each investor, pro-rata based on such investor's investment: (a) shares in a quantity that equals the difference between the number of shares issued to such purchaser at closing and the number of shares that would have been issued to such purchaser at closing at the Six Month Price; and (b) a warrant for a number of shares of common stock equal to 50% of the difference between the number of shares issued to such investor at closing and the number of shares that would have been issued to such investor at closing at the Six Month Price, with an exercise price equal to the sum of \$0.10 per share and the Six Month Price, but in no event less than \$0.45 per share. The exercise price per share for each warrant will automatically adjust to the sum of \$0.10 per share and the Six-Month Price, but in no event less than \$0.45 per share. In addition, the Company obtained a 24 month extension on \$1,071,000 in principal, and conversion of \$720,000 of principal of the Milestone I Convertible Notes at a conversion price of \$0.50 per share. The remaining \$110,166 was extended for thirty days. The interest rate on the principal balance of the extended Milestone I Convertible Notes was amended to 15%. Furthermore, the Company obtained a 12 month extension on \$168,000 in principal, and conversion of \$1,128,000 in principal of the Milestone II Convertible Notes. The remaining \$67,200 was extended for thirty days. The Convertible Noteholders of the Milestone I and II Convertible Notes were granted additional interest depending upon their election to convert or extend their Convertible Notes.

The impact of COVID-19 on the Company is evolving rapidly with events unfolding on a daily and weekly basis. The direct impact to our operations has begun to take affect at the close of the first quarter ended March 31, 2020. Specifically, our business has been impacted by dining bans targeted at restaurants to reduce the size of public gatherings. We have noted restaurant chains have closed operations and furloughed employees which would preclude our single serve products from being served at those establishments for a number of weeks. Furthermore, many school districts have closed regular attendance which could conceivably last to the end of the school year. This will directly impact the sales of our Bulk Product into that sales channel. Our headquarters are located in Los Angeles, California, where the entire state has been issued a "shelter in place" order from the Governor of California. Consequently, our staff in the headquarter office are working remotely until further notice. At this point, we have not experienced a disruption in the supply chain for manufacturing our products. The developments surrounding COVID-19 remain fluid and dynamic, and consequently, will require the Company to continue to monitor news headlines from government and health officials, as well as, the business community.

**DESCRIPTION OF THE REGISTRANT'S SECURITIES
REGISTERED PURSUANT TO SECTION 12 OF THE
SECURITIES EXCHANGE ACT OF 1934**

As of December 31, 2019, Barfresh Food Group, Inc.'s ("Barfresh," the "Company," "we," "our," "us") common stock, par value \$0.000001 per share ("Common Stock") was registered under Section 12(g) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and quoted on OTCQB under the symbol "BRFH".

The following is a summary of the material terms of our common stock. This summary does not purport to be exhaustive and is qualified in its entirety by reference to our certificate of incorporation, as amended ("Certificate") and our amended and restated bylaws ("Bylaws") and to the applicable provisions of Delaware law.

Authorized Common Stock

Our authorized shares of common stock consists of 295,000,000 shares of common stock, par value \$0.000001 per share. As of December 31, 2019, 130,341,737 shares of our common stock were outstanding.

Common Stock

Each share of our common stock entitles its holder to one vote in the election of each director and on all other matters voted on generally by our shareholders, other than any matter that (i) solely relates to the terms of any outstanding series of preferred stock or the number of shares of that series and (ii) does not affect the number of authorized shares of preferred stock or the powers, privileges and rights pertaining to the common stock. No share of our common stock affords any cumulative voting rights. This means that the holders of a majority of the voting power of the shares voting for the election of directors can elect all directors to be elected if they choose to do so. Holders of our common stock will be entitled to dividends in such amounts and at such times as our board of directors in its discretion may declare out of funds legally available for the payment of dividends. We currently intend to retain our entire available discretionary cash flow to finance the growth, development and expansion of our business and do not anticipate paying any cash dividends on the common stock in the foreseeable future. Any future dividends will be paid at the discretion of our board of directors after taking into account various factors, including:

- general business conditions;
- industry practice;
- our financial condition and performance;
- our future prospects;
- our cash needs and capital investment plans;
- our obligations to holders of any preferred stock we may issue;
- income tax consequences; and
- the restrictions Delaware and other applicable laws and our credit arrangements then impose.

If we liquidate or dissolve our business, the holders of our common stock will share ratably in all our assets that are available for distribution to our shareholders after our creditors are paid in full and the holders of all series of our outstanding preferred stock, if any, receive their liquidation preferences in full.

Our common stock has no preemptive rights and is not convertible or redeemable or entitled to the benefits of any sinking or repurchase fund.

Anti-Takeover Effects of Certain Provisions of Delaware Law and Our Certificate and Bylaws

We are subject to the provisions of Section 203 of the Delaware General Corporation Law (the “DGCL”), an anti-takeover law. Subject to certain exceptions, the statute prohibits a publicly held Delaware corporation from engaging in a “business combination” with an “interested stockholder” for a period of three years after the date of the transaction in which the person became an interested stockholder unless:

- prior to such date, the board of directors of the corporation approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder;
- upon consummation of the transaction which resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the number of shares outstanding those shares owned (1) by persons who are directors and also officers and (2) by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or
- on or after such date, the business combination is approved by the board of directors and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least 66 2/3% of the outstanding voting stock that is not owned by the interested stockholder.

For purposes of Section 203, a “business combination” includes a merger, asset sale or other transaction resulting in a financial benefit to the interested stockholder, and an “interested stockholder” is a person who, together with affiliates and associates, owns, or within three years prior to the date of determination whether the person is an “Interested Stockholder” did own, 15% or more of the corporation’s voting stock.

In addition, our authorized but unissued shares of common stock are available for our board to issue without stockholder approval. We may use these additional shares for a variety of corporate purposes, including future public or private offerings to raise additional capital, corporate acquisitions and employee benefit plans. The existence of our authorized but unissued shares of common stock could render more difficult or discourage an attempt to obtain control of our company by means of a proxy contest, tender offer, merger or other transaction. Our authorized but unissued shares may be used to delay, defer or prevent a tender offer or takeover attempt that a stockholder might consider in its best interest, including those attempts that might result in a premium over the market price for the shares held by our stockholders.

The Company’s directors and executive officers are indemnified as provided by the Delaware General Corporation Law and the Company’s Certificate. These provisions state that the Company’s directors may cause the Company to indemnify a director or former director against all costs, charges and expenses, including an amount paid to settle an action or satisfy a judgment, actually and reasonably incurred by him as a result of him acting as a director. The indemnification of costs can include an amount paid to settle an action or satisfy a judgment. Such indemnification is at the discretion of the Company’s board of directors and is subject to the SEC’s policy regarding indemnification.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling the Company pursuant to the foregoing provisions, or otherwise, the Company has been advised that in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

In the event that a claim for indemnification against such liabilities (other than the payment of expenses incurred or paid by a director, officer or controlling person in a successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, we will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to the court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

Transfer Agent and Registrar

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.

NEITHER THIS SECURITIES REPRESENTED BY THIS CERTIFICATE NOR THE SECURITIES ISSUABLE UPON ITS EXERCISE HAVE BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS AS EVIDENCED BY A LEGAL OPINION OF COUNSEL TO THE TRANSFEROR TO SUCH EFFECT, THE SUBSTANCE OF WHICH SHALL BE REASONABLY ACCEPTABLE TO THE COMPANY. THE SECURITIES REPRESENTED BY THIS CERTIFICATE AND THE SECURITIES ISSUABLE UPON ITS EXERCISE MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT OR OTHER LOAN SECURED BY SUCH SECURITIES.

[FORM OF] SERIES-O COMMON STOCK PURCHASE WARRANT

BARFRESH FOOD GROUP, INC.

Warrant Shares: **O-1**_____

Initial Issuance Date: **March** __, 2020

THIS SERIES-O COMMON STOCK PURCHASE WARRANT (the "Warrant") certifies that, for value received, [_____] (the "Holder") is entitled, upon the terms and subject to the limitations on exercise and the conditions hereinafter set forth, at any time on or after the date hereof (the "Initial Exercise Date") and on or prior to the close of business on the three (3) year anniversary of the Initial Exercise Date (the "Termination Date") but not thereafter, to subscribe for and purchase from Barfresh Food Group, Inc., a Delaware corporation (the "Company"), up to [_____] shares (the "Warrant Shares") of Common Stock of the Company. The purchase price of one (1) Warrant Share under this Warrant shall be equal to the Exercise Price, as defined in Section 2(b).

Section 1. Definitions. Capitalized terms used and not otherwise defined herein shall have the meanings set forth in that certain Securities Purchase Agreement, of even date herewith (the "Purchase Agreement"), among the Company and the purchasers signatory thereto.

Section 2. Exercise.

a) Exercise of Warrant. Exercise of the purchase rights represented by this Warrant may be made, in whole or in part, at any time or times on or after the Initial Exercise Date and on or before the Termination Date by delivery to the Company of a duly executed facsimile copy or emailed electronic copy of the Notice of Exercise Form annexed hereto (or such other office or agency of the Company as it may designate by notice in writing to the registered Holder at the address of such Holder appearing on the books of the Company); and, within three (3) Trading Days of the date said notice is delivered to the Company, the Company shall have received payment of the aggregate Exercise Price of the Warrant Shares thereby purchased by wire transfer. Notwithstanding anything herein to the contrary, the Holder shall not be required to physically surrender this Warrant to the Company until the Holder has purchased all of the Warrant Shares available hereunder and the Warrant has been exercised in full, in which case, the Holder shall surrender this Warrant to the Company for cancellation within three (3) Trading Days of the date the final Notice of Exercise is delivered to the Company. Partial exercises of this Warrant resulting in purchases of a portion of the total number of Warrant Shares available hereunder shall have the effect of lowering the outstanding number of Warrant Shares purchasable hereunder in an amount equal to the applicable number of Warrant Shares purchased. The Holder and the Company shall maintain records showing the number of Warrant Shares purchased and the date of such purchases. The Company shall deliver any objection to any Notice of Exercise Form within two (2) Business Days of receipt of such notice. **The Holder and any assignee, by acceptance of this Warrant, acknowledge and agree that, by reason of the provisions of this paragraph, following the purchase of a portion of the Warrant Shares hereunder, the number of Warrant Shares available for purchase hereunder at any given time may be less than the amount stated on the face hereof.**

b) Exercise Price. The exercise price per Warrant Share under this Warrant shall be **SIXTY CENTS (\$0.60)**, subject to adjustment hereunder (the "Exercise Price").

c) Holder's Restrictions. A Holder shall not have the right to exercise any portion of this Warrant, pursuant to Section 2 or otherwise, to the extent that after giving effect to such issuance after exercise as set forth on the applicable Notice of Exercise, such Holder (together with such Holder's Affiliates, and any other person or entity acting as a group together with such Holder or any of such Holder's Affiliates), would beneficially own in excess of the Beneficial Ownership Limitation (as defined below). For purposes of this Section 2(c) beneficial ownership shall be calculated in accordance with Section 13(d) of the Exchange Act and the rules and regulations promulgated thereunder, it being acknowledged by the Holder that the Company is not representing to such Holder that such calculation is in compliance with Section 13(d) of the Exchange Act and such Holder is solely responsible for any schedules required to be filed in accordance therewith. To the extent that the limitation contained in this Section 2(d) applies, the determination of whether this Warrant is exercisable (in relation to other securities owned by such Holder together with any Affiliates) and of which portion of this Warrant is exercisable shall be in the sole discretion of the Holder, and the submission of a Notice of Exercise shall be deemed to be the Holder's determination of whether this Warrant is exercisable (in relation to other securities owned by such Holder together with any Affiliates) and of which portion of this Warrant is exercisable, in each case subject to the Beneficial Ownership Limitation, and the Company shall have no obligation to verify or confirm the accuracy of such determination. In addition, a determination as to any group status as contemplated above shall be determined in accordance with Section 13(d) of the Exchange Act and the rules and regulations promulgated thereunder. For purposes of this Section 2(d), in determining the number of outstanding shares of Common Stock, a Holder may rely on the number of outstanding shares of Common Stock as reflected in (x) the Company's most recent Form 10-Q or Form 10-K, as the case may be, (y) a more recent public announcement by the Company or (z) any other notice by the Company or the Company's Transfer Agent setting forth the number of shares of Common Stock outstanding. Upon the written or oral request of a Holder, the Company shall within two Trading Days confirm orally and in writing to such Holder the number of shares of Common Stock then outstanding. In any case, the number of outstanding shares of Common Stock shall be determined after giving effect to the conversion or exercise of securities of the Company, including this Warrant, by such Holder or its Affiliates since the date as of which such number of outstanding shares of Common Stock was reported.

