BARFRESH FOOD GROUP INC.
Form 10-K
July 01, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended March 31, 2013

or

o 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: 333-168738

BARFRESH FOOD GROUP INC.
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware<br>(State or other jurisdiction of incorporation or organization) | 27-1994406<br>(I.R.S. Employer Identification No.) |
| 90 Madison Street, Suite 701, Denver, CO<br>(Address of principal executive offices) | 80206<br>(Zip Code) |

303-329-3008
(Registrant's telephone number, including area code)

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

Securities registered under Section 12(g) of the Act: None

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the

Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes x No o

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§232.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.
x

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

| | | | |
|---|---|---|---|
| Large accelerated filer | ¨ | Accelerated filer | ¨ |
| Non-accelerated filer | ¨ | Smaller reporting company | x |
| (Do not check if a smaller reporting company) | | | |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes o No x

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: not available.  As of June 20, 2013, the aggregate market value of the voting and no-voting common equity held by non-affiliates was $4,350,333.

As of June 20, 2013, there were 51,966,660 outstanding shares of common stock of the registrant.

DOCUMENTS INCORPORATED BY REFERENCE

| Document | Parts Into Which Incorporated |
|---|---|
| None | None |

BARFRESH FOOD GROUP INC.

FORM 10-K

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The Business section and other parts of this Annual Report on Form 10-K ("Form 10-K") contain forward-looking statements that involve risks and uncertainties. Many of the forward-looking statements are located in "Management's Discussion and Analysis of Financial Condition and Results of Operations." Forward-looking statements provide current expectations of future events based on certain assumptions and include any statement that does not directly relate to any historical or current fact. Forward-looking statements can also be identified by words such as "anticipates," "believes," "estimates," "expects," "intends," "plans," "predicts," and similar terms. Forward-looking statements are not guarar of future performance and the Company's actual results may differ significantly from the results discussed in the forward-looking statements. The Company assumes no obligation to revise or update any forward-looking statements for any reason, except as required by law.

## PART I

### Item 1. Business.

### Business Overview

Barfresh Food Group Inc. ("we," "us," "our," "Barfresh," and the "Company") is a company engaged in the manufacturing and distribution of ready to blend beverages, particularly, smoothies, shakes and frappes. We hold the technology, and a Canadian patent and a United States patent pending for a sealed pack of ingredients for an individual smoothie.

In January of 2012 we engaged in a reverse merger transaction and became a public company.

Our products are portion controlled ready to blend beverage ingredient packs ("Beverage Packs"), suitable for smoothies, shakes, and frappes. They contain all of the ingredients necessary to make the beverage, including the base, (either sorbet, frozen yogurt or ice cream), fruit pieces, juices, and ice. Ingredients used are natural, no syrups or powders.

We have spent the last year building the foundation to launch this product line institutionally to Quick Serve Restaurants ("QSR"), casual dining establishments and food service organizations.

We have installed and commissioned our first production line in Salt Lake City, Utah.

We have created unique recipes for our entire beverage line-up. This also provides the platform for future complimentary products to QSRs. Only a few major chains such as, McDonald's, Burger King and Starbucks have launched chain wide smoothie programs – and their success is prompting other chains to institute similar product offerings – providing a very significant potential market for Barfresh to tap. Our Beverage Packs provide the opportunity to QSRs to add frozen beverages to their menus without a significant investment in equipment or restaurant redesign. All that is needed is a blender and a freezer, which most restaurants have. Simply add water, empty the packet into a blender, blend and serve.

We have commenced generating sales with some small customers while at the same time developing customized flavors for large customers.

We have had flavors approved for some of our targeted large QSR chains and we have commenced shipping saleable product.

We have hired 3 Business Development professionals with extensive experience and relationships in the Beverage industry.

We have also signed a third party sales agency agreement with Restaurant Link which will add another 21 business development professionals to our sales efforts.

Our Corporate History and Background

We were incorporated on February 25, 2010 in the State of Delaware. The Company was originally formed to acquire scripts for movie opportunities, to produce the related movies and to sell, lease, license, distribute and syndicate the movies and develop other related media products related to the movies. As the result of a merger, more fully described below, we are now engaged in the manufacturing and distribution of ready to blend beverages, particularly, smoothies, shakes and frappes.

