

Edgar Filing: Fresh Healthy Vending International, Inc. - Form 10-Q

Fresh Healthy Vending International, Inc.  
Form 10-Q  
November 23, 2015  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549  
FORM 10-Q

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

For the quarterly period ended September 30, 2015

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 000-55164

FRESH HEALTHY VENDING INTERNATIONAL, INC.  
(Exact Name of Registrant as Specified in Its Charter)

Nevada 45-2511250  
(State or Other Jurisdiction of Incorporation) (IRS Employer Identification No.)

2620 Financial Court, Suite 100, San Diego, California 9211  
(Address of Principal Executive Offices)

858-210-4200  
(Registrant's Telephone Number, Including Area Code)

(Former Name or Former Address, if Changed Since Last Report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities and 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 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 ☐ No

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.

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Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer (Do not check if a smaller reporting company) ☐

Smaller reporting company ☒

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

**APPLICABLE ONLY TO CORPORATE ISSUERS:**

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. Shares of Common Stock, par value \$0.001, outstanding as of November 20, 2015: 26,949,115

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FRESH HEALTHY VENDING INTERNATIONAL, INC.  
Quarterly Report on Form 10-Q for the  
Three Months Ended September 30, 2015

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## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

## FRESH HEALTHY VENDING INTERNATIONAL, INC. AND SUBSIDIARIES

## Condensed Consolidated Balance Sheets

	September 30, 2015 (unaudited)	June 30, 2015
Assets		
Current assets:		
Cash	\$ 110,503	\$ 325,337
Cash in escrow	364,000	93,000
Accounts receivable, net	2,064,031	2,067,761
Deferred costs	701,695	884,885
Inventories, net	336,016	289,279
Prepaid expenses and other current assets	107,451	89,662
Total current assets	3,683,696	3,749,924
Property and equipment:		
Vending	356,837	312,058
Computer	145,060	145,060
Leasehold	18,834	63,500
Furniture	50,725	40,769
Vehicle	15,597	15,597
Less accumulated depreciation and amortization	(188,008 )	(223,455 )
	399,045	353,529
Deposits	37,827	41,793
Total assets	\$ 4,120,568	\$ 4,145,246
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,081,995	\$ 1,047,675
Customer advances and deferred revenues	6,489,405	6,428,156
Provision for franchisee rescissions and refunds	1,023,400	575,750
Accrued personnel expenses	161,798	221,194
Notes payable, net of discount of \$333,768 (\$453,793 at June 30, 2015)	923,898	653,873
Derivative liability	292,057	397,840
Notes payable to related party	245,000	95,000
Deferred rent	-	1,440

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Total current liabilities	10,217,553	9,420,928
Convertible notes payable - long term	100,000	250,000
Total liabilities	10,317,553	9,670,928
Commitments and contingencies (Notes 5 and 7)		
Stockholders' deficit:		
Preferred stock; \$0.001 par value; 25 million shares authorized; no shares issued and outstanding	-	-
Common stock; \$0.001 par value; 100 million shares authorized; 26,949,115 outstanding (26,784,767 at June 30, 2015)	26,947	26,783
Additional paid-in capital	2,270,473	2,072,422
Accumulated deficit	(8,494,405 )	(7,624,887)
Total stockholders' deficit	(6,196,985 )	(5,525,682)
Total liabilities and stockholders' deficit	\$4,120,568	\$4,145,246

See accompanying notes to the unaudited condensed consolidated financial statements.

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## FRESH HEALTHY VENDING INTERNATIONAL, INC. AND SUBSIDIARIES

## Condensed Consolidated Statements of Operations - Unaudited

	For the three months ended September 30,	
	2015	2014
Revenues:		
Vending machine sales, net	\$1,259,467	\$1,634,579
Franchise fees	108,677	139,760
Company owned machines	113,782	29,840
Agency sales (net)	23,512	17,604
Other	56,010	33,084
Total revenue, net	1,561,448	1,854,867
Cost of revenues	800,854	812,963
Gross margin	760,594	1,041,904
Operating expenses:		
Selling, general and administrative	1,468,264	1,246,166
Loss from operations	(707,670 )	(204,262 )
Other expense:		
Interest expense	(41,173 )	(15,255 )
Accretion of discount on notes payable	(120,025 )	(26,224 )
Derivative liability loss	(650 )	
Loss before provision for income taxes	(869,518 )	(245,741 )
Provision for income taxes	-	5,622
Net loss	\$(869,518 )	\$(251,363 )
Net loss per share - basic and diluted	\$(0.03 )	\$(0.01 )
Weighted average shares used in computing net loss per share - basic and diluted	26,862,513	26,591,735

See accompanying notes to the unaudited condensed consolidated financial statements.

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Condensed Consolidated Statements of Cash Flows - Unaudited

	For the three months ended September 30,	
	2015	2014
Cash flows from operating activities:		
Net loss	\$(869,518)	\$(251,363)
Adjustments to reconcile net loss to net cash flows used in operating activities:		
Depreciation and amortization	28,053	18,996
Interest accretion on notes payable	120,025	26,224
Loss on derivative liability	650	-
Issuance of common stock to employee	21,562	-
Stock-based compensation	70,220	42,222
Loss on sales of property and equipment	-	2,464
Deferred rent	(1,440 )	(4,496 )
Changes in operating assets and liabilities:		
Accounts receivable	3,730	(323,011)
Deferred costs	183,190	(77,930 )
Inventories	(46,737 )	34,069
Prepaid expenses and other assets	(17,789 )	3,477
Deposits	3,966	-
Accounts payable and accrued liabilities	34,320	68,959
Customer advances and deferred revenues	61,249	346,296
Provision for franchisee rescissions and refunds	447,650	(11,950 )
Accrued personnel expenses	(59,396 )	18,635
Cash flows used in operating activities	(20,265 )	(107,408)
Cash flows from investing activities:		
Purchases of property and equipment	(73,569 )	(75,000 )
Cash in escrow	(271,000)	-
Proceeds from sales of property and equipment	-	438
Cash flows used in investing activities	(344,569)	(74,562 )
Cash flows from financing activities:		
Proceeds from issuance of notes payable to related party	150,000	-
Proceeds from issuance of notes payable	-	150,000
Cash flows provided by financing activities	150,000	150,000
Change in cash	(214,834)	(31,970 )
Cash, beginning of period	325,337	607,288
Cash, end of period	\$110,503	\$575,318

Supplemental disclosure of cash flow information:

Cash paid for:

Interest expense	\$2,115	\$10,314
Income taxes	\$800	\$5,622

Supplemental disclosure of non-cash activities:

Exercise of cashless warrants	\$106,433	\$-
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See accompanying notes to the unaudited condensed consolidated financial statements.



Fresh Healthy Vending International, Inc.  
Notes to Unaudited Condensed Consolidated Financial Statements

1. Organization and description of business

Fresh Healthy Vending International, Inc. (referred to herein collectively with its subsidiaries as "we", the "Company", "our Company", or "FHV International") operates through its wholly-owned subsidiaries, Fresh Healthy Vending LLC ("FHV LLC"), The Fresh and Healthy Vending Corporation, and FHV Acquisition Corp. ("FHV Acquisition"), as a franchisor and owner and operator of healthy drink and snack vending machines and micro markets that feature cashless payment devices and remote monitoring software. The Company uses in-house location specialists that are responsible for securing locations for its franchisees; additionally, the Company has negotiated discounts with a national product distribution chain. The Company also operates its own machines and micro markets.

Basis of accounting

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and with the rules and regulations of the Securities and Exchange Commission ("SEC") for reporting on Form 10-Q. Accordingly, these unaudited condensed consolidated statements do not include all of the information and disclosures required by GAAP or SEC rules and regulations for complete financial statements. In the opinion of management, these unaudited condensed consolidated financial statements reflect all adjustments (consisting solely of normal recurring matters) considered necessary for a fair presentation of the results for the interim periods presented. The results of operations for any interim period are not necessarily indicative of results for the full year.