The "Beneficial Ownership Limitation" shall be 4.99% of the number of shares of the Common Stock outstanding immediately after giving effect to the issuance of shares of Common Stock issuable upon exercise of this Warrant. The provisions of this paragraph shall be construed and implemented in a manner otherwise than in strict conformity with the terms of this Section 2(d) to correct this paragraph (or any portion hereof) which may be defective or inconsistent with the intended Beneficial Ownership Limitation herein contained or to make changes or supplements necessary or desirable to properly give effect to such limitation. The limitations contained in this paragraph shall apply to a successor holder of this Warrant. The limitations contained in this paragraph shall not apply to any holder of greater than 5% of the Common Stock of the Company prior to the Initial Exercise Date. The Beneficial Ownership Limitation provisions of this Section 2(c) may be waived by such Holder upon 65 days written notice to the Company.

d) Mechanics of Exercise.

i. Delivery of Certificates Upon Exercise. Certificates for shares purchased hereunder shall be transmitted by the Transfer Agent of the Company to the Holder by physical delivery to the address specified by the Holder in the Notice of Exercise within three (3) Trading Days from the delivery to the Company of the Notice of Exercise Form, surrender of this Warrant (if required) and payment of the aggregate Exercise Price as set forth above ("Warrant Share Delivery Date"). This Warrant shall be deemed to have been exercised on the date the Exercise Price is received by the Company. The Warrant Shares shall be deemed to have been issued, and Holder or any other person so designated to be named therein shall be deemed to have become a holder of record of such shares for all purposes, as of the date the Warrant has been exercised by payment to the Company of the Exercise Price and all taxes required to be paid by the Holder, if any, pursuant to Section 2(d)(v) prior to the issuance of such Warrant Shares, have been paid. The Warrant Shares shall bear a restrictive legend substantially similar to the restrictive legend placed on the Common Shares issued pursuant to the Purchase Agreement.

ii. Delivery of New Warrants Upon Exercise. If this Warrant shall have been exercised in part, the Company shall, at the request of a Holder and upon surrender of this Warrant certificate, at the time of delivery of the certificate or certificates representing Warrant Shares, deliver to Holder a new Warrant evidencing the rights of Holder to purchase the unpurchased Warrant Shares called for by this Warrant, which new Warrant shall in all other respects be identical with this Warrant.

iii. Rescission Rights. If the Company fails to cause its Transfer Agent to transmit to the Holder a certificate or certificates representing the Warrant Shares pursuant to this Section 2(e)(ii) by the Warrant Share Delivery Date, then the Holder will have the right to rescind such exercise.

iv. No Fractional Shares or Scrip. No fractional shares or scrip representing fractional shares shall be issued upon the exercise of this Warrant. As to any fraction of a share which Holder would otherwise be entitled to purchase upon such exercise, the Company shall at its election, either pay a cash adjustment in respect of such final fraction in an amount equal to such fraction multiplied by the Exercise Price or round up to the next whole share.

v. Charges, Taxes and Expenses. Issuance of certificates for Warrant Shares shall be made without charge to the Holder for any issue or transfer tax or other incidental expense in respect of the issuance of such certificate, all of which taxes and expenses shall be paid by the Company, and such certificates shall be issued in the name of the Holder or in such name or names as may be directed by the Holder; provided, however, that in the event certificates for Warrant Shares are to be issued in a name other than the name of the Holder, this Warrant, when surrendered for exercise, shall be accompanied by the Assignment Form attached hereto duly executed by the Holder; and the Company may require, as a condition thereto, the payment of a sum sufficient to reimburse it for any transfer tax incidental thereto.

vi. Closing of Books. The Company will not close its stockholder books or records in any manner that prevents the timely exercise of this Warrant, pursuant to the terms hereof.

Section 3. Certain Adjustments.

a) Price-Adjustment Pursuant to Purchase Agreement. If the Per Share Purchase Price is adjusted under Section 4.13 of the Purchase Agreement, the Exercise Price shall automatically adjust to the sum of **TEN CENTS (\$0.10)** per share and the Six Month Price, but in no event less than **FORTY-FIVE CENTS (\$0.45)** per Share.

b) Stock Dividends and Splits. If the Company, at any time while this Warrant is outstanding: (i) pays a stock dividend or otherwise make a distribution or distributions on shares of its Common Stock or any other equity or equity equivalent securities payable in shares of Common Stock (which, for avoidance of doubt, shall not include any shares of Common Stock issued by the Company upon exercise of this Warrant), (ii) subdivides outstanding shares of Common Stock into a larger number of shares, (ii) combines (including by way of reverse stock split) outstanding shares of Common Stock into a smaller number of shares, or (iv) issues by reclassification of shares of the Common Stock any shares of capital stock of the Company, then, in each case, the Exercise Price shall be multiplied by a fraction of which the numerator shall be the number of shares of Common Stock (excluding treasury shares, if any) outstanding immediately before such event and of which the denominator shall be the number of shares of Common Stock outstanding immediately after such event and the number of shares issuable upon exercise of this Warrant shall be proportionately adjusted such that the aggregate Exercise Price of this Warrant shall remain unchanged. Any adjustment made pursuant to this Section 3(a) shall become effective immediately after the record date for the determination of stockholders entitled to receive such dividend or distribution and shall become effective immediately after the effective date in the case of a subdivision, combination or re-classification.

c) Calculations. All calculations under this Section 3 shall be made to the nearest cent or the nearest 1/100th of a share, as the case may be. For purposes of this Section 3, the number of shares of Common Stock deemed to be issued and outstanding as of a given date shall be the sum of the number of shares of Common Stock (excluding treasury shares, if any) issued and outstanding.

d) Voluntary Adjustment By Company. The Company may at any time during the term of this Warrant reduce the then current Exercise Price to any amount and for any period of time deemed appropriate by the board of directors of the Company provided that any such reduction is made in identical manner to all then unexercised Warrants held by Holders.

e) Notice to Holder/Adjustment to Exercise Price. Whenever the Exercise Price is adjusted pursuant to any provision of this Section 3, the Company shall promptly mail to the Holder a notice setting forth the Exercise Price after such adjustment and setting forth a brief statement of the facts requiring such adjustment.

Section 4. Transfer of Warrant.

a) Transferability. Subject to compliance with any applicable securities laws and the conditions set forth in Section 4(d) hereof and to the provisions of Section 4.1 of the Purchase Agreement, this Warrant and all rights hereunder are transferable, in whole or in part, upon surrender of this Warrant at the principal office of the Company or its designated agent, together with a written assignment of this Warrant substantially in the form attached hereto duly executed by the Holder or its agent or attorney and funds sufficient to pay the Company's costs and any transfer taxes incurred in connection with making of such transfer. Upon such surrender and, if required, such payment, the Company shall execute and deliver a new Warrant or Warrants in the name of the assignee or assignees and in the denomination or denominations specified in such instrument of assignment, and shall issue to the assignor a new Warrant evidencing the portion of this Warrant not so assigned, and this Warrant shall promptly be cancelled. A Warrant, if properly assigned, may be exercised by a new holder for the purchase of Warrant Shares without having a new Warrant issued.

b) New Warrants. This Warrant may be divided or combined with other Warrants upon presentation hereof at the aforesaid office of the Company, together with a written notice specifying the names and denominations in which new Warrants are to be issued, signed by the Holder or its agent or attorney. Subject to compliance with Section 4(a), as to any transfer which may be involved in such division or combination, the Company shall execute and deliver a new Warrant or Warrants in exchange for the Warrant or Warrants to be divided or combined in accordance with such notice.

c) Warrant Register. The Company shall register this Warrant, upon records to be maintained by the Company for that purpose (the “Warrant Register”), in the name of the record Holder hereof from time to time. The Company may deem and treat the registered Holder of this Warrant as the absolute owner hereof for the purpose of any exercise hereof or any distribution to the Holder, and for all other purposes, absent actual notice to the contrary.

d) Transfer Restrictions. If, at the time of the surrender of this Warrant in connection with any transfer of this Warrant, the transfer of this Warrant shall not be registered pursuant to an effective registration statement under the Securities Act and under applicable state securities or blue sky laws, the Company may require, as a condition of allowing such transfer, that the Holder or transferee of this Warrant, as the case may be, comply with the provisions of Section 4.1 of the Purchase Agreement.

Section 5. Miscellaneous.

a) Registration Rights. The holders of Warrants will be entitled to “piggyback” registration rights on any registered offering by the Company on its own behalf or on behalf of selling stockholders, subject to customary exceptions and limitations. The Company may require each holder of registrable securities as to which any registration is being effected to furnish to the Company, within five (5) calendar days after written request therefor has been made by the Company, such information regarding the distribution of such holder’s registrable securities as is required by law to be disclosed.

b) No Rights as Shareholder Until Exercise. This Warrant does not entitle the Holder to any voting rights or other rights as a shareholder of the Company prior to the exercise hereof as set forth in Section 2(d)(i).

c) Loss, Theft, Destruction or Mutilation of Warrant. The Company covenants that upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Warrant or any stock certificate relating to the Warrant Shares, and in case of loss, theft or destruction, of indemnity or security reasonably satisfactory to it (which, in the case of the Warrant, shall not include the posting of any bond), and upon surrender and cancellation of such Warrant or stock certificate, if mutilated, the Company will make and deliver a new Warrant or stock certificate of like tenor and dated as of such cancellation, in lieu of such Warrant or stock certificate.

d) Saturdays, Sundays, Holidays, etc. If the last or appointed day for the taking of any action or the expiration of any right required or granted herein shall not be a Business Day, then such action may be taken or such right may be exercised on the next succeeding Business Day.

e) Authorized Shares. The Company covenants that during the period the Warrant is outstanding, it will reserve from its authorized and unissued Common Stock a sufficient number of shares to provide for the issuance of the Warrant Shares upon the exercise of any purchase rights under this Warrant. The Company further covenants that its issuance of this Warrant shall constitute full authority to its officers who are charged with the duty of executing stock certificates to execute and issue the necessary certificates for the Warrant Shares upon the exercise of the purchase rights under this Warrant. The Company will take all such reasonable action as may be necessary to assure that such Warrant Shares may be issued as provided herein without violation of any applicable law or regulation, or of any requirements of the Trading Market upon which the Common Stock may be listed. The Company covenants that all Warrant Shares which may be issued upon the exercise of the purchase rights represented by this Warrant will, upon exercise of the purchase rights represented by this Warrant, be duly authorized, validly issued, fully paid and nonassessable and free from all taxes, liens and charges created by the Company in respect of the issue thereof (other than taxes in respect of any transfer occurring contemporaneously with such issue).

Except and to the extent as waived or consented to by the Holder, the Company shall not by any action, including, without limitation, amending its certificate of incorporation or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant, but will at all times in good faith assist in the carrying out of all such terms and in the taking of all such actions as may be necessary or appropriate to protect the rights of Holder as set forth in this Warrant against impairment. Without limiting the generality of the foregoing, the Company will (a) not increase the par value of any Warrant Shares above the amount payable therefor upon such exercise immediately prior to such increase in par value, (b) take all such action as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and nonassessable Warrant Shares upon the exercise of this Warrant, and (c) use commercially reasonable efforts to obtain all such authorizations, exemptions or consents from any public regulatory body having jurisdiction thereof as may be necessary to enable the Company to perform its obligations under this Warrant.