Reorganization and recapitalization

During January, 2012, we entered into a series of transactions pursuant to which we acquired Barfresh Inc. ("Barfresh"), spun-out our prior operations to our former principal stockholder, completed a private offering of our securities for an aggregate purchase price of approximately $999,998, did a four for one stock split, and changed the name of the Company. The following summarizes the foregoing transactions:

Acquisition of Barfresh. We acquired all of the outstanding capital stock of Barfresh in exchange for the issuance of 37,333,328 shares of our $0.000001 par value common stock ("Common Stock") pursuant to a Share Exchange Agreement between us, our former principal stockholder, Barfresh and the former shareholders of Barfresh. As a result of this transaction, Barfresh became our wholly owned subsidiary and the former shareholders of Barfresh became our controlling stockholders. The transaction was accounted for as a reverse takeover/recapitalization effected by a share exchange, wherein Barfresh is considered the acquirer for accounting and financial reporting purposes.

Spin-Out of prior Business. Immediately prior to the acquisition of Barfresh, we spun-out our previous business operations to a former officer, director and principal stockholder, 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 completed two closings of a private offering of units consisting of an aggregate of (i) 1,333,332 shares of our Common Stock and (ii) warrants to purchase 1,333,332 shares of Common Stock, which have a five-year term and a per share exercise price of $1.50. The aggregate purchase price of the units was $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.

Reverse stock split. Subsequent to the merger we split our stock whereby our shareholders received four shares of our Common Stock for each share held.

Additional financing transactions:

In August 2012, we closed an offering of $440,000 of Convertible Notes, $50,000 of which was purchased by a significant shareholder of ours. The notes bear interest at a rate of 12% per annum and are due and payable on September 6, 2013. In addition the notes are convertible at any time after the original issue date until the note is no longer outstanding, into our common stock at a conversion price of $0.372 per share. We also issued 956,519 warrants to the note holders for the right to purchase shares of our common stock. Each warrant entitles the holder to purchase one share of our common stock, at a price of $0.46 per share. No proceeds of this offering will be used to repay the notes.

During the period from December 31, 2012 until May 10, 2013 we sold common stock units at a price of $0.25 per unit. Each unit consists of one share of common stock and a three year warrant to purchase one-half (1/2) share of our common stock at an exercise price of $0.50 per share ("Unit" or "Units"). We sold 3,200,000 units representing 3,200,000 shares and warrants to purchase 1,600,000 shares for total consideration of $800,000.

Our Products

Our products are portion controlled beverage ingredient packs, suitable for Smoothies, Shakes and Frappes that can also be utilized for cocktails and mocktails. They contain all of the ingredients necessary to make either a smoothie, shake or frappe including the ice. All of the ingredients used are real, no syrups or powders. Simply add water, empty the packet into a blender, blend and serve.

The following shows our product with the package opened:

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During the past 12 months we have completed the development of our product range and we now have the following flavors available for sale as part of our standard line:

Smoothies:

Shakes:

Frappes:

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In addition to our standard product range we are also currently working on customized flavor profiles for some of our key accounts.

Some of the key benefits of our products for the operators that use it include:

- Portion controlled
- Zero Waste
- Product consistency – every time you make a smoothie
- Unitized Inventory
- Long Shelf life (24 months)
- There is little to no capital investment necessary
- Very quick to make (less than 60 seconds)
- Ability to itemize the ingredients of the smoothie on their menus
- Products require less retail space

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

- All Natural
- No Artificial Colors
- No Artificial Flavors
- From as little as 150 calories (per serving)
- At least ¼ cup of real fruit per serving
- Dairy free options
- Kosher approved
- Gluten Free

Customer Marketing Material

We have developed a range of consumer marketing materials that assist our customers in selling their blended beverages. Examples of our “SMOO” branded marketing materials are detailed below.

Plan of Operation

Manufacturing

Our plan is to utilize contract manufacturers to manufacture our products in the United States. Ice cream manufacturers are best suited for our products. Our first production line has been installed and commissioned in Salt Lake City. It is currently producing products being sold to our customers as well as new product development for new large customers.

We intend to appoint sales agents either as employees or independent contractors to sell our product. We have already hired three sales consultants with experience in the beverage industry.

In order to achieve our planned growth we will expand manufacturing capabilities by engaging additional contract manufacturers located across the Unites States. The plan is to strategically locate those facilities in close proximity to our major customers' distribution centers.

Customer Acquisition Strategy

Our plan is to work with small and large chains to develop specific programs for their blended beverage platform. Our product offers a unique solution to making blended beverages that allows these chains to participate and have a high quality blended beverage offering. In addition, we are also able to offer equipment programs for these chains where the franchisees have a zero upfront cost for any equipment needed (blender and freezer if required). This comes at an additional cost on top of our product cost and is paid off over a multiyear agreement which the customer signs up for. We have been able to work with our equipment partners where they will also participate in the equipment financing to coincide with the customer contract to minimize the equipment capital requirements to service the customer. By having such a program available for our customers enables the chain to mandate the program into all of their locations as well as enables the franchisor to allocate national marketing monies to promote the program.