These unaudited condensed consolidated statements should be read in conjunction with the Company's filings with the SEC, including its most recent annual report on Form 10-K for the fiscal year ended June 30, 2015 filed on October 13, 2015.

Liquidity and capital resources

For the three months ended September 30, 2015 we had a net loss totaling \$869,518 and negative cash flows from operations totaling \$20,265. Our cash balance at September 30, 2015 was \$110,503. Since the date of the closing of the FHV Acquisition, our sales were less than anticipated and the resulting cash flows from franchise sales was not sufficient to cover expenditures associated with our daily operations resulting in a substantial decrease in our cash balances. Also, we used cash on hand to retire liabilities associated with the franchise rescissions. As of the filing date of the Form 10-Q, our Company has consumed the vast majority of its available cash, including the cash proceeds from the sale of our common stock received in July of 2013 and the issuance of several debt instruments. In order to ensure sufficient liquidity for our continuing operations, we will require additional capital financing in the form of either debt or equity (or a combination thereof) financing. Management believes that it will be able to obtain such financing on terms acceptable to the Company, although there can be no assurance that we will be successful.

Our current plans include capital expenditures for the purchase of corporate owned and operated vending machines and micro markets, including the repurchase of machines from franchisees opting to rescind their franchise agreements. Given our current cash position, we may be forced to curtail our plans by delaying or suspending the purchase of machines for our corporate operations.

Principles of consolidation

The consolidated financial statements include the accounts of the Company, and its wholly-owned subsidiaries, FHV LLC, The Fresh and Healthy Vending Corporation, and FHV Acquisition, Corp. All significant intercompany

accounts and transactions are eliminated.

#### Use of estimates

The preparation of our Company's financial statements requires our management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of our financial statements and the reported amounts of revenues, costs and expenses during the reporting period. Actual results could differ significantly from those estimates. Significant estimates include our provisions for bad debts, franchisee rescissions and refunds, legal estimates and the valuation allowance on deferred income tax assets. It is at least reasonably possible that a change in the estimates will occur in the near term.

#### Revenue recognition

Our primary revenue generating transactions come from the sale of franchises and vending machines to the franchisees. There are no franchise fees charged beyond the initial first year franchise fee. We receive ongoing fees and royalty payments in the form of annual advertising fees and a percentage of either franchisees' revenues or gross margins on vending machine sales.

We recognize revenues and associated costs in connection with franchises at the time that we have substantially performed or satisfied all material services or conditions relating to the franchise agreement. We consider substantial performance to have occurred when: 1) no remaining obligations are unfulfilled under the franchise agreement; 2) there is no intent to refund any cash received or to forgive any unpaid amounts due from franchisees; 3) all of the initial services spelled out in the franchise agreement have been performed; and 4) we have met all other material conditions or obligations. Revenues and expenses from product sales to franchisees are roughly equivalent and are accounted for on a net basis in the accompanying condensed consolidated statements of operations as agency sales, net. During fiscal 2015, the Company changed the process by which franchisees order products. Currently, all franchisees order directly from our national distributor and the Company receives a commission of 5% on those purchases. We recognize the commission when earned. The Company recognizes revenue on product sales of company-owned machines when products are purchased; we receive electronic sales records on our company-owned units. We recognize royalty fees as revenue when earned. Advertising fees are recorded as a liability until marketing expenditures are incurred.

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Fresh Healthy Vending International, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

The Company records the amount of a franchise sale, machines and franchise fees, as deferred revenue until the conditions above have been met. Once the machines are installed, the Company records the corresponding machine and franchise fee as revenue, on a pro rata basis based on the number of machines installed relative to the total machines purchased.

The Company records the value of company-owned machines as inventory when purchased. Once the machines are installed, the machine value is transferred to fixed assets and depreciated over its useful life.

It is not our policy to allow for returns, discounts or warranties to our franchisees. Under certain circumstances, including as the result of regulatory actions, our Company may become obligated to offer our franchisees amounts in rescission to reacquire their existing franchises, including machines. Additionally, if our Company is unable to fulfill its obligations under a franchise agreement we may, at our sole discretion, agree to refund or reduce part or all of a franchisee's payments or commitments to pay. As of September 30, 2015 and June 30, 2015, the Company's provision for franchisee rescissions and refunds totaled \$1,023,400 and \$575,750, respectively. There are warranties extended by the machine manufacturer and franchisees are responsible for making any required machine repairs. To the extent the machines remain under warranty, our franchisees transact directly with the manufacturer or its distributor.

### Franchise contracts

We invoice franchisees in full at the time that we enter into contractual arrangements with them. Payment terms vary but usually a significant portion of the contract's cash consideration (typically 40% of amounts due for vending machines plus 100% of the initial franchise fees) is due at the time of signing, while remaining amounts outlined under the contract are generally due upon our locating 50% of the sites for the vending machines and micro markets. A typical ten unit franchise contract would include the following:

Franchise fee per machine: \$1,000

Cost per machine: \$10,000

Total franchise cost: \$110,000 ( $\$1,000 \times 10 + \$10,000 \times 10$ )

Initial payment upon signing contract: \$50,000 (100% of franchise fees of \$10,000 + 40% of machine cost of \$100,000)

Upon the signing of the contract, the Company records the initial payment of \$50,000 to cash, with the remaining contract value of \$60,000 to accounts receivable and records the total contract value of \$110,000 to deferred revenue.

Amounts invoiced to franchisees for which we have not met the criteria for revenue recognition as discussed above, are deferred until such conditions are met. Therefore, these amounts are accounted for as accounts receivable, deferred costs, and customer advances and deferred revenues, respectively in the accompanying condensed consolidated financial statements. As of September 30, 2015, the Company had accounts receivable, deferred costs and customer advances and deferred revenues of \$2,064,031, \$701,695 and \$6,489,405, respectively. As of June 30, 2015, the Company had accounts receivable, deferred costs and customer advances, and deferred revenues totaling \$2,067,761, \$884,885 and \$6,428,156, respectively.

Furthermore, the Company has deferred revenue of \$1,002,062 in excess of one year as of September 30, 2015 which consisted of the following: amounts related to ongoing franchisees - \$800,662; and amounts related to a franchisee requesting a hold on location procurement - \$201,400. As of June 30, 2015, deferred revenue in excess of one year aggregated \$874,909.

Deferred revenue consisted of the following as of September 30, 2015 and June 30, 2015:

September	June 30,
30, 2015	2015

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Vending machines - new	\$5,123,813	\$3,856,387
Vending machines - used	53,167	1,244,770
Micro markets - new	787,415	800,000
Franchise fees	520,530	522,517
Other	4,480	4,482
	\$6,489,405	\$6,428,156

#### Cash and cash equivalents

We consider all investments with an original maturity of three months or less to be cash equivalents. When present, cash equivalents primarily represent funds invested in money market funds, bank certificates of deposit and U.S. government debt securities whose cost equals fair market value. We had no cash equivalents at September 30, 2015 and June 30, 2015. We may maintain our cash and cash equivalents in amounts that may, at times, exceed federally insured limits. At September 30, 2015, no bank balances exceeded federally insured limits. We have not experienced any losses with respect to cash, and we believe our Company is not exposed to any significant credit risk with respect to our cash.

Certain states require the Company to maintain customer deposits in escrow accounts until the Company has substantially performed its obligations. At September 30, 2015 and June 30, 2015, the Company had \$364,000 and \$93,000, respectively, maintained in escrow accounts for this purpose.