Before taking any action which would result in an adjustment in the number of Warrant Shares for which this Warrant is exercisable or in the Exercise Price, the Company shall obtain all such authorizations or exemptions thereof, or consents thereto, as may be necessary from any public regulatory body or bodies having jurisdiction thereof.

f) Jurisdiction. All questions concerning the construction, validity, enforcement and interpretation of this Warrant shall be determined in accordance with the provisions of the Purchase Agreement.

g) Restrictions. The Holder acknowledges that the Warrant Shares acquired upon the exercise of this Warrant, if not registered, will have restrictions upon resale imposed by state and federal securities laws.

h) Nonwaiver and Expenses. No course of dealing or any delay or failure to exercise any right hereunder on the part of Holder shall operate as a waiver of such right or otherwise prejudice Holder's rights, powers or remedies, notwithstanding the fact that all rights hereunder terminate on the Termination Date.

i) Notices. Any notice, request or other document required or permitted to be given or delivered to the Holder by the Company shall be delivered in accordance with the notice provisions of the Purchase Agreement.

j) Limitation of Liability. No provision hereof, in the absence of any affirmative action by Holder to exercise this Warrant to purchase Warrant Shares, and no enumeration herein of the rights or privileges of Holder, shall give rise to any liability of Holder for the purchase price of any Common Stock or as a stockholder of the Company, whether such liability is asserted by the Company or by creditors of the Company.

k) Successors and Assigns. Subject to applicable securities laws, this Warrant and the rights and obligations evidenced hereby shall inure to the benefit of and be binding upon the successors of the Company and the successors and permitted assigns of Holder. The provisions of this Warrant are intended to be for the benefit of all Holders from time to time of this Warrant and shall be enforceable by any such Holder or holder of Warrant Shares.

l) Amendment. This Warrant may be modified or amended or the provisions hereof waived with the written consent of the Company and the Holder.

m) Severability. Wherever possible, each provision of this Warrant shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Warrant shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provisions or the remaining provisions of this Warrant.

n) Headings. The headings used in this Warrant are for the convenience of reference only and shall not, for any purpose, be deemed a part of this Warrant.

o) Signature. This Warrant may be executed and delivered by PDF or any electronic signature complying with the U.S. Federal ESIGN Act of 2000, as duly modified, and such signature shall create a valid and binding obligation of the party executing (or on whose behalf such signature is executed) with the same force and effect as if such signature page were an original thereof.

IN WITNESS WHEREOF, the Company has caused this Warrant to be executed by its officer thereunto duly authorized as of the date first above indicated.

BARFRESH FOOD GROUP, INC.

By: _____

Name: Riccardo Delle Coste

Title: Chief Executive Officer

NOTICE OF EXERCISE

TO: **BARFRESH FOOD GROUP INC.**

(1) The undersigned hereby elects to purchase _____ Warrant Shares of the Company pursuant to the terms of the attached Warrant and tenders herewith payment of the exercise price in full, together with all applicable transfer taxes, if any.

(2) Payment shall take the form of (check applicable box):

in lawful money of the United States by Wire Transfer; or

in lawful money of the United States by Cashier's Check of immediately available funds drawn on a US banking institution.

(3) Please issue a certificate or certificates representing said Warrant Shares in the name of the undersigned or in such other name as is specified below:

The Warrant Shares shall be delivered by physical delivery of a certificate to:

(4) Accredited Investor. The undersigned is an "accredited investor" as defined in Regulation D promulgated under the Securities Act of 1933, as amended.

[SIGNATURE OF HOLDER]

Name of Investing Entity: _____

Signature: _____

Name: _____

Title: _____

Date: _____

ASSIGNMENT FORM

(To assign the foregoing warrant, execute
this form and supply required information.
Do not use this form to exercise the warrant.)

FOR VALUE RECEIVED, [_____] all of or [_____] shares of the foregoing Warrant and all rights evidenced thereby are hereby assigned to

_____ whose address is

Holder's Signature: _____

Holder's Address: _____

Dated: _____

Signature Guaranteed: _____

NOTE: The signature to this Assignment Form must correspond with the name as it appears on the face of the Warrant, without alteration or enlargement or any change whatsoever, and must be guaranteed by a bank or trust company. Officers of corporations and those acting in a fiduciary or other representative capacity should file proper evidence of authority to assign the foregoing Warrant.

SECURITIES PURCHASE AGREEMENT

This Securities Purchase Agreement (this “Agreement”) is entered into between Barfresh Food Group, Inc., a Delaware corporation (the “Company”) and each purchaser identified on the signature pages hereto (each, including its successors and assigns, a “Purchaser” and collectively the “Purchasers”).

WHEREAS, subject to the terms and conditions set forth in this Agreement and pursuant to Section 4(2) of the Securities Act of 1933, as amended (the “Securities Act”), and Rule 506 promulgated thereunder, the Company desires to issue and sell to each Purchaser, and each Purchaser, severally and not jointly, desires to purchase from the Company, securities of the Company as more fully described in this Agreement.

NOW, THEREFORE, IN CONSIDERATION of the mutual covenants contained in this Agreement, and for other good and valuable consideration the receipt and adequacy of which are hereby acknowledged, the Company and each Purchaser agree as follows:

SECTION I.
DEFINITIONS

1.1 Definitions. In addition to the terms defined elsewhere in this Agreement, for all purposes of this Agreement, the following terms have the meanings set forth in this Section 1.1:

“Affiliate” means any Person that, directly or indirectly through one or more intermediaries, controls or is controlled by or is under common control with a Person as such terms are used in and construed under Rule 405 under the Securities Act. With respect to a Purchaser, any investment fund or managed account that is managed on a discretionary basis by the same investment manager as such Purchaser will be deemed to be an Affiliate of such Purchaser.

“Business Day” means any day except Saturday, Sunday, any day that is a federal legal holiday in the United States or any day on which banking institutions in the State of California are authorized or required by law or other governmental action to close.

“Closing(s)” or “Closing Date(s)” means the Business Day(s) when Transaction Documents have been executed and delivered by the applicable parties thereto, and all conditions precedent to (i) the Purchasers’ obligations to pay the Subscription Amount and (ii) the Company’s obligations to deliver the Securities have been satisfied or waived.

“Commission” means the Securities and Exchange Commission.

“Common Stock” means the common stock of the Company, par value \$0.000001 per share, and any other class of securities into which such securities may hereafter be reclassified or changed into.

“Common Stock Equivalents” means any securities of the Company which would entitle the holder thereof to acquire at any time Common Stock, including, without limitation, any debt, preferred stock, rights, options, warrants or other instrument that is at any time convertible into or exercisable or exchangeable for, or otherwise entitles the holder thereof to receive, Common Stock.

“Disclosure Schedules” means the Disclosure Schedules of the attached hereto and incorporated herein by reference.

“Exchange Act” means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

“Liens” means a lien, charge, security interest, encumbrance, right of first refusal, preemptive right or other restriction.

“Per Share Purchase Price” equals \$0.50, subject to adjustment pursuant to Section 4.13, , but in no event less than \$0.35 per Share, and for reverse and forward stock splits, stock dividends, stock combinations and other similar transactions of the Common Stock that occur after the date of this Agreement.

“Person” means an individual or corporation, partnership, trust, incorporated or unincorporated association, joint venture, limited liability company, joint stock company, government (or an agency or subdivision thereof) or other entity of any kind.

“Proceeding” means an action, claim, suit, investigation or proceeding (including, without limitation, an informal investigation or partial proceeding, such as a deposition), whether commenced or threatened.

“Rule 144” means Rule 144 promulgated by the Commission pursuant to the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same effect as such Rule.

“SEC Reports” means all reports, schedules, forms, statements and other documents required to be filed by the Company under the Securities Act and the Exchange Act.

“Securities” means the Shares, the Warrants and the Warrant Shares.

“Securities Act” means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

“Shares” means the shares of Common Stock issued to each Purchaser pursuant to this Agreement.

“Short Sales” means all “short sales” as defined in Rule 200 of Regulation SHO under the Exchange Act (but shall not be deemed to include the location and/or reservation of borrowable shares of Common Stock).

“Subscription Amount” means, as to each Purchaser, the aggregate amount to be paid for Shares and Warrants purchased hereunder as specified below such Purchaser’s name on the signature page of this Agreement and next to the heading “Subscription Amount.”

“Subsidiary” means any subsidiary of the Company as set forth in the SEC Reports, and shall, where applicable, include any subsidiary of the Company formed or acquired after the date hereof.

“Trading Day” means a day on which the New York Stock Exchange is open for trading.

“Trading Market” means the following markets or exchanges on which the Common Stock is listed or quoted for trading on the date in question: FINRA Over-the-Counter Bulletin Board, the NASDAQ Stock Market or the New York Stock Exchange.

“Transaction Documents” means this Agreement, the Warrants and any other documents or agreements executed in connection with the transactions contemplated hereunder.

“Transfer Agent” means Action Stock Transfer, with a mailing address of 2469 E. Fort Union Blvd., Suite 214, Salt Lake City, UT 84121, and a facsimile number of (801) 274-1099, or any successor transfer agent of the Company.

“Warrant(s)” means, collectively, the Series-O Common Stock purchase warrants, substantially in the form attached hereto as Exhibit A, delivered to the Purchasers at the Closing in accordance with Section 2.2(a) hereof, which warrant shall be to purchase up to that number of shares of Common Stock equal to one-half (1/2) of every Share issued to such Purchaser in accordance with this Agreement, exercisable for a period of three (3) years from its issuance at an exercise price equal to the sum of the Per Share Purchase Price and \$0.10 per Warrant Share, subject to adjustment as provided therein, but in no event less than \$0.45 per Share.

“Warrant Shares” means the shares of Common Stock issuable upon exercise of the Warrants.

SECTION II. PURCHASE AND SALE

2.1 Closing.

(a) On the Closing Date(s), upon the terms and subject to the conditions set forth herein, substantially concurrent with the execution and delivery of this Agreement by the parties hereto, the Company agrees to sell, and the Purchasers, severally and not jointly, agree to purchase, in the aggregate, the Company’s Shares at the Per Share Purchase Price and a Warrant to purchase up to that number of shares of Common Stock equal to one-half (1/2) of every Share issued to such Purchaser in accordance with this Agreement.

(b) The date and time of the initial Closing (the “Initial Closing”) shall be on or after March 15, 2020 and no later than April 15, 2020 (the “Initial Closing Date”), with any additional Closings (the “Additional Closing Dates”)(collectively, the “Closings”) to take place before June 15, 2020 (the “Termination Date”), and the final Closing of which shall be deemed to be the “Final Closing”. The aggregate purchase price for the Stock and Warrants to be purchased by each such Purchaser at each Closing (the “Purchase Price”) shall be the aggregate amount set forth opposite each Purchaser’s name on the signature page hereto. Subscribed funds will be available for use by the Company immediately after the Initial Closing.

(c) Each Purchaser shall deliver to Libertas Law Group, Inc., as escrow agent (the “**Escrow Agent**”), immediately available funds via wire transfer in an amount equal to its Subscription Amount, the Company shall deliver to each Purchaser its respective Shares and a Warrant as determined pursuant to Section 2.2(a), and the Escrow Agent, Company and each Purchaser shall deliver the other items set forth in Section 2.2 deliverable at the Closing. Upon satisfaction of the covenants and conditions set forth in Sections 2.2 and 2.3, the Closing shall be deemed to have occurred at the Company’s executive office or such other location as the parties shall mutually agree. Notwithstanding anything contained herein to the contrary, the Company may reject any subscription, in whole or in part, in its sole discretion.