Distributor Strategy (Push Pull)

Push into distribution (by chain)

As a result of working with the chains this forces our product into distribution with the food service distributors without having to pay the expensive slotting fees or having to spend a significant amount of money working the street business for each distribution house to ensure compliance. This is a proven model whereby the chain instructs the distributor to carry our products for their chain as one of their new products.

Pull from distribution

Once the product is in the distributor warehouse and available for distribution we are then able to work with the distributor's sales team to pull additional customers that they are already servicing. This avoids new product slotting fees and minimum case volumes as the product is supported by the chain account.

This is the most efficient way to achieve mass distribution and has already proven successful as we gained distribution with Roma for the chain called "In the Sauce Brands". We are now working with the distributor on distribution into 10 other warehouses and we are currently discussing marketing strategies with each of the sales teams from each distribution center.

This model is being replicated with each of our chain customers, including a large account that spans across both the US and Canada which we are on the cusp of servicing. This will enable us to generate even greater support from distributors as market penetration of our product grows.

Barfresh's target markets include:

- 36 national restaurant chains with 1,000 plus outlets each representing 140,000 outlets in total.
- 29 large regional restaurant chains with 500 to 999 outlets each representing 18,400 outlets in total.
- 75 midsized regional restaurant chains with 200 to 500 outlets each representing 25,400 outlets in total.
- 171 small regional restaurant chains with 50 to 200 outlets each representing 18,200 outlets in total.
- Local identified restaurants with 1 to 50 outlets each representing 4,900 outlets in total.
- Food distribution companies.
- Independent food outlets.
- Other food services venues such as sporting arenas, colleges and universities, schools and hospitals.
- Retail grocery packs via supermarkets.

Research and Development

Expenditures for research activities relating to product development and improvement are charged to expense as incurred. We incurred $103,293 and $113,820, in research and development expenses for the year ended March 31, 2013 and 2012, respectively, and $220,266 for the period from inception, December 4, 2009, to March 31, 2013.

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.

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

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

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

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

The Barfresh product is a portioned controlled product which contains all the necessary ingredients for a blended beverage (fruit, juice, yogurt or sorbet and ice cubes). While we believe the Barfresh product has a number of advantages to other existing products (as set out previously in the product section), there are other factors which may influence the adoption of a particular product by customers.

Our ability to offer customers equipment packages with no upfront cost is a significant competitive advantage and will assist us in gaining traction in the market and securing long term agreements with our customers.

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

Intellectual Property

In December of 2009, we entered into a contract whereby entities controlled by the original two shareholders of Barfresh would assign to us certain intellectual property related to certain patent applications filed in the United States (Patent Application number 11/660415) and Canada (Patent Application number 2577163) in respect to the ingredient pack for an individual smoothie. The United States patent was originally filed on December 4, 2007 and its current status is patent pending. The Canadian patent was originally filed on August 16, 2005 and it has been granted. The transfer of the intellectual property was completed in November 2011.

Governmental Approval and Regulation

We are not aware of the need for any governmental approvals of our products.

Since we will initially be utilizing a contract manufacturer, regulations of the United States Food and Drug Administration as they apply to the manufacturing will be the responsibility of the contract manufacturers. Before entering into any manufacturing contract, we will determine that the manufacturer has met all government requirements.

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

Environmental Laws

We do not believe that we will be subject to any environmental laws, either state or federal.  Any laws concerning manufacturing will be the responsibility of the contract manufacturer.

Employees

As of June 20, 2013, we had 5 full time or part time employees.  From time to time, we may hire additional workers on a contract basis as the need arises.

Item 1A. Risk Factors.

Risks Related to Our Business

We have a history of operating losses and there can be no assurance that we can achieve or maintain profitability.

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

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

Our success depends to a significant extent on discretionary consumer spending, which is influenced by general economic conditions and the availability of discretionary income. While there are signs that conditions may be improving, there is no certainty that this trend will continue or that credit and financial markets and confidence in economic conditions will not deteriorate again. Accordingly, we may experience continuing declines in revenue during economic turmoil or during periods of uncertainty. Any material decline in the amount of discretionary spending, leading cost-conscious consumers to be more selective in restaurants visited, could have a material adverse effect on our revenue, results of operations, business and financial condition.

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

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

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

Supplies and prices of the various products that we are going to use 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. In addition, higher diesel and gasoline prices may affect our supply or transportation costs and may affect our revenue going forward. We cannot assure you that we will be able to secure our fruit supply. Declines in sales may also adversely affect our business to the extent we have long-term purchase commitments in excess of our needs.