#### Accounts receivable, net

Accounts receivable arise primarily from invoices for customer deposits, and product orders and are carried at their estimated collectible amounts, net of any estimated allowances for doubtful accounts. We grant unsecured credit to our customers (located throughout North America, the Bahamas and Puerto Rico) deemed credit worthy. Ongoing credit evaluations are performed and potential credit losses estimated by management are charged to operations on a regular basis. At the time any particular account receivable is deemed uncollectible, the balance is charged to the allowance for doubtful accounts. Our allowance for doubtful accounts aggregated \$100,692 at both September 30, 2015 and June 30, 2015, respectively.

Fresh Healthy Vending International, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

Inventories

Inventories consist of vending machines and micro markets held for sale, purchased food and beverages in Company-owned vending machines and micro markets and vending machine parts held for resale, and is valued at the lower of cost or market, with cost determined using the average cost method.

Property and equipment

Property and equipment consists primarily of Company-owned vending machines and micro markets, computer and office equipment and software used in our operations. Property and equipment is carried at cost and depreciated using the straight-line method over the estimated useful lives of the individual assets (generally five to seven years).

Leasehold improvements are amortized over the lesser of the term of the related lease or the estimated useful life of the asset (84 months). During the quarter ended September 30, 2015, the Company offset the fully depreciated value of leasehold improvements associated with the prior lease aggregating \$63,500 to leasehold improvements and accumulated amortization. Costs incurred for maintenance and repairs are expensed as incurred and expenditures for major replacements and improvements are capitalized and depreciated over their estimated remaining useful lives. Depreciation and amortization expense for the three months ended September 30, 2015 and 2014 totaled \$28,053 and \$18,996, respectively.

Impairment of long-lived assets

We record impairment losses on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amounts of the assets exceed the estimated fair value of the assets. There were no impairments of long-lived assets for the three months ended September 30, 2015 and 2014, respectively.

Reclassifications

Certain prior period amounts have been reclassified to conform with current year presentation.

Deferred rent

The operating lease for our corporate office in San Diego, California contains provisions for future rent increases, leasehold improvement allowances and rent abatements. We record monthly rent expense equal to the total of the payments due over the lease term, divided by the number of months of the lease term. The difference between the rent expense recorded and the amount paid is credited or charged to deferred rent, which is reflected as a separate line item in the accompanying condensed consolidated balance sheets. Effective August 1, 2015, the Company entered into a new seven year lease agreement for its corporate operations and warehouse facilities. Please see Note 7. Leases.

Marketing and advertising

We expense marketing and advertising costs as incurred. We have no existing arrangements under which we provide or receive marketing and advertising services from others for any consideration other than cash. Marketing and advertising expense totaled \$205,954 and \$180,598 for the three months ended September 30, 2015 and 2014, respectively.

Freight costs and fees

Outbound freight charged to customers is recorded as revenue. The related outbound freight costs are considered period costs and charged to cost of revenues.

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Fresh Healthy Vending International, Inc.  
Notes to Unaudited Condensed Consolidated Financial Statements

Valuation of options and warrants to purchase common stock

We separately value warrants to purchase common stock when issued in connection with notes payable using the Black Scholes quantitative valuation method. The value of such warrants is recorded as a discount from the related notes payable and credited to additional paid-in capital at the time of the issuance of the related notes payable. The value of the discount is applied to the note payable and amortized over the expected term of the note payable using the interest method with the related accretion charged to operations.

We account for our share-based compensation as required by the Financial Accounting Standards Board ("FASB"), under authoritative guidance ASC 718 on stock compensation, using the Black Scholes quantitative valuation method. The resulting compensation expense is recognized in the financial statements on a straight-line basis over the vesting period from the date of grant.

Share grants are measured using a fair value method with the resulting compensation cost recognized in the financial statements. Compensation expense is recognized on a straight-line basis over the service period for the stock awards.

Fair value of financial instruments

The Company follows guidance for accounting for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. Additionally, the Company adopted guidance for fair value measurement related to nonfinancial items that are recognized and disclosed at fair value in the financial statements on a nonrecurring basis. The guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for the asset or liability.

The Company monitors the market conditions and evaluates the fair value hierarchy levels at least quarterly. For any transfers in and out of the levels of the fair value hierarchy, the Company elects to disclose the fair value measurement at the beginning of the reporting period during which the transfer occurred.

The Company's financial instruments consisted of cash, cash in escrow, accounts receivable, accounts payable and accrued liabilities, provision for franchisee rescissions and refunds, accrued personnel expenses, due to related party and notes payable. The estimated fair value of these financial instruments approximate the carrying amount due to the short maturity of these instruments. The recognition of the derivative values of convertible debt are based on the weighted-average Black-Scholes option pricing model.

Derivatives and Hedging

In April 2008, the FASB issued a pronouncement that provides guidance on determining what types of instruments or embedded features in an instrument held by a reporting entity can be considered indexed to its own stock for the purpose of evaluating the first criteria of the scope exception in the pronouncement on accounting for derivatives. This pronouncement was effective for financial statements issued for fiscal years beginning after December 15, 2008. The adoption of these requirements can affect the accounting for many convertible instruments with provisions that protect holders from a decline in the stock price. Each reporting period, the Company evaluates whether convertible debt to acquire stock of the Company contains provisions that protect holders from declines in the stock price or otherwise could result in modification of the conversion price under the respective convertible debt agreements. The Company determined that the conversion feature in the convertible notes issued contained such provisions and recorded such instruments as derivative liabilities. See Note 2, Notes Payable.

#### Net loss per share

Our Company calculates basic earnings per share ("EPS") by dividing our net loss by the weighted average number of common shares outstanding for the period, without considering common stock equivalents. Diluted EPS is computed by dividing net income or net loss and comprehensive net loss applicable to common shareholders by the weighted average number of common shares outstanding for the period and the weighted average number of dilutive common stock equivalents, such as options and warrants. Options and warrants are only included in the calculation of diluted EPS when their effect is dilutive. Total anti-dilutive stock options, warrants, and shares issuable upon conversion of debt excluded from earnings per share totaled 3,504,761 and 549,343 at September 30, 2015 and 2014, respectively.

#### Litigation and franchise agreements

From time to time, we may become involved in litigation and other legal actions, including disagreements with franchisees that may result in the termination or rescission of a franchise agreement and refund of all or a portion of amounts previously paid to us. We estimate the range of liability related to any pending litigation or franchise agreement terminations or rescissions where the amount and range of loss can be estimated. We record our best estimate of a loss when the loss is considered probable. If a liability is probable and there is a range of estimated loss with no best estimate in the range, we record a charge equal to at least the minimum estimated liability for a loss contingency when both of the following conditions are met: (i) information available prior to issuance of the financial statements indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements and (ii) the range of loss can be reasonably estimated. Estimated legal costs expected to be incurred to resolve legal matters are recorded to the condensed consolidated balance sheets and statements of operations.

Our Company is subject to state franchise registration and relationship laws, rules and regulations. Any violation of these laws, rules or regulations could result in our Company being fined or prohibited from offering and selling franchises in the state. See Note 5 ("Contingencies") of Notes to Condensed Consolidated Financial Statements and Part II, Item 1 ("Legal Proceedings") of the Company's Form 10-Q for the quarterly period ended September 30, 2015 of which these Financial Statements form a part.



Fresh Healthy Vending International, Inc.  
Notes to Unaudited Condensed Consolidated Financial Statements

New accounting standards

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"), which supersedes nearly all existing revenue recognition guidance under GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP. The standard is effective for annual periods beginning after December 15, 2017, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). We are currently evaluating the impact of our pending adoption of ASU 2014-09 on our consolidated financial statements and have not yet determined the method by which we will adopt the standard in fiscal 2019.