2.2 Deliveries.

(a) On or prior to the Closing Date, the Company shall deliver or cause to be delivered to the Escrow Agent the following:

(i) this Agreement duly executed by the Company;

(ii) a copy of the irrevocable instructions to the Transfer Agent instructing the Transfer Agent to deliver, on an expedited basis, a certificate evidencing a number of Shares equal to such Purchaser's Subscription Amount divided by the Per Share Purchase Price, registered in the name of such Purchaser; and

(iii) a Warrant registered in the name of such Purchaser in accordance with this Agreement.

(b) On or prior to the Closing Date, each Purchaser shall deliver or cause to be delivered to the Escrow Agent the following:

(i) this Agreement duly executed by such Purchaser; and

(ii) such Purchaser's Subscription Amount by wire transfer of immediately available funds pursuant as follows.

| | |
|-----------------|--|
| Account Name | Libertas Law Group Inc FBO Barfresh Food Group Inc. |
| Account Number: | 6013009311 |
| Bank Address: | 1st Century Bank 1875 Century Park East, Ste. 1400 Los Angeles, CA 90067 Attn. Masha Kaznachey Office: (310) 270-9565 mkaznachey@1cbank.com |
| Routing Number: | 122243761 |
| SWIFT Number: | MFBKUS44 |

(c) At the Closing, the Escrow Agent shall deliver to the Company the aggregate Subscription Amount received by wire transfer of immediately available funds pursuant to wire transfer instructions given to the Escrow Agent by the Company. As soon as reasonably practicable following Closing, the Company shall deliver to the Investor a certificate representing the Shares and the duly executed Warrants, each registered in the name of the Investor.

2.3 Closing Conditions.

(a) The obligations of the Company hereunder in connection with the Closing are subject to the following conditions being met:

(i) the Escrow Agent's receipt of Agreements for the aggregate subscription of at least Three Million Dollars (\$3,000,000) (the "**Minimum Offering Amount**") on or prior to the Initial Closing Date;

(ii) the accuracy in all material respects on the Closing Date of the representations and warranties of the Purchasers contained herein;

(iii) all obligations, covenants and agreements of each Purchaser required to be performed at or prior to the Closing Date shall have been performed; and

(iv) the delivery by each Purchaser of the items set forth in Section 2.2(b) of this Agreement.

(b) The respective obligations of the Purchasers hereunder in connection with the Closing are subject to the following conditions being met:

(i) the delivery by the Company of the items set forth in Section 2.2(a) of this Agreement;

(ii) the Escrow Agent's receipt of the item set forth in Section 2.3(a)(i) of this Agreement;

(iii) the accuracy in all material respects on the Closing Date of the representations and warranties of the Company contained herein;

(iv) all obligations, covenants and agreements of the Company required to be performed at or prior to the Closing Date shall have been performed;

(v) there shall have been no Material Adverse Effect (defined in Section 3.1(b) below) with respect to the Company since the date hereof; and

(vi) from the date hereof to the Closing Date, trading in the Common Stock shall not have been suspended by the Commission or the Company's principal Trading Market (except for any suspension of trading of limited duration agreed to by the Company, which suspension shall be terminated prior to the Closing), and, at any time prior to the Closing Date, trading in securities generally as reported by Bloomberg L.P. shall not have been suspended or limited, or minimum prices shall not have been established on securities whose trades are reported by such service, or on any Trading Market, nor shall a banking moratorium have been declared either by the United States or New York State authorities nor shall there have occurred any material outbreak or escalation of hostilities or other national or international calamity of such magnitude in its effect on, or any material adverse change in, any financial market which, in each case, in the reasonable judgment of each Purchaser, makes it impracticable or inadvisable to purchase the Securities at the Closing.

SECTION III.
REPRESENTATIONS AND WARRANTIES

3.1 Representations and Warranties of the Company. Except as set forth in the Disclosure Schedules, which Disclosure Schedules shall be deemed a part hereof and shall qualify any representation or otherwise made herein to the extent of the disclosure contained in the corresponding section of the Disclosure Schedules, the Company hereby makes the following representations and warranties to each Purchaser:

(a) Subsidiaries. All of the direct and indirect subsidiaries of the Company are set forth in the Company's SEC Reports. The Company owns, directly or indirectly, the capital stock or other equity interests of each Subsidiary free and clear of any Liens, and all of the issued and outstanding shares of capital stock of each Subsidiary are validly issued and are fully paid, non-assessable and free of preemptive and similar rights to subscribe for or purchase securities.

(b) Organization and Qualification. The Company and each of the Subsidiaries is an entity duly incorporated or otherwise organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation or organization (as applicable), with the requisite power and authority to own and use its properties and assets and to carry on its business as currently conducted. Neither the Company nor any Subsidiary is in violation or default of any of the provisions of its respective certificate or articles of incorporation, bylaws or other organizational or charter documents. Each of the Company and the Subsidiaries is duly qualified to conduct business and is in good standing as a foreign corporation or other entity in each jurisdiction in which the nature of the business conducted or property owned by it makes such qualification necessary, except where the failure to be so qualified or in good standing, as the case may be, could not have or reasonably be expected to result in (i) a material adverse effect on the legality, validity or enforceability of any Transaction Document, (ii) a material adverse effect on the results of operations, assets, business, prospects or condition (financial or otherwise) of the Company and the Subsidiaries, taken as a whole, or (iii) a material adverse effect on the Company's ability to perform in any material respect on a timely basis its obligations under any Transaction Document (any of (i), (ii) or (iii), a "Material Adverse Effect"), and no Proceeding has been instituted in any such jurisdiction revoking, limiting or curtailing or seeking to revoke, limit or curtail such power and authority or qualification.

(c) Authorization; Enforcement. The Company has the requisite corporate power and authority to enter into and to consummate the transactions contemplated by each of the Transaction Documents and otherwise to carry out its obligations hereunder and thereunder. The execution and delivery of each of the Transaction Documents by the Company and the consummation by it of the transactions contemplated hereby and thereby have been duly authorized by all necessary action on the part of the Company and no further action is required by the Company, its board of directors or its stockholders in connection therewith other than in connection with the Required Approvals. Each Transaction Document has been (or upon delivery will have been) duly executed by the Company and, when delivered in accordance with the terms hereof and thereof, will constitute the valid and binding obligation of the Company enforceable against the Company in accordance with its terms except (i) as limited by general equitable principles and applicable bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors' rights generally, (ii) as limited by laws relating to the availability of specific performance, injunctive relief or other equitable remedies and (iii) insofar as indemnification and contribution provisions may be limited by applicable law.

(d) No Conflicts. The execution, delivery and performance of the Transaction Documents by the Company, the issuance and sale of the Securities and the consummation by the Company of the other transactions contemplated hereby and thereby do not and will not (i) conflict with or violate any provision of the Company's or any Subsidiary's certificate or articles of incorporation, bylaws or other organizational or charter documents, or (ii) conflict with, or constitute a default (or an event that with notice or lapse of time or both would become a default) under, result in the creation of any Lien upon any of the properties or assets of the Company or any Subsidiary, or give to others any rights of termination, amendment, acceleration or cancellation (with or without notice, lapse of time or both) of, any agreement, credit facility, debt or other instrument (evidencing a Company or Subsidiary debt or otherwise) or other understanding to which the Company or any Subsidiary is a party or by which any property or asset of the Company or any Subsidiary is bound or affected, or (iii) subject to the Required Approvals, conflict with or result in a violation of any law, rule, regulation, order, judgment, injunction, decree or other restriction of any court or governmental authority to which the Company or a Subsidiary is subject (including federal and state securities laws and regulations), or by which any property or asset of the Company or a Subsidiary is bound or affected; except in the case of each of clauses (ii) and (iii), such as could not have or reasonably be expected to result in a Material Adverse Effect.

(e) Filings, Consents and Approvals. The Company is not required to obtain any consent, waiver, authorization or order of, give any notice to, or make any filing or registration with, any court or other federal, state, local or other governmental authority or other Person in connection with the execution, delivery and performance by the Company of the Transaction Documents, other than (i) filings required pursuant to Section 4.4 of this Agreement and (ii) the filing of Form D with the Commission and such filings as are required to be made under applicable state securities laws (collectively, the "Required Approvals").

(f) Issuance of the Securities. The Securities are duly authorized and, when issued and paid for in accordance with the applicable Transaction Documents, will be duly and validly issued, fully paid and nonassessable, free and clear of all Liens imposed by the Company other than restrictions on transfer provided for in the Transaction Documents. The Warrant Shares, when issued in accordance with the terms of the Transaction Documents, will be validly issued, fully paid and nonassessable, free and clear of all Liens imposed by the Company other than restrictions on transfer provided for in the Transaction Documents. The Company has reserved from its duly authorized capital stock the maximum number of shares of Common Stock issuable pursuant to this Agreement and the Warrants.

(g) Capitalization. Except as set forth on Schedule 3.1(g), the Company has not issued any capital stock since its most recently filed periodic report under the Exchange Act, other than pursuant to the exercise of employee stock options under the Company's stock option plans, the issuance of shares of Common Stock to employees pursuant to the Company's employee stock purchase plans and pursuant to the conversion or exercise of Common Stock Equivalents outstanding as of the date of the most recently filed periodic report under the Exchange Act. No Person has any right of first refusal, preemptive right, right of participation, or any similar right to participate in the transactions contemplated by the Transaction Documents. Except as set forth in the Company's SEC Reports and as a result of the purchase and sale of the Securities, there are no outstanding options, warrants, scrip rights to subscribe to, calls or commitments of any character whatsoever relating to, or securities, rights or obligations convertible into or exercisable or exchangeable for, or giving any Person any right to subscribe for or acquire, any shares of Common Stock, or contracts, commitments, understandings or arrangements by which the Company or any Subsidiary is or may become bound to issue additional shares of Common Stock or Common Stock Equivalents. The issuance and sale of the Securities will not obligate the Company to issue shares of Common Stock or other securities to any Person (other than the Purchasers) and will not result in a right of any holder of Company securities to adjust the exercise, conversion, exchange or reset price under any of such securities. All of the outstanding shares of capital stock of the Company are validly issued, fully paid and nonassessable, have been issued in compliance with all federal and state securities laws, and none of such outstanding shares was issued in violation of any preemptive rights or similar rights to subscribe for or purchase securities. No further approval or authorization of any stockholder, the board of directors of the Company or others is required for the issuance and sale of the Securities. There are no stockholder agreements, voting agreements or other similar agreements with respect to the Company's capital stock to which the Company is a party or, to the knowledge of the Company, between or among any of the Company's stockholders.

(h) SEC Reports; Financial Statements. The Company has filed all SEC Reports for the two years preceding the date hereof (or such shorter period as the Company was required by law or regulation to file such material) on a timely basis or has received a valid extension of such time of filing and has filed any such SEC Reports prior to the expiration of any such extension. As of their respective dates, the SEC Reports complied in all material respects with the requirements of the Securities Act and the Exchange Act, as applicable, and none of the SEC Reports, when filed, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. The financial statements of the Company included in the SEC Reports comply in all material respects with applicable accounting requirements and the rules and regulations of the Commission with respect thereto as in effect at the time of filing. Such financial statements have been prepared in accordance with United States generally accepted accounting principles applied on a consistent basis during the periods involved ("GAAP"), except as may be otherwise specified in such financial statements or the notes thereto and except that unaudited financial statements may not contain all footnotes required by GAAP, and fairly present in all material respects the financial position of the Company and its consolidated subsidiaries as of and for the dates thereof and the results of operations and cash flows for the periods then ended, subject, in the case of unaudited statements, to normal year-end audit adjustments.