Our independent registered public accounting firm has expressed doubt about our ability to continue as a going concern.

Our financial statements have been prepared under the assumption that we will continue as a going concern. Our independent registered public accounting firm has issued a report that included an explanatory paragraph referring to our working capital deficiency, recurring net losses and negative cash flows from operations and expressing substantial doubt in our ability to continue as a going concern. Our ability to continue as a going concern is dependent upon our ability to obtain additional equity financing or other capital, attain further operating efficiencies, reduce expenditures, and, ultimately, to generate revenue. Our financial statements do not include any adjustments that might result from the outcome of this uncertainty. However, if adequate funds are not available to us when we need it, and we are unable to enter into some form of strategic relationship that will give us access to additional cash resources, we will be required to even further curtail our operations which would, in turn, further raise substantial doubt about our ability to continue as a going concern.

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 are unable or unwilling to continue to work for us in their present positions, we may have to spend a considerable amount of time and resources searching, recruiting, and integrating the replacements 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. Moreover, if any of our senior executives joins a competitor or forms a competing company, we may lose customers, suppliers, know-how, and key employees.

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

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

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

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

Product liability exposure may expose us to significant liability.

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

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

Our success will depend, in part, on our ability to obtain and maintain protection in the United States and other countries for certain intellectual property incorporated into our products. Our intellectual properties 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.

We will incur increased costs as a result of being a public company.

We will face increased legal, accounting, administrative and other costs and expenses as a public company that we did not incur as a private company. The Sarbanes-Oxley Act of 2002, including the requirements of Section 404, as well as new rules and regulations subsequently implemented by the SEC, the Public Company Accounting Oversight Board (the "PCAOB"), impose additional reporting and other obligations on public companies. We expect that compliance with these public company requirements will increase our costs and make some activities more time-consuming. A number of those requirements will require us to carry out activities we have not done previously. For example, we will adopt new internal controls and disclosure controls and procedures. In addition, we will incur additional expenses associated with our SEC reporting requirements. Furthermore, if we identify any issues in complying with those requirements (for example, if we or our accountants identify a material weakness or significant deficiency in our internal control over financial reporting), we could incur additional costs rectifying those issues, and the existence of those issues could adversely affect us, our reputation or investor perceptions of us. We also expect that it will be difficult and expensive to obtain director and officer liability insurance, and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for us to attract and retain qualified persons to serve on the Company's board of directors or as executive officers. Advocacy efforts by stockholders and third parties may also prompt even more changes in corporate governance and reporting requirements. We expect that the additional reporting and other obligations imposed on us by these rules and regulations will increase our legal and financial compliance costs and administrative fees significantly. These increased costs will require us to divert a significant amount of money that we could otherwise use to expand our business and achieve our strategic objectives.

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

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

Risks Related to Ownership of Our Common Stock

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

In connection with the Share Exchange, Riccardo Delle Coste and Steven Lang, through the entities that they controlled, received a total of 37,333,328 shares of our common stock. Accordingly, Riccardo Delle Coste and Steven Lang, together, control more than 50% of the votes eligible to be cast by stockholders in the election of directors and generally. As a result, Messrs. Delle Coste and Lang have the power to control all matters requiring the approval of our stockholders, including the election of directors and the approval of mergers and other significant corporate transactions, following the Share Exchange.

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

Our common stock is quoted on the OTCQB, which is a significantly more limited trading market than the New York Stock Exchange, NYSE MKT (formerly the American 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 stockholders to trade shares of our common stock, could depress the trading price of our common stock and could have a long-term adverse impact on our ability to raise capital in the future.

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

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

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

Compliance with the periodic reporting requirements required by the SEC consumes a considerable amount of both internal, as well external, resources and represents a significant cost for us. We estimate that we will incur approximately $175,000 in costs in connection with compliance with the periodic reporting requirements required by the SEC on an annual basis. If we are unable to continue to devote adequate funding and the resources needed to maintain such compliance, while continuing our operations, we may be forced to deregister with the SEC. If we file for deregistration, our common stock will no longer be listed The OTCQB, and it may suffer a decrease in or absence of liquidity as after the deregistration process is complete, our common stock will only be tradable on the "Pink Sheets."

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.

The sale of securities by us in any equity or debt financing could result in dilution to our existing stockholders and have a material adverse effect on our earnings.

Any sale of common stock by us in a future private placement offering could result in dilution to the existing stockholders as a direct result of our issuance of additional shares of our capital stock. In addition, our business strategy may include expansion through internal growth, by acquiring subscribers email lists, or by establishing strategic relationships with targeted customers and vendor. In order to do so, or to finance the cost of our other activities, we may issue additional equity securities that could dilute our stockholders’ stock ownership. We may also assume additional debt and incur impairment losses related to goodwill and other tangible assets if we acquire another company and this could negatively impact our earnings and results of operations.