In August 2014, the FASB issued Accounting Standards Update No. 2014-15, Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties About an Entity's Ability to Continue as a Going Concern ("ASU 2014-15"), which provides principles and definitions for management that are intended to reduce diversity in the timing and content of disclosures provided in footnotes. Under the standard, management is required to evaluate for each annual and interim reporting period whether it is probable that the entity will not be able to meet its obligations as they become due within one year after the date that financial statements are issued (or are available to be issued, where applicable). We are currently evaluating the impact of our pending adoption of ASU 2014-15 on our consolidated financial statements and have not yet determined the method by which we will adopt the standard in fiscal 2017.

Management does not believe that any recently issued, but not effective, accounting standards, if currently adopted, would have a material effect on the accompanying financial statements.

## 2. Notes payable

Beginning April 2013 through June 19, 2013, we issued convertible notes payable to three entities or individuals in exchange for cash proceeds totaling \$249,999. The notes were unsecured and bore interest at 12% per annum. The notes bore maturity dates ranging from June 30, 2013 to August 31, 2013, the earlier of their being outstanding for 60 days, or upon the transfer of 25% or more of our Company's share ownership or upon our merger with a public company (all as defined in the note agreements). Repayment of the notes was personally guaranteed by the beneficial shareholder of FHV Holdings Corp, a California corporation ("FHV CAL"), a director of our Company. On July 19, 2013, \$210,000 of the outstanding balance of the notes was tendered in exchange for 552,418 shares of FHV International's common stock, \$33,333 was repaid and \$9,666 principal remained outstanding. As of September 30, 2015 and June 30, 2015, \$6,666 of principal remained outstanding under the above notes.

On February 25, 2014, we issued Senior Secured Promissory Notes (the "Initial Notes") to three investors in exchange for cash totaling \$501,000. The Initial Notes were set to mature on February 24, 2015 and bear simple interest at a rate of 12% paid monthly over the term of the loan. The Initial Notes also provide that our Company can raise up to \$1.5 million in proceeds from the issuance of additional notes (the "Additional Notes") which would have the same seniority and security rights. The Initial Notes are secured by substantially all assets of the Company. On September 23, 2014, the holders of the Company's Initial Notes extended the maturity date from February 24, 2015 to March 15, 2016.



Fresh Healthy Vending International, Inc.  
Notes to Unaudited Condensed Consolidated Financial Statements

On September 23, 2014, the Company entered into a Financing and Security Agreement (the "Financing Agreement") whereby the Company may be able to borrow up to \$1.5 million through the issuance of convertible secured debt. The principal terms of the Financing Agreement are as follows:

The Company may borrow up to \$1.5 million in tranches of up to \$150,000 each.

The first tranche of \$150,000 was issued at the closing of the transaction and was used to acquire and put into service Company-owned micro markets. An additional amount of \$100,000 was issued during the quarter ended December 31, 2014. The balance at September 30, 2015 was \$250,000.

All subsequent tranches shall be in the amount of up to \$150,000, shall be due and funded by the lender within seven days of notice, and shall be contingent upon the Company placing an additional 20 micro markets into service.

The notes payable issued under the terms of the Financing Agreement are due in full 24 months from the funding of each tranche. The Company may, at its discretion, extend the due date for each tranche for an additional 12 months. Interest on the borrowings accrues at a rate of 10% per annum, and is payable quarterly. In the event the Company elects to extend the maturity date of a tranche, the interest rate will increase to 12% per annum on that tranche.

The lender may at its discretion convert any outstanding principal under any of the tranches into shares of the Company's common stock. The conversion price is 85% of the average closing prices for the 15 trading days prior to the notice of conversion, but in no event at a conversion price lower than \$1.28 per share.

On the due date, or the extended due date, the Company may at its discretion convert up to one-half of the outstanding principal into shares of common stock. The conversion price is 85% of the average closing prices for the 15 trading days prior to the due date or extended due date, whichever may be applicable.

Borrowings are secured by the Company-owned micro markets.

There was no beneficial conversion associated with the above Financing Agreement as the stock price was lower than the conversion price.

The lender of the Financing Agreement has informed the Company that he does not intend to lend additional amounts under the Financing Agreement.

On January 13, 2015, the Company's Chairman, Nicholas Yates, agreed to loan the Company up to \$200,000 (the "Loan"), each incremental borrowing under the Loan to be evidenced by a promissory note, the first of which was issued on the same date (the "January 2015 Note") in the amount of \$100,000. The January 2015 Note bears interest at the rate of 7% per annum, and was set to mature on April 30, 2015. On April 30, 2015, Mr. Yates extended the maturity date on the Loan from April 30, 2015 to July 31, 2015; on July 31, 2015, Mr. Yates further extended the maturity date on the Loan to December 31, 2015. As of September 30, 2015 and June 30, 2015, \$95,000 was outstanding under the Loan. On September 18, 2015, Mr. Yates agreed to increase the loan amount. Concurrent with the Loan increase, the Company borrowed \$150,000 under the Loan on September 18, 2015.

On March 13, 2015, the Company entered into a Securities Purchase Agreement (the "Purchase Agreement") with Gemini Master Fund, Ltd. (the "Purchaser"), under which the Company issued a Note (the "Note") aggregating \$375,000, for a purchase price of \$346,500. The Note bears interest at the rate of 12% per annum. The Note matured 90 days from the closing date payable in cash. Under the terms of Purchase Agreement, the Company also issued a warrant (the "Warrant") granting the Purchaser the right to purchase up to 150,000 shares of the Company's common stock at an exercise price of \$0.60 per share, subject to adjustments and anti-dilution provisions. The Warrant expires on the seventh anniversary from the issuance date.

If the Company, at any time while this Warrant is outstanding, shall issue shares of Common Stock or securities or rights convertible or exchangeable into shares of common stock at a price per share less than the then current exercise price, then the Warrant exercise price shall be reduced to such lower price per share and the number of Warrant shares

issuable hereunder shall be increased such that the aggregate exercise price payable hereunder, after taking into account the decrease in the exercise price, shall be equal to the aggregate exercise price prior to such adjustment.

Subject to an anti-dilution adjustment, the Company issued the Purchaser the right to purchase up to an additional 150,000 shares of the Company's common stock. Concurrent with the Purchaser's right to purchase additional shares of the Company's common stock (up to 300,000 shares), the exercise price of the Warrant was reduced to \$.30 per share.

In connection with the issuance of the Note and Warrant, the Company has recorded \$95,625 as a discount on the Note and derivative liability; additionally, \$28,500 representing the discount on the proceeds of the Note has been recorded as a discount on the Note payable. We calculated the value of the discount using the Black-Scholes option pricing model employing the following assumptions: volatility of common stock – 88%; risk-free interest rate – 0.77%; forfeiture rate – 0%; value per share of common stock - \$0.52; strike price - \$0.30; term – 7 years.

The Note was repaid on June 10, 2015. On August 19, 2015, the Purchaser converted 300,000 warrants into 101,849 share of common stock utilizing the cashless exercise feature. In connection with the warrant exercise, the Company recorded a derivative loss of \$10,808 during the quarter and charged \$106,433 to additional paid-in capital.

Fresh Healthy Vending International, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

On June 10, 2015, the Company issued a \$600,000 convertible promissory note (the "Promissory Note") with interest payable at 10% per annum. In connection with the issuance of the Promissory Note, the Company also issued 2,000,000 common stock purchase warrants, with a term of four years, at an exercise price of \$.75 per share.

The Promissory Note matures twelve months from issuance, may be extended for an additional three months, and may be converted at any time in whole or in part, at the lesser of:

- (i) 25% discount to the next round of financing prior to conversion in excess of \$1 million; or
- (ii) \$.30 per share; or,
- (iii) Commencing six months after issuance date, at the investor's sole discretion, at a 20% discount to the lowest trading price ten business days prior to conversion.