(i) Material Changes; Undisclosed Events, Liabilities or Developments. Except as specifically disclosed in the Company's SEC Reports filed prior to the date hereof, (i) there has been no event, occurrence or development that has had or that could reasonably be expected to result in a Material Adverse Effect, (ii) the Company has not incurred any liabilities (contingent or otherwise) other than (A) trade payables and accrued expenses incurred in the ordinary course of business consistent with past practice and (B) liabilities not required to be reflected in the Company's financial statements pursuant to GAAP or disclosed in filings made with the Commission, (iii) the Company has not altered its method of accounting, (iv) the Company has not declared or made any dividend or distribution of cash or other property to its stockholders or purchased, redeemed or made any agreements to purchase or redeem any shares of its capital stock and (v) the Company has not issued any equity securities to any officer, director or Affiliate, except pursuant to existing Company stock option plans or pursuant to conversion of outstanding debt. The Company does not have pending before the Commission any request for confidential treatment of information. Except for the issuance of the Securities contemplated by this Agreement or as set forth on Schedule 3.1(i), no event, liability or development has occurred or exists with respect to the Company or its Subsidiaries or their respective business, properties, operations or financial condition, that would be required to be disclosed by the Company under applicable securities laws at the time this representation is made or deemed made that has not been publicly disclosed at least one (1) Trading Day prior to the date that this representation is made.

(j) Litigation. Except as set forth in the SEC Reports, there is no action, suit, inquiry, notice of violation, Proceeding or investigation pending or, to the knowledge of the Company, threatened against or affecting the Company, any Subsidiary or any of their respective properties before or by any court, arbitrator, governmental or administrative agency or regulatory authority (federal, state, county, local or foreign) (collectively, an “Action”) which (i) adversely affects or challenges the legality, validity or enforceability of any of the Transaction Documents or the Securities or (ii) could, if there were an unfavorable decision, have or reasonably be expected to result in a Material Adverse Effect. Neither the Company nor any Subsidiary, nor to the knowledge of the Company, any director or officer thereof, is or has been the subject of any Action involving a claim of violation of or liability under federal or state securities laws or a claim of breach of fiduciary duty. There has not been, and to the knowledge of the Company, there is not pending or contemplated, any investigation by the Commission involving the Company or any current or former director or officer of the Company. The Commission has not issued any stop order or other order suspending the effectiveness of any registration statement filed by the Company or any Subsidiary under the Exchange Act or the Securities Act.

(k) Labor Relations. No material labor dispute exists or, to the knowledge of the Company, is imminent with respect to any of the employees of the Company that could reasonably be expected to result in a Material Adverse Effect. None of the Company’s or its Subsidiaries’ employees is a member of a union that relates to such employee’s relationship with the Company or such Subsidiary, and neither the Company nor any of its Subsidiaries is a party to a collective bargaining agreement, and the Company and its Subsidiaries believe that their relationships with their employees are good. No executive officer, to the knowledge of the Company, is, or is now expected to be, in violation of any material term of any employment contract, confidentiality, disclosure or proprietary information agreement or non-competition agreement, or any other contract or agreement or any restrictive covenant in favor of any third party, and the continued employment of each such executive officer does not subject the Company or any of its Subsidiaries to any liability with respect to any of the foregoing matters. The Company and its Subsidiaries are in compliance with all U.S. federal, state, local and foreign laws and regulations relating to employment and employment practices, terms and conditions of employment and wages and hours, except where the failure to be in compliance could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(l) Compliance. Neither the Company nor any Subsidiary (i) is in default under or in violation of (and no event has occurred that has not been waived that, with notice or lapse of time or both, would result in a default by the Company or any Subsidiary under), nor has the Company or any Subsidiary received notice of a claim that it is in default under or that it is in violation of, any indenture, loan or credit agreement or any other agreement or instrument to which it is a party or by which it or any of its properties is bound (whether or not such default or violation has been waived), (ii) is in violation of any order of any court, arbitrator or governmental body, or (iii) is or has been in violation of any statute, rule or regulation of any governmental authority, including without limitation all foreign, federal, state and local laws applicable to its business and all such laws that affect the environment, except in each case as could not have or reasonably be expected to result in a Material Adverse Effect.

(m) Regulatory Permits. The Company and the Subsidiaries possess all certificates, authorizations and permits issued by the appropriate federal, state, local or foreign regulatory authorities necessary to conduct their respective businesses as described in the SEC Reports, except where the failure to possess such permits could not reasonably be expected to result in a Material Adverse Effect (“Material Permits”), and neither the Company nor any Subsidiary has received any notice of Proceedings relating to the revocation or modification of any Material Permit.

(n) Title to Assets. The Company and the Subsidiaries have good and marketable title in fee simple to all real property owned by them and good and marketable title in all personal property owned by them that is material to the business of the Company and the Subsidiaries, in each case free and clear of all Liens, except for Liens as do not materially affect the value of such property and do not materially interfere with the use made and proposed to be made of such property by the Company and the Subsidiaries and Liens for the payment of federal, state or other taxes, the payment of which is neither delinquent nor subject to penalties. Any real property and facilities held under lease by the Company and the Subsidiaries are held by them under valid, subsisting and enforceable leases with which the Company and the Subsidiaries are in compliance.

(o) Patents and Trademarks. The Company and the Subsidiaries have, or have rights to use, all patents, patent applications, trademarks, trademark applications, service marks, trade names, trade secrets, inventions, copyrights, licenses and other intellectual property rights and similar rights necessary or material for use in connection with their respective businesses as described in the SEC Reports and which the failure to so have could have a Material Adverse Effect (collectively, the “Intellectual Property Rights”). Neither the Company nor any Subsidiary has received a notice (written or otherwise) that any of the Intellectual Property Rights used by the Company or any Subsidiary violates or infringes upon the rights of any Person. To the knowledge of the Company, all such Intellectual Property Rights are enforceable and there is no existing infringement by another Person of any of the Intellectual Property Rights. The Company and its Subsidiaries have taken reasonable security measures to protect the secrecy, confidentiality and value of all of their intellectual properties, except where failure to do so could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(p) Insurance. The Company and the Subsidiaries are insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as are prudent and customary in the businesses in which the Company and the Subsidiaries are engaged. Neither the Company nor any Subsidiary has any reason to believe that it will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business without a significant increase in cost.

(q) Transactions With Affiliates and Employees. Except as set forth in the SEC Reports, none of the officers or directors of the Company and, to the knowledge of the Company, none of the employees of the Company is presently a party to any transaction with the Company or any Subsidiary (other than for services as employees, officers and directors), including any contract, agreement or other arrangement providing for the furnishing of services to or by, providing for rental of real or personal property to or from, or otherwise requiring payments to or from any officer, director or such employee or, to the knowledge of the Company, any entity in which any officer, director, or any such employee has a substantial interest or is an officer, director, trustee or partner, in each case in excess of the amount permitted under Item 404 of Regulation S-K other than for (i) payment of salary or consulting fees for services rendered, (ii) reimbursement for expenses incurred on behalf of the Company and (iii) other employee benefits, including stock option agreements under any stock option plan of the Company.

(r) Private Placement. Assuming the accuracy of the Purchasers representations and warranties set forth in Section 3.2, no registration under the Securities Act is required for the offer and sale of the Securities by the Company to the Purchasers as contemplated hereby. The issuance and sale of the Securities hereunder does not contravene the rules and regulations of the Trading Market.

(s) Investment Company. The Company is not, and is not an Affiliate of, and immediately after receipt of payment for the Securities, will not be or be an Affiliate of, an “investment company” within the meaning of the Investment Company Act of 1940, as amended. The Company shall conduct its business in a manner so that it will not become subject to the Investment Company Act of 1940, as amended.

(t) Listing and Maintenance Requirements. The Company’s Common Stock is registered pursuant to Section 12(g) of the Exchange Act, and the Company has taken no action designed to, or which to its knowledge is likely to have the effect of, terminating the registration of the Common Stock under the Exchange Act nor has the Company received any notification that the Commission is contemplating terminating such registration. The Company has not, in the 12 months preceding the date hereof, received notice from any Trading Market on which the Common Stock is or has been listed or quoted to the effect that the Company is not in compliance with the listing or maintenance requirements of such Trading Market. The Company is, and has no reason to believe that it will not in the foreseeable future continue to be, in compliance with all such listing and maintenance requirements.

(u) Disclosure. Except with respect to the material terms and conditions of the transactions contemplated by the Transaction Documents, the Company confirms that neither it nor any other Person acting on its behalf has provided any of the Purchasers or their agents or counsel with any information that it believes constitutes or might constitute material, non-public information, unless prior thereto such Purchaser shall have executed a written agreement regarding the confidentiality and use of such information. The Company understands and confirms that the Purchasers will rely on the foregoing representation in effecting transactions in securities of the Company. All disclosure furnished by or on behalf of the Company to the Purchasers regarding the Company, its business and the transactions contemplated hereby, including the Disclosure Schedules to this Agreement, is true and correct and does not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading. The press releases disseminated by the Company during the twelve months preceding the date of this Agreement taken as a whole do not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made and when made, not misleading. The Company acknowledges and agrees that no Purchaser makes or has made any representations or warranties with respect to the transactions contemplated hereby other than those specifically set forth in Section 3.2 hereof.

(v) No Integrated Offering. Assuming the accuracy of the Purchasers’ representations and warranties set forth in Section 3.2, neither the Company, nor any of its Affiliates, nor any Person acting on its or their behalf has, directly or indirectly, made any offers or sales of any security or solicited any offers to buy any security, under circumstances that would cause this offering of the Securities to be integrated with prior offerings by the Company for purposes of (i) the Securities Act which would require the registration of any such securities under the Securities Act, or (ii) any applicable shareholder approval provisions of any Trading Market on which any of the securities of the Company are listed or designated.

(w) Tax Status. Except for matters that would not, individually or in the aggregate, have or reasonably be expected to result in a Material Adverse Effect, the Company and each Subsidiary has filed all necessary federal, state and foreign income and franchise tax returns and has paid or accrued all taxes shown as due thereon, and the Company has no knowledge of a tax deficiency which has been asserted or threatened against the Company or any Subsidiary.

(x) No General Solicitation. Neither the Company nor any person acting on behalf of the Company has offered or sold any of the Securities by any form of general solicitation or general advertising. The Company has offered the Securities for sale only to the Purchasers and certain other “accredited investors” within the meaning of Rule 501 under the Securities Act.

(y) Foreign Corrupt Practices. Neither the Company, nor to the knowledge of the Company, any agent or other person acting on behalf of the Company, has (i) directly or indirectly, used any funds for unlawful contributions, gifts, entertainment or other unlawful expenses related to foreign or domestic political activity, (ii) made any unlawful payment to foreign or domestic government officials or employees or to any foreign or domestic political parties or campaigns from corporate funds, (iii) failed to disclose fully any contribution made by the Company (or made by any person acting on its behalf of which the Company is aware) which is in violation of law, or (iv) violated in any material respect any provision of the Foreign Corrupt Practices Act of 1977, as amended.

(z) Accountants. The Company’s accounting firm is Eide Bailly LLP. To the knowledge and belief of the Company, such accounting firm (i) is a registered public accounting firm as required by the Exchange Act and (ii) shall express its opinion with respect to the financial statements to be included in the Company’s Annual Report on Form 10-K for the year ending December 31, 2019.

(aa) No Disagreements with Accountants and Lawyers. There are no disagreements of any kind presently existing, or reasonably anticipated by the Company to arise, between the Company and the accountants and lawyers formerly or presently employed by the Company which could affect the Company’s ability to perform any of its obligations under any of the Transaction Documents, and the Company is current with respect to any fees owed to its accountants.

(bb) Acknowledgment Regarding Purchasers’ Purchase of Securities. The Company acknowledges and agrees that each of the Purchasers is acting solely in the capacity of an arm’s length purchaser with respect to the Transaction Documents and the transactions contemplated thereby. The Company further acknowledges that no Purchaser is acting as a financial advisor or fiduciary of the Company (or in any similar capacity) with respect to the Transaction Documents and the transactions contemplated thereby and any advice given by any Purchaser or any of their respective representatives or agents in connection with the Transaction Documents and the transactions contemplated thereby is merely incidental to the Purchasers’ purchase of the Securities. The Company further represents to each Purchaser that the Company’s decision to enter into this Agreement and the other Transaction Documents has been based solely on the independent evaluation of the transactions contemplated hereby by the Company and its representatives.