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 OTCBB 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 subject to the provisions of Section 15(g) and Rule 15g-9 of the Exchange Act, commonly referred to as the "penny stock rule." Section 15(g) sets forth certain requirements for transactions in penny stock, and Rule 15g-9(d) incorporates the definition of "penny stock" that is found in Rule 3a51-1 of the Exchange Act. The SEC generally defines a penny stock to be any equity security that has a market price less than $5.00 per share, subject to certain exceptions. We are subject to the SEC's penny stock rules.

Since our common stock is deemed to be penny stock, trading in the shares of our common stock is subject to additional sales practice requirements on broker-dealers who sell penny stock to persons other than established customers and accredited investors. "Accredited investors" are persons with assets in excess of $1,000,000 (excluding the value of such person's primary residence) or annual income exceeding $200,000 or $300,000 together with their spouse. For transactions covered by these rules, broker-dealers must make a special suitability determination for the purchase of such security and must have the purchaser's written consent to the transaction prior to the purchase. Additionally, for any transaction involving a penny stock, unless exempt the rules require the delivery, prior to the first transaction of a risk disclosure document, prepared by the SEC, relating to the penny stock market. A broker-dealer also must disclose the commissions payable to both the broker-dealer and the registered representative and current quotations for the securities. Finally, monthly statements must be sent disclosing recent price information for the penny stocks held in an account and information to the limited market in penny stocks. Consequently, these rules may restrict the ability of broker-dealer to trade and/or maintain a market in our common stock and may affect the ability of the Company's stockholders to sell their shares of common stock.

There can be no assurance that our shares of common stock will qualify for exemption from the Penny Stock Rule. In any event, even if our common stock was exempt from the Penny Stock Rule, we would remain subject to Section 15(b)(6) of the Exchange Act, which gives the SEC the authority to restrict any person from participating in a distribution of penny stock if the SEC finds that such a restriction would be in the public interest.

Our Board of Directors' ability to issue undesignated preferred stock and the existence of anti-takeover provisions may depress the value of our common stock.

Our authorized capital includes 5,000,000 shares of undesignated preferred stock. Our Board of Directors has the power to issue any or all of the shares of preferred stock, including the authority to establish one or more series and to fix the powers, preferences, rights and limitations of such class or series, without seeking stockholder approval. Further, as a Delaware corporation, we are subject to provisions of the Delaware General Corporation Law regarding "business combinations." Our Board of Directors may, in the future, consider adopting additional anti-takeover measures. The authority of our board of directors to issue undesignated stock and the anti-takeover provisions of Delaware law, as well as any future anti-takeover measures adopted by us, may, in certain circumstances, delay, deter or prevent takeover attempts and other changes in control of us that are not approved by our Board of Directors. As a result, our stockholders may lose opportunities to dispose of their shares at favorable prices generally available in takeover attempts or that may be available under a merger proposal and the market price, voting and other rights of the holders of common stock may also be affected.

We do not expect to pay dividends in the foreseeable future.

We do not intend to declare dividends for the foreseeable future, as we anticipate that we will reinvest any future earnings in the development and growth of our business. Therefore, our stockholders will not receive any funds unless they sell their common stock, and stockholders may be unable to sell their shares on favorable terms or at all.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Our principal executive offices are located in 90 Madison Street, Suite 701, Denver, Colorado 80206. The executive office is co-located with the office of Corporate Finance Group, a company that is owned by our Chief Financial Officer. In addition, we lease office space at 8530 Wilshire Blvd., Suite 450, Beverly Hills, CA 90121.

Item 3. Legal Proceedings.

Currently, we know of no material, active, pending or threatened proceeding against us, or our subsidiaries, nor are we involved as a plaintiff in any material proceeding or pending litigation.

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. 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, mark-down, or commissions and may not necessarily represent actual transactions.

| | Bid Quotation | |
|---|---|---|
| Financial Quarter Ended | High ($) | Low ($) |
| September 30, 2012 | 0.73 | .030 |
| December 31, 2012 | 0.58 | 0.22 |
| March 31, 2013 | 0.44 | 0.22 |
| June 30, 2013 (until June 20, 2013) | 0.33 | 0.22 |

#### Holders

At June 20, 2013, there were 51,966,660 shares of our common stock outstanding. Our shares of common stock are held by approximately 30 stockholders of record. The number of record holders was determined from the records of our transfer agent and does not include beneficial owners of common stock whose shares are held in the names of various security brokers, dealers, and registered clearing agencies.