In connection with the issuance of the Promissory Note and warrant, the Company has recorded the fair value of the warrant of \$78,707 as additional paid-in capital. Furthermore, the Company has recorded a discount on the Promissory Note of \$480,100 and a derivative liability of \$401,393 due to the lack of explicit limit on the number of shares that may be required to be issued upon future conversion. The discount is amortized as interest expense over the term of the loan using the effective interest rate method. During the quarter ended September 30, 2015, the Company charged \$120,025 to interest expense relating to the discount on the Promissory Note. The derivative liability is revalued each period. During the quarter ended September 30, 2015, the Company has recorded a derivative gain of \$10,158. At September 30, 2015 the Company had a derivative liability related to the Promissory Note of \$292,057.

We calculated the value of the discount using the Black-Scholes option pricing model employing the following assumptions: volatility of common stock – 76%; risk-free interest rate – 0.28%; forfeiture rate – 0%; value per share of common stock - \$.45; strike price - \$.75; term – 4 years.

The Promissory Note maturity may also be extended for an additional three months. Furthermore, there will be a full ratchet, anti-dilution with respect to the shares of common stock only (no adjustments will be made to the warrants), for any equity or Convertible Debt financing completed or a definitive Term Sheet exercised within twelve months of closing or fifteen months if the Company exercises its one-time extension. The ratchet does not come into effect for any non-convertible debt offering arranged by the Company, its advisors or bankers.

The conversion terms of the Promissory Note were amended pursuant to a first amendment to Promissory Note, dated October 14, 2015. The adjustable pricing mechanism commencing 6 months after the Promissory Note issuance date at a 20% discount to the lowest trading price 10 business days prior to conversion was removed. The negative covenants set forth in the subscription agreement were also amended pursuant to a first amendment to subscription agreement, dated October 14, 2015. Please see Note 8. Subsequent Events.

As of September 30, 2015 and June 30, 2015, notes payable consisted of the following:

	September 30, 2015	June 30, 2015
Senior Secured Promissory Notes, bearing interest at 12% per annum, payable monthly. The Senior Secured Notes mature on March 15, 2016	\$501,000	\$501,000
\$600,000 convertible promissory note, bearing interest at 10% per annum. All principal and interest is due on June 10, 2016, net of discount on note of \$333,768.	266,232	146,207
Convertible secured debt, bearing interest at 10% per annum, payable quarterly. The convertible secured debt matures two years from each funding.	250,000	250,000

Other	6,666	6,666
	1,023,898	903,873
Less current maturities	(923,898 )	(653,873 )
	\$100,000	\$250,000
Maturities of notes payable, net of discounts, are as follows:		
June 30, 2016	\$923,898	\$653,873
June 30, 2017	100,000	250,000
	\$1,023,898	\$903,873

### 3. Concentrations

Our vending machines are supplied by a single manufacturer who sells through a limited number of suppliers. Our micro markets are also supplied by a single manufacturer. Although there are a limited number of manufacturers of vending machines and micro markets, we believe that other suppliers could provide similar machines on comparable terms. A change in suppliers, however, could cause a delay in deliveries and a possible loss of sales, which could adversely affect our operating results.

Our food products are primarily supplied by one distributor. Although there are a limited number of product suppliers with the product selection and distribution capabilities required by our franchise network, we believe that other distributors could provide similar products on comparable terms. A change in suppliers, however, could cause a delay in deliveries and a possible loss of revenue from both current and prospective franchisees, which could adversely affect our operating results.

Fresh Healthy Vending International, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

#### 4. Stock-based compensation

On August 14, 2013, our Board of Directors approved the adoption of the 2013 Equity Incentive Plan (the "2013 Plan"). The 2013 Plan was approved by a majority of our shareholders (as determined by shareholdings) on September 4, 2013. The 2013 Plan provides for granting of stock-based awards including: incentive stock options, non-statutory stock options, stock bonuses and rights to acquire restricted stock. The total number of shares of common stock that may be issued pursuant to stock awards under the 2013 Plan were initially not exceed in the aggregate 2,600,000 shares of the common stock of our Company. On July 13, 2015, the Company increased the total number of shares that may be issued under the 2013 Plan to 4,000,000.

During the three months ended September 30, 2015, the Company granted stock options under its 2013 Equity Incentive Plan. Stock-based compensation related to these awards is recognized on a straight-line basis over the applicable vesting period and is included in selling, general and administrative expenses in the accompanying condensed consolidated statements of operations for the three months ended September 30, 2015 and 2014. During the three months ended September 30, 2015 and 2014, options issued were valued using the Black Scholes method assuming the following:

Expected volatility	88%
Dividend yield	0%
Risk-free interest rate	0.77%
Expected life in years	3.5

The expected volatility was estimated based on the volatility of a set of companies that management believes are comparable to the Company. The risk-free rate was based on the U.S. Treasury note rate over the expected life of the options. The expected life was determined using the simplified method as we have no historical experience. We recorded stock-based compensation expense of \$70,220 and \$42,222 during the three months ended September 30, 2015 and 2014, respectively.

The following table summarizes the stock option activity for the three months ended September 30, 2015:

	Options	Weighted Average Exercise Price
Outstanding at June 30, 2015	1,134,448	\$ 0.372
Granted	175,000	\$ 0.404
Exercised	-	-
Forfeited	-	-
Outstanding at September 30, 2015	1,309,448	\$ 0.376

#### 5. Contingencies

In June 2014, we received an inquiry from the California Department of Business Oversight ("DBO" related to the sale of 15 franchises that occurred between March 2014 and May 2014. On November 7, 2014, the DBO issued a Stop Order and Citation ("Stop Order"), which prohibits us from selling franchises in the state of California until November 7, 2016. The DBO found that we engaged in offers and sales of franchises in California without registration with respect to the three franchise sales we made in August and September 2012, that the sale of 15 franchises that occurred outside the state of California between March 2014 and May 2014 were made pursuant to a franchise disclosure document that contained omissions of material facts by failing to disclose the DBO's prior stop order and

the statement of charges and notice of intent to enter an order to cease and desist issued by the state of Washington, and that our prior management failed to exercise due diligence with regard to our registration and disclosure obligations and exposed prospective franchisees to unreasonable risk. The DBO also denied our registration application filed in California on October 3, 2013, imposed administrative penalties against us of \$37,500, required us to pay attorneys' fees of \$18,200 and required us to again offer rescission and restitution to the 15 franchisees who purchased franchises between March 2014 and May 2014. Nine of the 15 franchisees accepted our offer of rescission and six either denied rescission or failed to respond, and therefore lost their right of rescission due to the elapsed time as stipulated by the DBO. The total rescission payments, aggregating \$934,500, were completed by July 2015. As required by the Stop Order, we developed and implemented a compliance program and engaged an independent monitor for the duration of the Stop Order to review and report to the DBO our compliance activities, including compliance with the Stop Order.

Periodically, we are contacted by other state franchise regulatory authorities and in some cases have been required to respond to inquiries, or make changes to our franchise disclosure documents or franchise offer and sale practices. Management believes these communications from state regulators and corresponding changes in our franchise disclosure documents and practices are administrative in nature and do not indicate the presence of a loss or probable potential loss.



Fresh Healthy Vending International, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

On June 11, 2014, Seaga Manufacturing, the Company's supplier of automatic merchandising equipment, filed a lawsuit in Illinois state court alleging one count of breach of contract claiming that the Company failed to make payments and to meet the yearly minimum volume of purchases. On August 14, 2014, the Company filed its answer, affirmative defenses, and counterclaims against Seaga. The counterclaims included claims for breach of contract, breach of express warranty, breach of implied warranties of merchantability and fitness for particular purpose, and indemnification. On May 1, 2015, the court granted Seaga's motion to dismiss the Company's implied warranty claims. On January 9, 2015, Seaga filed a third-party complaint against the manufacturer of the automatic merchandising equipment, Saeco Vending S.P.A., and on August 26, 2015, the court dismissed the third-party complaint. The Company intends to vigorously contest these allegations in court.