(cc) Acknowledgement Regarding Purchaser’s Trading Activity. Anything in this Agreement or elsewhere herein to the contrary notwithstanding (except for Sections 3.2(f) hereof), it is understood and acknowledged by the Company (i) that none of the Purchasers have been asked by the Company to agree, nor has any Purchaser agreed, to desist from purchasing or selling, long and/or short, securities of the Company, or “derivative” securities based on securities issued by the Company or to hold the Securities for any specified term; (ii) that past or future open market or other transactions by any Purchaser, including Short Sales, and specifically including, without limitation, Short Sales or “derivative” transactions, before or after the closing of this or future private placement transactions, may negatively impact the market price of the Company’s publicly-traded securities; (iii) that any Purchaser, and counter-parties in “derivative” transactions to which any such Purchaser is a party, directly or indirectly, presently may have a “short” position in the Common Stock, provided, however, any such short position shall not have been established by an such Purchaser, or its Affiliates, during the Discussion Time (as defined in Section 3.2(f) and (iv) that each Purchaser shall not be deemed to have any affiliation with or control over any arm’s length counter-party in any “derivative” transaction. The Company further understands and acknowledges that (a) one or more Purchasers may engage in hedging activities at various times during the period that the Securities are outstanding and (b) such hedging activities (if any) could reduce the value of the existing stockholders’ equity interests in the Company at and after the time that the hedging activities are being conducted. The Company acknowledges that such aforementioned hedging activities do not constitute a breach of any of the Transaction Documents.

(dd) Regulation M Compliance. The Company has not, and to its knowledge no one acting on its behalf has taken, directly or indirectly, any action designed to cause or to result in the stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of any of the Securities.

(ee) Certain Fees. Fees or commissions shall only be payable by the Company to licensed brokers, finders, placement agents, investment bankers, banks or other Person with respect to the transactions contemplated by the Transaction Documents.

(ff) No Disqualification Events. With respect to Securities to be offered and sold hereunder in reliance on Rule 506(b) under the Securities Act (“Regulation D Securities”), none of the Company, any of its predecessors, any affiliated issuer, any director, executive officer, other officer of the Company participating in the offering contemplated hereby, any beneficial owner of 20% or more of the Company’s outstanding voting equity securities nor any promoter (as that term is defined in Rule 405 under the Securities Act) connected with the Company in any capacity at the time of sale (each, an “Issuer Covered Person” and, together, “Issuer Covered Persons”) is subject to any of the “Bad Actor” disqualifications described in Rule 506(d) (1)(i) to (viii) under the Securities Act (a “Disqualification Event”), except for a Disqualification Event covered by Rule 506(d)(2) or (d)(3). The Company has exercised reasonable care to determine whether any Issuer Covered Person is subject to a Disqualification Event. The Company has complied, to the extent applicable, with its disclosure obligations under Rule 506(e), and has furnished to the Purchasers a copy of any disclosures provided thereunder.

3.2 Representations and Warranties of the Purchasers. Each Purchaser, for itself and for no other Purchaser, hereby represents and warrants as of the date hereof and as of the Closing Date to the Company as follows:

(a) Organization; Authority. Such Purchaser is an entity duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization with full right, corporate or partnership power and authority to enter into and to consummate the transactions contemplated by the Transaction Documents and otherwise to carry out its obligations hereunder and thereunder. The execution and delivery of the Transaction Documents and performance by such Purchaser of the transactions contemplated by the Transaction Documents have been duly authorized by all necessary corporate or similar action on the part of such Purchaser. Each Transaction Document to which it is a party has been duly executed by such Purchaser, and when delivered by such Purchaser in accordance with the terms hereof, will constitute the valid and legally binding obligation of such Purchaser, enforceable against it in accordance with its terms, except (i) as limited by general equitable principles and applicable bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors’ rights generally, (ii) as limited by laws relating to the availability of specific performance, injunctive relief or other equitable remedies and (iii) insofar as indemnification and contribution provisions may be limited by applicable law.

(b) Own Account. Such Purchaser understands that the Securities are “restricted securities” and have not been registered under the Securities Act or any applicable state securities law and is acquiring the Securities as principal for its own account and not with a view to or for distributing or reselling such Securities or any part thereof in violation of the Securities Act or any applicable state securities law, has no present intention of distributing any of such Securities in violation of the Securities Act or any applicable state securities law and has no direct or indirect arrangement or understandings with any other persons to distribute or regarding the distribution of such Securities in violation of the Securities Act or any applicable state securities law. Such Purchaser is acquiring the Securities hereunder in the ordinary course of its business.

(c) Purchaser Status. At the time such Purchaser was offered the Securities, it was, and at the date hereof it is, and on each date on which it exercises any Warrants, it will be either: (i) an “accredited investor” as defined in Rule 501 under the Securities Act or (ii) a “qualified institutional buyer” as defined in Rule 144A(a) under the Securities Act. Such Purchaser is not required to be registered as a broker-dealer under Section 15 of the Exchange Act.

(d) Investment Risks. Purchaser acknowledges and understands that an investment in the Securities involves a high degree of risk, including the potential for the entire loss of Purchaser’s investment.

(e) Experience of Such Purchaser. Such Purchaser, either alone or together with its representatives, has such knowledge, sophistication and experience in business and financial matters so as to be capable of evaluating the merits and risks of the prospective investment in the Securities and has so evaluated the merits and risks of such investment. Such Purchaser is able to bear the economic risk of an investment in the Securities and, at the present time, is able to afford a complete loss of such investment.

(f) General Solicitation. Such Purchaser is not purchasing the Securities as a result of any advertisement, article, notice or other communication regarding the Securities published in any newspaper, magazine or similar media or broadcast over television or radio or presented at any seminar or any other general solicitation or general advertisement.

(g) Short Sales and Confidentiality Prior To The Date Hereof. Other than consummating the transactions contemplated hereunder, such Purchaser has not, nor has any Person acting on behalf of or pursuant to any understanding with such Purchaser, directly or indirectly executed any purchases or sales, including Short Sales, of the securities of the Company during the period commencing from the time that such Purchaser first received a term sheet (written or oral) from the Company or any other Person representing the Company setting forth the material terms of the transactions contemplated hereunder until the date hereof (“Discussion Time”). Notwithstanding the foregoing, in the case of a Purchaser that is a multi-managed investment vehicle whereby separate portfolio managers manage separate portions of such Purchaser’s assets and the portfolio managers have no knowledge of the investment decisions made by the portfolio managers managing other portions of such Purchaser’s assets, the representation set forth above shall only apply with respect to the portion of assets managed by the portfolio manager that made the investment decision to purchase the Securities covered by this Agreement. Other than to other Persons party to this Agreement, such Purchaser has maintained the confidentiality of all disclosures made to it in connection with this transaction (including the existence and terms of this transaction).

(h) Non-Reliance on Statements of Agents. Purchaser represents and warrants that Purchaser has not relied on statements of any officer, director, employee or agent of the Company not contained in this Agreement, the Company's website, or the Company's SEC Filings in evaluating the merits of an investment in the Securities.

(i) Certain Fees. Purchaser has not entered into any agreement or arrangement entitling any broker, financial advisor or consultant, finder, placement agent, investment banker, bank or other Person to brokerage or finder's fees or commissions with respect to the transactions contemplated by the Transaction Documents. The Company shall have no obligation with respect to any fees or with respect to any claims made by or on behalf of any Person other than as disclosed herein in Schedule 3.1(dd), if any, for fees of a type contemplated in this Section that may be due in connection with the transactions contemplated by the Transaction Documents.

SECTION IV.
OTHER AGREEMENTS OF THE PARTIES

4.1 Transfer Restrictions.

(a) The Securities may only be disposed of in compliance with state and federal securities laws. In connection with any transfer of Securities other than pursuant to an effective registration statement or Rule 144, to the Company or to an Affiliate of a Purchaser or in connection with a pledge as contemplated in Section 4.1(b), the Company may require the transferor thereof to provide to the Company an opinion of counsel selected by the transferor and reasonably acceptable to the Company, the form and substance of which opinion shall be reasonably satisfactory to the Company, to the effect that such transfer does not require registration of such transferred Securities under the Securities Act. As a condition of transfer, any such transferee shall agree in writing to be bound by the terms of this Agreement and shall have the rights of a Purchaser under this Agreement.

(b) The Purchasers agree to the imprinting, so long as is required by this Section 4.1, of a legend on any of the Securities in the following form:

THESE SECURITIES HAS NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS AS EVIDENCED BY A LEGAL OPINION OF COUNSEL TO THE TRANSFEROR TO SUCH EFFECT, THE SUBSTANCE OF WHICH SHALL BE REASONABLY ACCEPTABLE TO THE COMPANY. THIS SECURITY MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT WITH A REGISTERED BROKER-DEALER OR OTHER LOAN WITH A FINANCIAL INSTITUTION THAT IS AN "ACCREDITED INVESTOR" AS DEFINED IN RULE 501(a) UNDER THE SECURITIES ACT OR OTHER LOAN SECURED BY SUCH SECURITIES.

(c) The Company acknowledges and agrees that a Purchaser may from time to time pledge pursuant to a bona fide margin agreement with a registered broker-dealer or grant a security interest in some or all of the Securities to a financial institution that is an “accredited investor” as defined in Rule 501(a) under the Securities Act and who agrees to be bound by the provisions of this Agreement and, if required under the terms of such arrangement, such Purchaser may transfer pledged or secured Securities to the pledgees or secured parties. Such a pledge or transfer would not be subject to approval of the Company and no legal opinion of legal counsel of the pledgee, secured party or pledgor shall be required in connection therewith. Further, no notice shall be required of such pledge. At the appropriate Purchaser’s expense, the Company will execute and deliver such reasonable documentation as a pledgee or secured party of Securities may reasonably request in connection with a pledge or transfer of the Securities. Certificates evidencing the Shares and Warrant Shares shall not contain any legend (including the legend set forth in Section 4.1(b)), (i) following any sale of such Shares or Warrant Shares pursuant to Rule 144 or (ii) if such Shares or Warrant Shares are eligible for sale under Rule 144, (provided that a Purchaser provides the Company with an assurance letter, which shall not include an opinion of Purchaser’s counsel, in the form reasonably satisfactory to Company’s legal counsel, that such Shares or Warrant Shares are eligible for sale, assignment or transfer under Rule 144) or (iii) if such legend is not required under applicable requirements of the Securities Act (including judicial interpretations and pronouncements issued by the staff of the Commission). The Company may not make any notation on its records or give instructions to the Transfer Agent that enlarge the restrictions on transfer set forth in this Section, except in accordance with applicable law. Certificates for Securities subject to legend removal hereunder shall be transmitted by the Transfer Agent to the Purchaser by crediting the account of the Purchaser’s prime broker with the Depository Trust Company System as directed by such Purchaser.

4.2 Furnishing of Information. Until the earliest of the time that (i) no Purchaser owns Securities or (ii) the Securities may be sold without restriction, the Company covenants to file in a timely manner (or obtain extensions in respect thereof and file within the applicable grace period) all reports required to be filed by the Company after the date hereof pursuant to the Exchange Act. As long as any Purchaser owns Securities, if the Company is not required to file reports pursuant to the Exchange Act, it will prepare and furnish to the Purchasers and make publicly available in accordance with Rule 144 such information as is required for the Purchasers to sell the Securities under Rule 144. The Company further covenants that it will take such further action as any holder of Securities may reasonably request, to the extent required from time to time to enable such Person to sell such Securities without registration under the Securities Act within the requirements of the exemption provided by Rule 144.

4.3 Integration. The Company shall not sell, offer for sale or solicit offers to buy or otherwise negotiate in respect of any security (as defined in Section 2 of the Securities Act) that would be integrated with the offer or sale of the Securities in a manner that would require the registration under the Securities Act of the sale of the Securities to the Purchasers or that would be integrated with the offer or sale of the Securities to the Purchasers for purposes of the rules and regulations of any Trading Market such that it would require shareholder approval prior to the closing of such other transaction unless shareholder approval is obtained before the closing of such subsequent transaction.