#### Dividends

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

#### Recent Sales of Unregistered Securities

Pursuant to Subscription Agreements dated December 31, 2012, February 1, 2013, March 5, 2013, March 21, 2013, March 29, 2013, April 9, 2013, April 28, 2013, May 3, 2013 and May 9, 2013, we issued 3,200,000 shares of our common stock to certain accredited investors for gross proceeds of $800,000. We also issued to these investors 1,600,000 warrants to purchase our common stock at an exercise price of $0.50 per share. The warrants have a three year term. The shares were issued in a private transaction in reliance upon exemptions from registration pursuant to Section 4(2) and Regulation D, Rule 506 of the Securities Act promulgated under the Securities Act of 1933, as amended.

#### Purchases of Equity Securities by the Company

There were no purchases of equity securities made by the Company in the 4th quarter of 2013.

Securities Authorized for Issuance Under Equity Compensation Plans

We do not have in effect any compensation plans under which our equity securities are authorized for issuance. The Company intends to adopt an equity compensation plan in which its directors, officers, employees and consultants shall be eligible to participate. However, no formal steps have been taken as of the date of this Report to adopt such a plan.

Item 6. Selected Financial Data.

Not applicable because we are a smaller reporting company.

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

The information and financial data discussed below is derived from the audited financial statements of Barfresh for its fiscal years ended March 31, 2013 and 2012. 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 Report. The financial statements contained elsewhere in this Report fully represent Barfresh's financial condition and operations; however, they are not indicative of the Company's future performance. 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 Report.

We are a company engaging in the manufacturing and distribution of ready to blend beverages, particularly, smoothies, shakes and frappes. We hold the technology, and a Canadian patent and a United States patent pending for a sealed pack of ingredients for an individual smoothie. We have generated limited revenue to date. We have been developing flavor profiles of our smoothies that we believe will be appealing to tastes in the United States. We have been in discussions with a number of companies including both large and small quick service restaurant ('QSR") chains and national food services companies that serve alternative venues such as stadiums, arenas and universities with national footprints in the United States and have reached preliminary agreements with three potential customers to begin testing in the near future. We are in ongoing negotiations with a number of other companies. In addition, as a result of having our website up and running we have received a significant number of new inquires about our products.

We are in the development stage and have not as yet generated significant operating revenues and have incurred losses from our inception, December 4, 2009, to March 31, 2013 of $2,446,709.

In January 2012, we entered into an Exchange Agreement pursuant to which we acquired all of the outstanding capital stock of Barfresh Inc. ("Barfresh") from the Barfresh shareholders in exchange for the issuance of 37,333,328 shares of our common stock to the Barfresh Shareholders. As a result of the "Share Exchange", Barfresh became our wholly owned subsidiary and Riccardo Delle Coste and Steven Lang, through the entities that they controlled, became our principal stockholders. The Share Exchange was accounted for as a recapitalization effected by a share exchange, wherein Barfresh is considered the acquirer for accounting and financial reporting purposes. The assets and liabilities of Barfresh have been brought forward at their book value and no goodwill has been recognized. The financial position, results of operations, and cash flows of the accounting acquirer for all periods presented are as if the recapitalization had occurred at the beginning of the earliest period presented and the operations of the accounting acquiree from the date of stock exchange transaction.

In addition, we entered into an Agreement of Sale with a former officer, director and principal shareholder of the Company, pursuant to which we sold to him all of our equity interest in Moving Box Entertainment LLC, a subsidiary of ours, in exchange for a total of 18,000,000 shares of our common stock held by him. The shares of common stock acquired from him in the transaction were cancelled following the Share Exchange.

To date, we have funded our operations through the sale of our common stock, issuance of convertible debt, and advances from a related party. In January 2012, we completed an offering of units consisting of an aggregate of (i) 1,333,332 shares of our common stock and (ii) warrants to purchase 1,333,332 shares of common stock which have a five-year term and an initial per share exercise price of $1.50. The price per unit was $0.75 for an aggregate purchase price of $999,998.

In August 2012, we closed an offering of $440,000 of convertible notes, $50,000 of which was purchased by a significant shareholder of ours. The notes bear interest at a rate of 12% per annum and are due and payable on

September 6, 2013. In addition the notes are convertible at any time after the original issue date until the note is no longer outstanding, into our $0.000001 par value common stock at a conversion price of $0.372 per share. We also issued 956,519 warrants to the note holders for the right to purchase shares of our common stock. Each warrant entitles the holder to purchase one share of our $0.000001, par value common stock, a price of $0.46 per share.