On May 28, 2014 a franchisee filed a complaint against the Company and certain current and former employees (collectively "Defendants"). The initial Complaint included employment law claims for unpaid wages, which were dismissed on demurrer. Plaintiffs' operative First Amended Complaint alleges the following six causes of action: (1) Restitution following Rescission; (2) Fraud; (3) Breach of Contract – Franchise Agreement; (4) Breach of Contract – Franchisee Development Team Agreement; (5) Unfair Competition under California Business and Professions Code section 17200; and (6) False Advertising. Each of these causes of action are alleged against the Company. In addition, Plaintiffs named certain individual defendants in their causes of action for Fraud, Unfair Competition, and False Advertising.

Defendants filed an Answer to Plaintiffs' First Amended Complaint in April of 2015. Written discovery has commenced and trial of the matter is currently scheduled to begin in January of 2016. No depositions have taken place and the parties have submitted a joint stipulation to continue the trial until April of 2016. The Company intends to vigorously contest these allegations in Court.

The Company is also subject to normal and routine litigation and other legal actions by current or former franchisees, employees, and vendors. We assess contingencies to determine the degree of probability and range of possible loss for potential accrual in its financial statements. An estimated loss contingency is accrued in the financial statements if it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Because litigation is inherently unpredictable and unfavorable resolutions could occur, assessing contingencies is highly subjective and requires judgments about future events. The Company regularly reviews contingencies to determine the adequacy of the accruals and related disclosures. The amount of ultimate loss may differ from these estimates. Although we currently believe that the ultimate outcome of these matters will not have a material adverse effect on the results of operations, liquidity or financial position of the Company, it is possible they could be materially affected in any particular future reporting period by the unfavorable resolution of one or more of these matters or contingencies.

#### 6. Stockholders' deficit

On October 1, 2014, Arthur S. Budman was appointed our Chief Executive Officer and Chief Financial Officer. In connection with Mr. Budman's appointment, he was granted 250,000 shares of common stock which vest ratably over a period of one year. Stock-based compensation related to this award is recognized on a straight-line basis over the applicable vesting period and is included in selling, general and administrative expenses in the accompanying condensed consolidated statements of operations for the three months ended September 30, 2015. We recorded stock-based compensation expense totaling \$21,562 for the three months ended September 30, 2015 related to this stock grant.

On August 19, 2015, the Purchaser (Note 2) converted 300,000 warrants into 101,849 share of common stock utilizing the cashless exercise feature. In connection with the warrant exercise, the Company recorded a derivative loss of \$10,808 during the quarter and charged \$106,433 to additional paid-in capital.

#### 7. Leases

The Company leases corporate and warehouse facilities (the "Facility Leases") in San Diego aggregating 7,083, square feet. Our corporate offices are located at 9605 Scranton Road, Suite 801, San Diego, California 92121. This Facility Lease commenced in May 2010. The current monthly rental payment, including utilities and operating expenses for the Facility Leases, is approximately \$15,922. On August 1, 2015, the Company moved its corporate and warehouse facilities to a single location aggregating 8,654 feet at 2620 Financial Court, Suite 100, San Diego California 92117. The new lease is for a term of 84 months. The current monthly rental payment, net of utilities for the facility, is \$14,625. Future minimum lease payments under the Company's Facility Lease is as follows:

2016: \$176,800; 2017: \$180,168; 2018: \$185,419; 2019: \$190,855; 2020: \$196,481; Thereafter: \$428,037 Rent expense totaled \$45,279 and \$31,520 for the three months ended September 30 2015 and 2014, respectively.

#### 8. Subsequent events

On October 27, 2015, the Company obtained secured loans in the aggregate amount of \$500,000 from Socially Responsible Brands, Inc. The Company's Chairman, Nicholas Yates, is a 20% owner of Socially Responsible Brands, Inc.

The Company issued two Secured Promissory Notes and a related Security Agreement, each dated October 27, 2015 (the "Notes" and "Security Agreement"). Certain current lien holders of the Company also executed and delivered a Subordination Agreement in connection with the issuance of the Notes and Security Agreement (the "Subordination Agreement", and together with the Notes and Security Agreement, the "Transaction Documents").

The Notes are each in the principal amount of \$250,000, and have terms of eighteen months and one year, respectively. The first Note is secured by the Company's fifty (50) corporate-owned micro-markets and the Note principal and interest is repaid according to a schedule based on sale of such micro-markets. The second Note is secured by the Company's franchise royalties and principal and interest is repaid on a schedule based on receipt of combo machine sales, with guaranteed payments of at least \$75,000 per quarter of the term of the Note. The Notes are not convertible.

On October 14, 2015, the conversion terms of the Promissory Note were amended pursuant to a first amendment to Promissory Note. The adjustable pricing mechanism commencing 6 months after the Promissory Note issuance date at a 20% discount to the lowest trading price 10 business days prior to conversion was removed. The negative covenants set forth in the subscription agreement were also amended pursuant to a first amendment to subscription agreement, dated October 14, 2015.

On October 26, 2015, the Company terminated its contract with an investor relations firm. In connection with the termination, the Company will issue 22,500 shares of common stock to the investor relations firm.

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### ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

#### Special Note Regarding Forward Looking Statements

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. In addition, we may make other written and oral communications from time to time that contain such statements. Forward-looking statements include statements as to industry trends, our future expectations and other matters that do not relate strictly to historical facts and are based on certain assumptions of our management (such assumptions may be identified by "we," "our" or "us"). These statements are often identified by the use of words such as "may," "strive," "will," "expect," "believe," "anticipate," "intend," "could," "estimate," or "continue," and similar expressions or variations. Further, these statements are based on the beliefs and assumptions of our management based on information currently available. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from future results expressed or implied by such forward-looking statements. Important factors that could cause actual results to differ materially from the forward-looking statements include, without limitation, the risks described in the section entitled "Risk Factors" under Item 1A in our Annual Report on Form 10-K for the year ended June 30, 2015.

We caution the reader to carefully consider such factors. Moreover, such forward-looking statements speak only as of the date of this report. We undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

#### Overview and Description of Business

Discussions with respect to our Company's operations included herein refer to our operating subsidiaries, Fresh Healthy Vending LLC ("FHV LLC") and The Fresh and Healthy Vending Corporation ("FHV Corp"). Effective as of July 19, 2013 our Company acquired all assets of FHV Holdings Corp ("FHV Cal") which included FHV LLC in a transaction (the "Acquisition") accounted for as an asset acquisition. With the sale of the Green 4 Media, Inc. business under the Indemnity Agreement effective July 22, 2013, our continuing operations are exclusively those of FHV LLC and FHV Corp. Information with respect to our Company's operations prior to the Acquisition is not included herein but may be obtained from viewing our Annual Report for the year ended June 30, 2014 filed on Form 10-K on September 29, 2014.

We are a public company listed under the symbol "GEEM" until September 19, 2013, at which time we began to trade under our current stock symbol "VEND". On August 8, 2013, we changed our name to Fresh Healthy Vending International, Inc.

#### Business

We are a Franchise Development Company and operator of Company-owned vending machines and micro markets that makes healthy eating more convenient through access to high quality healthy foods at high foot traffic destinations. We and our franchisees have over 3,000 vending machines and micro markets primarily offering natural, organic and healthy food and beverage products throughout North America, the Bahamas and Puerto Rico. Our obligations to each franchisee include securing locations for the healthy vending machines they purchase. We offer thousands of healthy food and beverage products through a national distributor and we train each franchisee at our San Diego headquarters. We provide dedicated account management and ongoing customer service to our franchisees.