4.4 Securities Laws Disclosure; Publicity. The Company shall issue a press release and Current Report on Form 8-K disclosing the material terms of the transactions contemplated hereby. No Purchaser shall issue any press release or otherwise make any public statement without the prior consent of the Company, which consent shall not unreasonably be withheld or delayed, except if such disclosure is required by law, in which case the disclosing party shall promptly provide the other party with prior notice of such public statement or communication. Notwithstanding the foregoing, the Company shall not publicly disclose the name of any Purchaser, or include the name of any Purchaser in any filing with the Commission or any regulatory agency or Trading Market, without the prior consent of such Purchaser, except (i) the filing of final Transaction Documents (including signature pages thereto) with the Commission and (ii) to the extent such disclosure is required by law or Trading Market regulations.

4.5 Non-Public Information. Except with respect to the material terms and conditions of the transactions contemplated by the Transaction Documents, the Company covenants and agrees that neither it nor any other Person acting on its behalf will provide any Purchaser or its agents or counsel with any information that the Company believes constitutes material non-public information, unless prior thereto such Purchaser shall have executed a written agreement regarding the confidentiality and use of such information. The Company understands and confirms that each Purchaser shall be relying on the foregoing covenant in effecting transactions in securities of the Company.

4.6 Use of Proceeds. The Company shall use the net proceeds from the sale of the Securities hereunder for general working capital.

4.7 Indemnification.

(a) Indemnification of Purchasers. Subject to the provisions of this Section 4.7, the Company will indemnify and hold each Purchaser and its directors, officers, shareholders, members, partners, employees and agents (and any other Persons with a functionally equivalent role of a Person holding such titles notwithstanding a lack of such title or any other title), each Person who controls such Purchaser (within the meaning of Section 15 of the Securities Act and Section 20 of the Exchange Act), and the directors, officers, shareholders, agents, members, partners or employees (and any other Persons with a functionally equivalent role of a Person holding such titles notwithstanding a lack of such title or any other title) of such controlling persons (each, a "Purchaser Party") harmless from any and all losses, liabilities, obligations, claims, contingencies, damages, costs and expenses, including all judgments, amounts paid in settlements, court costs and reasonable attorneys' fees and costs of investigation that any such Purchaser Party may suffer or incur as a result of or relating to (a) any breach of any of the representations, warranties, covenants or agreements made by the Company in this Agreement or in the other Transaction Documents or (b) any action instituted against a Purchaser in any capacity, or any of them or their respective Affiliates, by any stockholder of the Company who is not an Affiliate of such Purchaser, with respect to any of the transactions contemplated by the Transaction Documents (unless such action is based upon a breach of such Purchaser's representations, warranties or covenants under the Transaction Documents or any agreements or understandings such Purchaser may have with any such stockholder or any violations by the Purchaser of state or federal securities laws or any conduct by such Purchaser which constitutes fraud, gross negligence, willful misconduct or malfeasance). If any action shall be brought against any Purchaser Party in respect of which indemnity may be sought pursuant to this Agreement, such Purchaser Party shall promptly notify the Company in writing, and the Company shall have the right to assume the defense thereof with counsel of its own choosing reasonably acceptable to the Purchaser Party. Any Purchaser Party shall have the right to employ separate counsel in any such action and participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such Purchaser Party except to the extent that (i) the employment thereof has been specifically authorized by the Company in writing, (ii) the Company has failed after a reasonable period of time to assume such defense and to employ counsel or (iii) in such action there is, in the reasonable opinion of such separate counsel, a material conflict on any material issue between the position of the Company and the position of such Purchaser Party, in which case the Company shall be responsible for the reasonable fees and expenses of no more than one such separate counsel. The Company will not be liable to any Purchaser Party under this Agreement (i) for any settlement by a Purchaser Party effected without the Company's prior written consent, which shall not be unreasonably withheld or delayed; or (ii) to the extent, but only to the extent that a loss, claim, damage or liability is attributable to any Purchaser Party's breach of any of the representations, warranties, covenants or agreements made by such Purchaser Party in this Agreement or in the other Transaction Documents.

(b) Indemnification of Company. Subject to the provisions of this Section 4.7, each Purchaser severally and not jointly with the other Purchasers, will indemnify and hold the Company and its directors, officers, shareholders, members, partners, employees and agents harmless from any and all losses, liabilities, obligations, claims, contingencies, damages, costs and expenses, including all judgments, amounts paid in settlements, court costs and reasonable attorneys' fees and costs of investigation that the Company may suffer or incur as a result of or relating to any breach of any of the representations, warranties, covenants or agreements made by the Purchaser in this Agreement. If any action shall be brought against the Company in respect of which indemnity may be sought pursuant to this Agreement, the Company shall promptly notify such Purchaser in writing, and the Purchaser shall have the right to assume the defense thereof with counsel of its own choosing reasonably acceptable to the Company. The Company shall have the right to employ separate counsel in any such action and participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such Company except to the extent that (i) the employment thereof has been specifically authorized by the Purchaser in writing, (ii) the Purchaser has failed after a reasonable period of time to assume such defense and to employ counsel or (iii) in such action there is, in the reasonable opinion of such separate counsel, a material conflict on any material issue between the position of the Company and the position of such Purchaser, in which case the Purchaser shall be responsible for the reasonable fees and expenses of no more than one such separate counsel. Such Purchaser will not be liable to the Company under this Agreement (i) for any settlement by the Company effected without the Purchaser's prior written consent, which shall not be unreasonably withheld or delayed; (ii) to the extent, but only to the extent that a loss, claim, damage or liability is attributable to any of the Company's breach of any of the representations, warranties, covenants or agreements made by the Company in this Agreement, or (iii) in an amount in excess of such Purchaser's gain upon such Purchaser's sale of the Common Stock and/or Warrant Shares acquired pursuant to this Agreement.

4.8 Reservation of Common Stock. As of the date hereof, the Company has reserved and the Company shall continue to reserve and keep available at all times, free of preemptive rights, a sufficient number of shares of Common Stock for the purpose of enabling the Company to issue Shares pursuant to this Agreement and Warrant Shares pursuant to any exercise of the Warrants.

4.9 Listing of Common Stock. The Company hereby agrees to use best efforts to maintain the listing or quotation of the Common Stock on a Trading Market. The Company will take all action reasonably necessary to continue the listing or quotation and trading of its Common Stock on a Trading Market and will comply in all respects with the Company's reporting, filing and other obligations under the bylaws or rules of the Trading Market.

4.10 Short Sales and Confidentiality After The Date Hereof. Each Purchaser severally and not jointly with the other Purchasers, covenants that neither it nor any Affiliate acting on its behalf or pursuant to any understanding with it will execute any Short Sales during the period commencing at the Discussion Time and ending at the time that the transactions contemplated by this Agreement are first publicly announced as described in Section 4.4. Each Purchaser, severally and not jointly with the other Purchasers, covenants that until such time as the transactions contemplated by this Agreement are publicly disclosed by the Company as described in Section 4.4, such Purchaser will maintain the confidentiality of the existence and terms of this transaction and the information included in the Disclosure Schedules. Notwithstanding the foregoing, no Purchaser makes any representation, warranty or covenant hereby that it will not engage in Short Sales in the securities of the Company after the time that the transactions contemplated by this Agreement are first publicly announced as described in Section 4.4. Notwithstanding the foregoing, in the case of a Purchaser that is a multi-managed investment vehicle whereby separate portfolio managers manage separate portions of such Purchaser's assets and the portfolio managers have no knowledge of the investment decisions made by the portfolio managers managing other portions of such Purchaser's assets, the covenant set forth above shall only apply with respect to the portion of assets managed by the portfolio manager that made the investment decision to purchase the Securities covered by this Agreement.

4.11 Delivery of Securities After Closing. The Company shall deliver, or cause to be delivered, the respective Securities purchased by each Purchaser to such Purchaser within five (5) Trading Days of the Closing Date.

4.12 Form D; Blue Sky Filings. The Company agrees to file in a timely manner a Form D with respect to the Securities as required under Regulation D and to provide a copy thereof, promptly upon request of any Purchaser. The Company shall take such action as the Company shall reasonably determine is necessary in order to obtain an exemption for, or to qualify the Securities for, sale to the Purchasers at the Closing under applicable securities or "Blue Sky" laws of the states of the United States, and shall provide evidence of such actions promptly upon request of any Purchaser.

4.13 Adjustment Upon Issuance of Shares of Common Stock. The Per Share Purchase Price shall be subject to adjustment in accordance with this Section 4.13. Provided that if the volume-weighted average trading price for the last twenty (20) consecutive trading days that conclude the six (6) month period after the Initial Closing (the "**Six Month Price**") exceeds or equals \$0.50 per share (the "**Target Price**"), the Per Share Purchase Price will not be adjusted. If the Six Month Price is less than the Target Price, the Per Share Purchase Price will be automatically reduced to the Six Month Price, but in no event less than \$0.35 per Share, in which case the Company shall issue to each Purchaser, based on such Purchaser's investment: (a) shares in a quantity that equals the difference between the number of Shares issued to such Purchaser at closing and the number of Shares that would have been issued to such Purchaser at closing at the Six Month Price; and (b) a Warrant for a number of Warrant Shares equal to fifty percent (50%) of the difference between the number of Shares issued to such Purchaser at closing and the number of Shares that would have been issued to such Purchaser at closing at the Six Month Price, with an exercise price equal to the sum of \$0.10 per Share and the Six Month Price, but in no event less than \$0.45 per Share. The exercise price per share for the Warrant issued at Closing will automatically adjust to the sum of \$0.10 per share and the Six Month Price, but in no event less than \$0.45 per Share.

By way of example, if a Purchaser invests an aggregate of \$1,000,000 and the Six Month Price exceeds or equals the Target Price, the Purchaser will have received an aggregate of 2,000,000 Shares and a Warrant for 1,000,000 Warrant Shares at an exercise price of \$0.60 per Share. If the Six Month Price is \$0.40, Purchaser will have received an aggregate of 2,500,000 Shares and a Warrant for 1,250,000 Warrant Shares at an exercise price of \$0.50 per share.

SECTION V.
MISCELLANEOUS

5.1 Fees and Expenses. Each party shall pay the fees and expenses of its advisers, counsel, accountants and other experts, if any, and all other expenses incurred by such party incident to the negotiation, preparation, execution, delivery and performance of this Agreement. The Company shall further be responsible for the payment of any placement agent's fees, financial advisory fees, transfer agent fees, the fees and expenses of DTC (as defined below) fees or broker's commissions relating to or arising out of the transactions contemplated hereby (including, without limitation, any fees payable to any placement agent of the Company in connection with the transactions contemplated by this Agreement). The Company shall pay all Transfer Agent fees, stamp taxes and other taxes and duties levied in connection with the delivery of any Securities to the Purchasers.

5.2 Entire Agreement. The Transaction Documents, together with the exhibits and schedules thereto, contain the entire understanding of the parties with respect to the subject matter hereof and supersede all prior agreements and understandings, oral or written, with respect to such matters, which the parties acknowledge have been merged into such documents, exhibits and schedules.

5.3 Notices. Any and all notices or other communications or deliveries required or permitted to be provided hereunder shall be in writing and shall be deemed given and effective on the earliest of (a) the date of transmission, if such notice or communication is delivered via facsimile or email at the facsimile number set forth on the signature pages attached hereto or the email address set forth on the signature pages attached hereto prior to 5:30 p.m. (PST) on a Business Day, (b) the next Business Day after the date of transmission, if such notice or communication is delivered via facsimile at the facsimile number set forth on the signature pages attached hereto on a day that is not a Trading Day or later than 5:30 p.m. (PST) on any Business Day, (c) the 2nd Business Day following the date of mailing, if sent by U.S. nationally recognized overnight courier service, or (d) upon actual receipt by the party to whom such notice is required to be given. The address for such notices and communications shall be as set forth on the signature pages attached hereto.