During December 2012 through March 31, 2013 we sold (i) 1,600,000 shares of our common stock and (ii) warrants to purchase 800,000 shares of common stock which have a three-year term and an initial per share exercise price of $0.50. The price per unit was $0.25 for an aggregate purchase price of $400,000. Subsequent to March 31, 2013 we sold an additional (i) 1,600,000 shares of our common stock and (ii) warrants to purchase 800,000 shares of common stock which have a three-year term and an initial per share exercise price of $0.50. The price per unit was $0.25 for an aggregate purchase price of $400,000. The total aggregate consideration for this offering was $800,000. We incurred cost of the offering of $17,500, for net proceeds of $785,000. The offering has been completed.

During December 2012 we received a cash advance from a relative of an officer of the Company in the amount of $30,272. The advance bears no interest and will be repaid as soon as cash flow permits.

Plan of Operations

Our plan is to utilize contract manufacturers to manufacture our products in the United States. Ice cream manufacturers are best suited for our products. Our first production line has been installed and commissioned in Salt Lake City and is currently producing products being sold to our customers as well as new product development for new large customers.

Although we do not have a contract with any suppliers for the raw materials needed to manufacture smoothie packs we believe that there are a significant number of sources available and we do not anticipate becoming dependent on any one supplier. As demand for our range of products grows, we will look to contract a level of our raw material requirements to ensure continuity of supply.

We currently have two employees selling our product. The process of obtaining orders from potential customers will likely follow the following process:

Meeting with and introducing products to customer

Developing flavor profiles for the specific customer

Participate in test marketing of the product with the flavors developed for the customer

Agree to a roll out schedule for the customer.

Although we have agreements with three potential customers, representing approximately 9,000 outlets, to develop flavors and test our products and have begun to develop flavor profiles for others, we have no assurance that we will supply any chain with our products.

In addition to the large retail fast food and fast casual chains, we will sell to food distributors that supply products to the food services market place.

There can be no assurance that we will not become dependent on one or a few major customers.

Critical Accounting Policies

The financial statements included in this have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"), which contemplates our continuation as a going concern. We are in the development stage and have generated limited operating revenues and have incurred losses to date of $2,446,709. In addition, our current liabilities exceed our current assets by $445,543. To date we have funded our operations through advances from a related party, issuance of convertible debt, and the sale of our Common Stock. We intend to raise additional funding through third party equity or debt financing. There is no certainty that funding will be available as needed. These factors raise substantial doubt about our ability to continue operating as a going concern. Our ability to continue our operations as a going concern, realize the carrying value of our assets, and discharge our liabilities in the normal course of business is dependent upon our ability to raise capital sufficient to fund our commitments and ongoing losses, and ultimately generate profitable operations.

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.

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

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

Furniture and fixtures: 5 years
Equipment: 7 years
Leasehold improvements: 2 years

Revenue Recognition
We recognize revenue when there is persuasive evidence of an arrangement, delivery has occurred or services have been rendered, the sales price is determinable, and collection is reasonably assured.

Research and Development
Expenditures for research activities relating to product development and improvement are charged to expense as incurred. We incurred $103,293 and $113,820, in research and development expenses for the year ended March 31, 2013 and 2012, respectively, and $220,266 for the period from inception, December 4, 2009, to March 31, 2013.

Rent Expense
We recognize rent expense on a straight-line basis over the reasonably assured lease term as defined in ASC Topic 840, Leases ("ASC 840"). In addition, our lease agreement provides for rental payments commencing at a date other than the date of initial occupancy. We include the rent holidays in determination of straight-line rent expense. Therefore, rent expense is charged to expense beginning with the occupancy date. Deferred rent was $5,066 at March 31, 2013 and will be charged to rent expense over the life of the lease. There was no deferred rent as of March 31, 2012.

Results of Operations

Results of Operation for the Year Ended March 31, 2013 as Compared to the Year Ended March 31, 2012
(References to 2013 and 2012 are to the years ended March 31, 2013 and 2012 respectively, unless otherwise specified.)

Revenue
We are in the development stage as defined under the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 915 Development Stage Entities ("ASC 915"). Through March 31, 2013, the Company has not generated any significant revenue and consequently its operations are subject to all risks inherent in the establishment of a new business enterprise. Our operations have been limited to acquiring the necessary technology to begin manufacturing, producing product samples and marketing our products. Subsequent to March 31, 2013 we began shipping product to a major QSR chain for them to begin conducting tests.

Our operations during 2013 and 2012 have not generated significant revenues. Our revenue for 2013 was $8,928. There was no revenue in 2012.