#### The Industry and the Overall Market

We are both a franchisor and operator of vending machine and micro market operations. In the franchise market, 2012 saw the first positive growth in the number of franchise establishments since 2008 according to the IFA's annual Franchise Business Economic Outlook report (compiled by HIS Global Insight). Upscale vending is taking over as consumers' palates become more refined and they gravitate toward a health-conscious lifestyle, according to Food Business News. Additionally the vending machine market is expected to expand 1.5 percent by 2015 according to Food Business New. The National Automated Merchandising Association ("NAMA") estimates the vending market is a \$30 billion-a-year industry. NAMA also estimates that 100 million Americans will use one of seven million vending machines each day.

According to the report "A Roadmap for Simultaneously Developing the Supply and Demand for Energy Efficient Beverage Vending Machines," there are approximately 2.5 million food and beverage vending machines in the United States.

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### Vending Technology

We have developed a cash and cashless vending platform to readily monitor the sales of our franchisees' and our machines. We help our franchisees to grow their business with onsite and virtual management tools, including as an example, wireless remote monitoring telemetry software. Our vending standards are UL ("Underwriters Laboratories") recognized, which we believe are among the highest standards in the industry. This ensures food temperature compliance, which includes auto-contingency processes should electrical or hardware malfunction; it also ensures that ambient air stays within specified parameters at all times. We believe our third-party cashless technology provides one of the highest levels of data and network compliance while ensuring complete transparency. As a result, we generally handle little if any cash in the process. All transactions are managed by third parties to facilitate financial compliance with local and national laws and regulations.

### Micro Market Technology

We have developed a high-tech cashless self-checkout kiosk that boasts state-of-the-art point of sale technology currently utilizing an iOS operating system and iPad hardware. The software includes a convenient mobile-based loyalty application with easy to use features and robust functionality. The system also includes a wireless remote monitoring telemetry software with inventory management. The kiosk is completely cashless and all transactions are managed by third parties to facilitate financial compliance with local and national laws and regulations.

### Products

We primarily provide a portfolio of fresh, organic and all-natural snacks and drinks. Most products are available via an agreement with a national distributor. We also create custom menus for each franchisee specific to each location type based on their guidelines, requests and demographics. The Company supports the efforts of the United States Department of Agriculture's ("USDA") Smart Snacks in School regulation that indicates that all foods sold a la carte, in the school store and vending machines will need to meet certain nutritional standards. The Company's website platform, [www.freshandhealthy.org](http://www.freshandhealthy.org), caters to the new USDA guidelines and supports locations looking to implement a healthy vending program. We have developed customized menus that meet and exceed school and State nutrition guidelines nationwide, facilitating the placement of machines in schools. Our suppliers generally deliver products to our franchisees on a weekly basis and charge a fee of approximately \$35.

During the year ended June 30, 2014, the Company introduced its newest product offering in a micro market kiosk. The micro market is a self-checkout kiosk that contains a similar portfolio of fresh, organic and all-natural snacks and drinks. The micro market also provides fresh full meal options such as salads, sandwiches, and wraps, as well as frozen entrees. The micro market is designed for implementation in corporate environments and certain retail locations.

### Competition

The vending industry is large, highly fragmented and consolidating as the market leaders acquire regional vending companies to fulfill their real-estate expansion plans or acquire privately-held service verticals. We believe we have laid the foundation for a national health vending operation with built-in, long-term service agreements and residual product and inventory sales. We believe our business model offers competitive advantages including the following.

We focus on healthier food included in school and other health-conscious vending locations. Federal guidelines have been established that aim to counter youth obesity while improving student nutrition, such rules work to discourage our competitors' fare to be marketed to schools.

We outsource non-core functions to third-party vendors. Outsourced services include: machine manufacturing, transport, location set-up, maintenance, inventory, food management and ordering, payment processing, and cash management. This has historically allowed us to focus more of our financial resources to investing in new services.

#### International operations

During the year ended June 30, 2014, the Company decided to pursue international expansion of its operations. In connection with our intended expansion, we engaged a consulting firm to assist us in locating and securing a master franchisee. Although the Company initially signed a Letter of Intent ("LOI") with a master franchisee in Australia, we determined that it was in the Company's best interest to terminate the LOI. Furthermore, we decided to manage the international expansion ourselves and therefore, terminated the agreement with the consulting firm as well. The Company is currently evaluating its on-going strategy for international operations.

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### Our Principal Suppliers

The Company currently purchases substantially all of its vending machines as needed from a sole supplier, Automated Merchandising Systems Inc. ("AMS"), or its designated distributor. We believe that our relationship with AMS is excellent, and likely to continue. In our view, the loss of our relationship with AMS, should it occur, may result in short term disruptions not likely to be material. The Company has identified at least four other suppliers with comparable vending equipment. The Company also purchases its micro markets from a single manufacturer and believes the loss of its supplier may result in short term disruptions not likely to be material.

Additionally, primarily on behalf of our franchisees, the Company has negotiated discounts with a product distribution chain, United Natural Foods, Inc. ("UNFI"). We believe that our relationship with UNFI is excellent, and likely to continue. In our view, the loss of our relationship with UNFI, should it occur, may result in short-term disruptions not likely to be material. The Company has identified several other suppliers that stock the same or comparable products. Furthermore, our franchisees are able to purchase directly from UNFI, however, without our negotiated discount.

### Governmental Regulation

We are required to comply with regulations governing the sale of franchises – the primary component of our business. Thirteen states directly regulate franchising and require pre-sale registration of a Franchise Disclosure Document ("FDD"), or offering prospectus, by the franchisor, normally with the state agency that oversees the sale of securities in that state, and pre-sale delivery of an FDD to a franchise candidate by a franchisor before the signing of a binding agreement or the payment of any money to the franchisor. Franchise sales in the remaining 37 states are generally subject to the Franchise Rule promulgated by the Federal Trade Commission ("FTC"), which requires the pre-sale delivery of an FDD to a franchise candidate before the signing of a binding agreement or the payment of any money to the franchisor. A franchisor that fails to properly register and maintain the registration of its FDD and disclose its franchisee candidates in the 13 registration states, unless exempt from registration under a few narrowly drawn exceptions to the registration requirements, is subject to legal action by its franchisees for damages and, under certain circumstances, for rescission of the franchise agreements, and to administrative, civil and criminal penalties that may be imposed as well. The FTC's Franchise Rule does not require registration of an FDD with the FTC; however, a franchisor that fails to properly disclose its franchisee candidates is subject to claims for breach of contract, fraud, damages, sanctions and the like.

### Our Employees

We had approximately 45 full-time employees as of September 30, 2015 and 10 part-time positions.

### Seasonality

We do not expect that our business will experience significant seasonality other than that resulting from vending machine sales within schools.

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Three months ended September 30, 2015 compared to three months ended September 30, 2014

### Revenues

We had revenues of \$1,561,448 for the three months ended September 30, 2015, compared to revenues of \$1,854,867 for the three months ended September 30, 2014. This represented a decrease of \$293,419 or 15.8%. Our revenues decreased largely due to the decrease in the number of machines installed and the corresponding franchise fees that were recognized. This was partially offset by an increase in Company-owned machine revenue, and royalties. Overall orders received and installations (at which point our Company recognizes revenues) of machines were 137 and 138, respectively, during the three months ended September 30, 2015, compared to 216 and 172, respectively, for the corresponding three months ended September 30, 2014.

### Cost of revenues

Cost of revenues was \$800,854 during the three months ended September 30, 2015, compared to \$812,963 during the three months ended September 30, 2014. This represents a decrease of \$12,109 or 1.5%.