5.4 Amendments; Waivers. No provision of this Agreement may be waived or amended except in a written instrument signed, in the case of an amendment, by the Company and the Purchasers of more than fifty percent (50%) of the Shares still held by the Purchasers or, in the case of a waiver, by the party against whom enforcement of any such waived provision is sought. No waiver of any default with respect to any provision, condition or requirement of this Agreement shall be deemed to be a continuing waiver in the future or a waiver of any subsequent default or a waiver of any other provision, condition or requirement hereof, nor shall any delay or omission of any party to exercise any right hereunder in any manner impair the exercise of any such right.

5.5 Headings. The headings herein are for convenience only, do not constitute a part of this Agreement and shall not be deemed to limit or affect any of the provisions hereof.

5.6 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties and each of their successors and permitted assigns.

5.7 Assignment. Each Purchaser acknowledges that it may not assign any of its rights to or interest in or under this Agreement without the prior written consent of the Company, and any attempted assignment without such consent shall be void and without force or effect.

5.8 No Third-Party Beneficiaries. This Agreement is intended for the benefit of the parties hereto and their respective successors and permitted assigns and is not for the benefit of, nor may any provision hereof be enforced by, any other Person, except as otherwise set forth in Section 4.8.

5.9 Governing Law. All questions concerning the construction, validity, enforcement and interpretation of the Transaction Documents shall be governed by and construed and enforced in accordance with the internal laws of the State of Delaware, without regard to the principles of conflicts of law thereof. Each party agrees that all legal proceedings concerning the interpretations, enforcement and defense of the transactions contemplated by this Agreement and any other Transaction Documents (whether brought against a party hereto or its respective affiliates, directors, officers, shareholders, employees or agents) shall be commenced exclusively in the state and federal courts sitting in Los Angeles, California. Each party hereby irrevocably submits to the exclusive jurisdiction of the state and federal courts sitting in the Los Angeles, California for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein (including with respect to the enforcement of any of the Transaction Documents), and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such suit, action or proceeding is improper or is an inconvenient venue for such proceeding. Each party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any other manner permitted by law.

5.10 Survival. The representations and warranties contained herein shall survive the Closing and the delivery of the Shares and Warrant Shares.

5.11 Execution. This Agreement may be executed in two or more counterparts, all of which when taken together shall be considered one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to the other party, it being understood that both parties need not sign the same counterpart. In the event that any signature is delivered by facsimile transmission or by e-mail delivery of a “.pdf” format data file, such signature shall create a valid and binding obligation of the party executing (or on whose behalf such signature is executed) with the same force and effect as if such facsimile or “.pdf” signature page was an original thereof.

5.12 Severability. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction to be invalid, illegal, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions set forth herein shall remain in full force and effect and shall in no way be affected, impaired or invalidated, and the parties hereto shall use their commercially reasonable efforts to find and employ an alternative means to achieve the same or substantially the same result as that contemplated by such term, provision, covenant or restriction. It is hereby stipulated and declared to be the intention of the parties that they would have executed the remaining terms, provisions, covenants and restrictions without including any of such that may be hereafter declared invalid, illegal, void or unenforceable.

5.13 Replacement of Securities. If any certificate or instrument evidencing any Securities is mutilated, lost, stolen or destroyed, the Company shall issue or cause to be issued in exchange and substitution for and upon cancellation thereof (in the case of mutilation), or in lieu of and substitution therefor, a new certificate or instrument, but only upon receipt of evidence reasonably satisfactory to the Company of such loss, theft or destruction. The applicant for a new certificate or instrument under such circumstances shall also pay any reasonable third-party costs (including customary indemnity) associated with the issuance of such replacement Securities.

5.14 Independent Nature of Purchasers' Obligations and Rights. The obligations of each Purchaser under any Transaction Document are several and not joint with the obligations of any other Purchaser, and no Purchaser shall be responsible in any way for the performance or non-performance of the obligations of any other Purchaser under any Transaction Document. Nothing contained herein or in any other Transaction Document, and no action taken by any Purchaser pursuant thereto, shall be deemed to constitute the Purchasers as a partnership, an association, a joint venture or any other kind of entity, or create a presumption that the Purchasers are in any way acting in concert or as a group with respect to such obligations or the transactions contemplated by the Transaction Documents. Each Purchaser shall be entitled to independently protect and enforce its rights, including without limitation, the rights arising out of this Agreement or out of the other Transaction Documents, and it shall not be necessary for any other Purchaser to be joined as an additional party in any proceeding for such purpose. Each Purchaser has been represented by its own separate legal counsel in their review and negotiation of the Transaction Documents. The Company's counsel does not represent any of the Purchasers. The Company has elected to provide all Purchasers with the same terms and Transaction Documents for the convenience of the Company and not because it was required or requested to do so by the Purchasers.

5.15 Construction. The parties agree that each of them and/or their respective counsel has reviewed and had an opportunity to revise the Transaction Documents and, therefore, the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of the Transaction Documents or any amendments hereto.

IN WITNESS WHEREOF, the parties hereto have caused this Securities Purchase Agreement to be duly executed by their respective authorized signatories as of the date indicated on the signature page.

BARFRESH FOOD GROUP INC.

Address for Notice:

Barfresh Food Group, Inc.
3600 Wilshire Boulevard Suite 1720
Los Angeles CA 90010
Attention: Riccardo Delle Coste,
Chief Executive Officer
Email: riccardo@barfresh.com

By: _____
Name: Riccardo Delle Coste
Title: Chief Executive Officer

Date: _____

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

[SIGNATURE PAGE FOR PURCHASER FOLLOWS]

[PURCHASER SIGNATURE PAGES TO BARFRESH FOOD GROUP INC. SECURITIES PURCHASE AGREEMENT]

IN WITNESS WHEREOF, the undersigned have caused this Securities Purchase Agreement to be duly executed by their respective authorized signatories as of the date first indicated above.

ENTITY, TRUST, ETC. PURCHASERS

INDIVIDUAL PURCHASERS

Entity Name: _____

Signature: _____

Name: _____

Title: _____

Date: _____

Email: _____

Fax: _____

Address for Notice of Purchaser:

Address for Delivery of Securities for Purchaser (if not same as address for notice):

Subscription Amount: \$ _____

EIN Number: _____

DISCLOSURE SCHEDULES

Any disclosure made by the Company in this Disclosure Schedule shall constitute an exception or responsive information, as the context requires, to the representation and warranties, covenants or agreements of the Company contained in the Agreement. Inclusion of any item in this Disclosure Schedule shall not constitute an admission that a violation, right of termination, default, liability, or other obligation of any kind exists with respect to such item, but rather is intended only to qualify the representations and warranties, covenants or agreements of the Company contained in the Agreement. The inclusion of any item in this Disclosure Schedule shall not be deemed an admission that such item is a material fact, event, or circumstance or that such item has had or would be reasonably likely to have a material adverse effect on the Company. Any matter disclosed in one schedule shall also be deemed to constitute an exception to all other representations and warranties, covenants or agreements of the Company in the Agreement to which such disclosure reasonably relates. Any appendices or exhibits attached to this Disclosure Schedule form an integral part of the sections or subsections of this Disclosure Schedule into which they are incorporated by reference for all purposes as if fully set forth in this Disclosure Schedule, including for purposes of cross-application to other sections or subsections of this Disclosure Schedule to the extent that it is reasonably apparent such appendices or exhibits apply to such other sections or subsections of this Disclosure Schedule.

Matters set forth in this Disclosure Schedule are not necessarily limited to matters required by the Agreement to be reflected in this Disclosure Schedule. Such additional matters are set forth for informational purposes, and this Disclosure Schedule does not necessarily include other matters of a similar nature. In no event shall the listing of such matters in this Disclosure Schedule be deemed or interpreted to broaden or otherwise amplify the Company representations and warranties, covenants or agreements contained in the Agreement, and nothing in this Disclosure Schedule shall influence the construction or interpretation of any of the representations and warranties, covenants or agreements contained in the Agreement. The captions contained in this Disclosure Schedule are for reference purposes only and do not form a part of this Disclosure Schedule.

[Continued on Following Page]

Page 1 of Disclosure Schedules

Schedule 3.1(g)

As of December 31, 2019, the Company's capitalization includes 158,216,262 shares of common stock, on a fully diluted basis, which is comprised of the following:

- (i) 130,341,777 shares of common stock;
- (ii) 23,301,828 shares of common stock issuable upon exercise of warrants; and
- (iii) 4,572,657 shares of common stock issuable upon exercise of options.

The Company is a party to that certain investor rights agreement with Unibel, dated November 23, 2016, included as an exhibit to the Registration Statement on Form S-1, filed with the Commission on December 23, 2016, pursuant to which Unibel is entitled to certain rights as a stockholder, including the right appoint one director to the board of directors of the Company and certain participation and redemption rights, each as more fully described therein.

Schedule 3.1(i)

As of December 31, 2019, the Company has:

- (i) \$1,901,166 and \$340,080, in outstanding Milestone I convertible notes and accrued interest, respectively. If converted at \$0.60, it would have resulted in the issuance of an additional 3,735,410 shares of common stock.
- (ii) \$1,363,200 and \$147,898, in outstanding Milestone II convertible notes and accrued interest, respectively. If converted at \$0.60, it would have resulted in the issuance of an additional 2,518,497 shares of common stock.

- End -

EXHIBIT A
FORM OF WARRANT

SUBSIDIARIES

- (1) Barfresh, Inc., a Nevada corporation, wholly owned subsidiary
 - (2) Barfresh Corporation, Inc., a Delaware corporation, wholly owned subsidiary
-

Certification of
Principal Executive Officer
Pursuant to 18 U.S.C. 1350
(Section 302 of the Sarbanes-Oxley Act of 2002)

I, Riccardo Delle Coste, certify that:

1. I have reviewed this annual report on Form 10-K of Barfresh Food Group Inc., a Delaware corporation (“Annual Report”);
2. Based on my knowledge, this Annual Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Annual Report;
3. Based on my knowledge, the financial statements, and other financial information included in this Annual Report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this Annual Report;
4. The small business issuer’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the small business issuer and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the small business issuer’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the small business issuer’s internal control over financial reporting that occurred during the small business issuer’s most recent fiscal quarter (the small business issuer’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer’s internal control over financial reporting; and
5. The small business issuer’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer’s auditors and the audit committee of the small business issuer’s board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer’s ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer’s internal control over financial reporting.

April 13, 2020

By: /s/ Riccardo Delle Coste

Name: Riccardo Delle Coste

Title: Principal Executive Officer

Certification of
Principal Financial Officer
Pursuant to 18 U.S.C. 1350
(Section 302 of the Sarbanes-Oxley Act of 2002)

I, Raffi Loussarian, certify that:

1. I have reviewed this annual report on Form 10-K of Barfresh Food Group Inc., a Delaware corporation (“Annual Report”);
2. Based on my knowledge, this Annual Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Annual Report;
3. Based on my knowledge, the financial statements, and other financial information included in this Annual Report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this Annual Report;
4. The small business issuer’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the small business issuer and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the small business issuer’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the small business issuer’s internal control over financial reporting that occurred during the small business issuer’s most recent fiscal quarter (the small business issuer’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer’s internal control over financial reporting; and
5. The small business issuer’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer’s auditors and the audit committee of the small business issuer’s board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer’s ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer’s internal control over financial reporting.

April 13, 2020

By: /s/ Raffi Loussarian

Name: Raffi Loussarian

Title: Vice President Finance (Principal Financial Officer)

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Barfresh Food Group Inc., a Delaware corporation, on Form 10-K for the year ended December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Annual Report"), I, Riccardo Delle Coste, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Annual Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 13, 2020

By: /s/ Riccardo Delle Coste

Name: Riccardo Delle Coste

Title: Chief Executive Officer (Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Barfresh Food Group Inc., a Delaware corporation, on Form 10-K for the year ended December 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Annual Report"), I, Raffi Loussararian, Vice President Finance of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Annual Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 13, 2020

By: /s/ Raffi Loussararian

Name: Raffi Loussararian

Title: Principal Financial Officer