Cost of revenue for 2013 was $8,884. The cost of revenue was extremely high as a result of transportation costs for small shipments. Our products are delivered by freezer trucks. We anticipate that as the size of shipments increase our transportation costs will significantly decrease and cost of revenue will decrease.

Operating expenses
Our operations during 2013 and 2012 have been limited to developing flavor profiles of our product, setting up a manufacturing facility, producing products, setting up a sales force and negotiating agreements.

We had net losses of $2,035,988 and $345,880 for 2013 and 2012, respectively, and $2,446,709 for the period from inception, December 4, 2009 to March 31, 2013.

All of our general and administrative expenses increased significantly as we grew the business and is not necessarily indicative of the rate of future growth.

The following is a breakdown of our general and administrative expenses for 2013 and 2012:

| | For the years ended March 31, | | |
|---|---|---|---|
| | 2013 | 2012 | Difference |
| Consulting fees | $569,514 | $82,429 | $487,085 |

| | | | |
|---|---|---|---|
| Personnel costs | 434,747 | - | 434,747 |
| Legal and professional fees | 173,353 | 53,440 | 119,913 |
| Travel | 156,921 | 58,197 | 98,724 |
| Stock based compensation/options | 103,488 | - | 103,488 |
| Research and development | 103,293 | 113,820 | (10,527 ) |
| Marketing and selling | 82,817 | 16,012 | 66,805 |
| Investor and public relations | 70,202 | - | 70,202 |
| Rent | 38,119 | - | 38,119 |
| Other expenses | 71,713 | 19,477 | 52,236 |
| | $1,804,167 | $343,375 | $1,460,792 |

Consulting fees increased $487,085 (591%) from $82,429 in 2012 to $569,514 in 2013. During 2013 and 2012, we had from three to five consultants providing services to us. Included in the amount for consulting services is $235,833 and $16,666 which represents equity based expenses during 2013 and 2012, respectively, and not a cash outlay. During 2013, two of the consultants provided sales consulting services, one provided engineering services and two provided operational services.

We are in the process of hiring employees to fill future positions. We anticipate consulting expenses to remain consistent or increase slightly in the future.

Personnel cost represent the cost of employees. As of March 31, 2013 we had 5 employees, two of which were previously consultants. There were no employees during 2012.

Legal and professional fees increased $119,913 (224%) from $53,440 in 2012 to $173,353 in 2013. Legal and professional fees relate to Securities and Exchange Commission ("SEC") compliance, financing legal expenses, and contract negotiation regarding consultants and manufacturing.

Travel expenses increased $98,724 (170%) from $58,197 in 2012 to $156,921 in 2013. Travel expenses are being incurred primarily related to selling expenses and the business startup.

Stock based compensation represents the amortization of compensation paid in the form of stock options or stock grants. During 2013 we issued 250,000 shares of our common stock, the value of which $112,500 is being amortized over a one year period. In addition, the employee has option and future stock grants to receive or purchase 875,000 shares of our common stock. The estimated value of 237,500 is being amortized over a three year period

Research and development expenses decreased $10,527 (9.2%) from $113,820 in 2012 to $103,293 in 2013. Research and development represent the cost of developing flavor profiles of our products and the development of future equipment. We anticipated continuing cost in future periods the amounts of which cannot be estimated at this point in time.

Marketing and selling expenses primarily consist of cost of product branding.

Investor and public relations represent cost of informing the public of the developments of the Company and also developing public awareness of our products.

Rent expense is primarily for our location in Beverly Hills, California. Our rent expense is approximately $6,700 per month.

Other expenses consist of ordinary operating expenses such as office, telephone, insurance, and stock related costs, These costs have increased as our business has grown. We anticipate additional increases in these expenses.

Results of Operation for the Year Ended March 31, 2012 As Compared to the Year Ended March 31, 2011 (References to 2012 and 2011 are to the years ended March 31, 2013 and 2012 respectively, unless otherwise specified.)

Revenue

We are in the development stage as defined under the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 915 Development Stage Entities ("ASC 915"). The Company has not generated any revenue to date and consequently its operations are subject to all risks inherent in the establishment of a new business enterprise. Our operations have been limited to acquiring the necessary technology to begin manufacturing and to explore the market for our products in the United States.

Operating expenses

We have conducted minimal operations during the fiscal years ended March 31, 2012 and 2011, and for the period from inception, December 4, 2009, to March 31, 2012 and we have not generated any revenues during these periods. We had net losses of $345,880, $63,841 and $410,721, for years ended March 31, 2012 and 2011, and the period from inception, December 4, 2009, to March 31, 2012, respectively.

The following is a breakdown of our general and administrative expenses:

| Years Ended March 31, | |
|---|---|
| 2012 | 2011 |