### Gross margin

Gross margin for the three months ended September 30, 2015 was \$760,594 compared to \$1,041,904 for the corresponding period ending September 30, 2014, representing a decrease of \$281,310 or 27%. Gross margin percentage during the three months ended September 30, 2015 was 48.7% compared to 56.2% for the corresponding period ended September 30, 2014. The decrease in gross margin percentage of 7.5% is primarily a result of decreased margin associated with franchisee machines and lower margins on food sales on company-owned machines, offset in part by an increase in royalties.

### Selling, general and administrative expenses

Selling, general and administrative expenses for the three months ended September 30, 2015 of \$1,468,264 represent an increase of \$222,098 from the \$1,246,166 in the three months ended September 30, 2014. The major components of selling, general and administrative expenses were as follows:

Personnel expenses of \$724,271 for the three months ended September 30, 2015 represent an increase of \$69,994 or 10.7% from the \$654,277 in the three months ended September 30, 2014. The increase was primarily attributable to additional personnel expenses of the Company's location procurement team.

Marketing and advertising expenses increased \$25,336 to \$205,954 or 14.0% for the three months ended September 30, 2015 compared to \$180,598 for the three months ended September 30, 2014. The increase was primarily attributable to an increase in national radio advertising.

Professional fees decreased \$51,221 or 31.6% to \$111,107 during the three months ended September 30, 2015 from \$162,328 during the three months ended September 30, 2014. The decrease was primarily attributable to a decrease in consulting fees and legal expenses and conversion of a consultant to an employee.

Other expenses increased \$143,879 over the prior period as the Company incurred increased costs for insurance, stock compensation and franchise refunds.

### Provision for income taxes



During the three months ended September 30, 2015 and 2014, we incurred a net loss and operated as a C-corp for federal and state income tax purposes. A valuation allowance has been recorded to eliminate the tax benefit arising from our net operating loss due to the substantial uncertainty about whether such benefit will ever be realized.

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### Net loss

Net loss was \$869,518 during the three months ended September 30, 2015 versus a net loss of \$251,363 for the three months ended September 30, 2014. The increase in net loss resulted from lower revenues, gross margin percentage and increased selling, general and administrative expenses, as well as increased other expenses.

Basic net loss per share during the three months ended September 30, 2015 and 2014 was \$0.03 and \$0.01, respectively.

### Liquidity and Capital Resources

For the three months ended September 30, 2015 we had a net loss totaling \$869,518 and negative cash flows from operations totaling \$20,265. Our cash balance at September 30, 2015 was \$110,503. Since the date of the closing of the FHV Acquisition, our sales were less than anticipated and the resulting cash flows from franchise sales was not sufficient to cover expenditures associated with our daily operations resulting in a substantial decrease in our cash balances. Also, we used cash on hand to retire liabilities associated with the franchise rescissions. As of the filing date of the Form 10-Q, our Company has consumed the vast majority of its available cash, including the cash proceeds from the sale of our common stock received in July of 2013 and the issuance of several debt instruments. In order to ensure sufficient liquidity for our continuing operations, we will require additional capital financing in the form of either debt or equity (or a combination thereof) financing. Management believes that it will be able to obtain such financing on terms acceptable to the Company, although there can be no assurance that we will be successful.

Our current plans include capital expenditures for the purchase of corporate owned and operated vending machines and micro markets, including the repurchase of machines from franchisees opting to rescind their franchise agreements. Given our current cash position, we may be forced to curtail our plans by delaying or suspending the purchase of machines for our corporate operations.

As of September 30, 2015, the Company had \$501,000 outstanding under the Initial Notes, \$250,000 outstanding under the Financing Agreement, \$600,000 outstanding under the Promissory Note and \$245,000 outstanding under a loan agreement with its Chairman. Furthermore, the Company issued \$500,000 in two Secured Promissory Notes on October 27, 2015.

### Off Balance Sheet Arrangements

We had no material off balance sheet arrangements at September 30, 2015.

### Critical Accounting Policies

We have identified the following as our most critical accounting estimates, which are those that are most important to the portrayal of the Company's financial condition and results, and that require management's most subjective and complex judgments. Information regarding our other significant accounting estimates and policies are disclosed in Note 1 to our Condensed Consolidated Financial Statements.

**Revenue recognition** — Our primary revenue generating transactions come from the sale of franchises and vending machines and micro markets to the franchisees. There are no franchise fees charged beyond the initial first year franchise fees. We receive ongoing royalty fees and annual advertising fees as a percentage of either franchisees' gross revenues or gross margins on vending machine sales.



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We recognize revenues and associated costs in connection with franchisees (machines and franchise fees) at the time that we have substantially performed or satisfied all material services or conditions relating to the franchise agreement. We consider substantial performance to have occurred when: 1) no remaining obligations are unfulfilled under the franchise agreement; 2) there is no intent to refund any cash received or to forgive any unpaid amounts due from franchisees; 3) all of the initial services spelled out in the franchise agreement have been performed; and 4) we have met all other material conditions or obligations. Revenues and expenses from product sales to franchisees are roughly equivalent and are accounted for on a net basis in the accompanying consolidated statements of operations as agency sales, net. During fiscal 2015, the Company changed the process by which franchisees order products. Currently, all franchisees order directly from our national distributor and the Company receives a commission of 5% on those purchases. We recognize the commission when earned. The Company recognizes revenue on product sales of company-owned machines when products are purchased; we receive electronic sales records on our company-owned units. We recognize royalty fees as revenue when earned. Advertising fees are recorded as a liability until marketing expenditures are incurred.

The Company records the amount of a franchise sale, machines and franchise fees, as deferred revenue until the conditions above have been met. Once the machines are installed, the Company records the corresponding machine and franchise fee as revenue, on a pro rata basis based on the number of machines installed relative to the total machines purchased.

The Company records the value of company-owned machines as inventory when purchased. Once the machines are installed, the machine value is transferred to fixed assets and depreciated over its useful life.

It is not our policy to allow for returns, discounts or warranties to our franchisees. Under certain circumstances, including as the result of regulatory action, our Company may become obligated to offer our franchisees amounts in rescission to reacquire their existing franchises, including machines. Additionally, if our Company is unable to fulfill its obligations under a franchise agreement we may, at our sole discretion, agree to refund or reduce part or all of a franchisees payments or commitments to pay. As of September 30, 2015 and June 30, 2015, the Company's provision for franchisee rescissions and refunds totaled \$1,023,400 and \$575,750, respectively. There are warranties extended by the machine manufacturer and its distributors, but required repairs to the machines are the responsibility of the franchisees. To the extent the machines remain under warranty, our franchisees transact directly with the manufacturer or its distributor.

Franchise contracts — We invoice franchisees in full at the time that we enter into contractual arrangements with them. Payment terms vary but usually a significant portion of the contract's cash consideration (typically 40% of machines plus 100% of the franchise fees) is due at the time of signing, while remaining amounts outlined under the contract are generally due upon our locating 50% of the sites for the vending machines and micro markets.

### Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

### Item 4. Controls and Procedures

#### Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our management, including our chief executive and chief financial officer, as appropriate, to allow for timely

decisions regarding required disclosure. Disclosure controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Management has designed our disclosure controls and procedures to provide reasonable assurance of achieving the desired control objectives.

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As required by Exchange Act Rule 13a-15(b), we have carried out an evaluation, under the supervision and with the participation of our management, including our principal executive and principal financial officer, of the effectiveness of the design and operation of our management, and the design and operation of our disclosure controls and procedures as of September 30, 2015.

Based upon an evaluation of the effectiveness of disclosure controls and procedures, our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") has concluded that as of the end of the period covered by this Quarterly Report on Form 10-Q, our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Exchange Act) were not deemed effective in order to provide reasonable assurance that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified by the rules and forms of the SEC and is accumulated and communicated to management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure (see below for further discussion).

## Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a- 15(f) under the Securities Exchange Act of 1934, as amended. Internal control over financial reporting is designed 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 in the United States of America ("GAAP"). We recognize that because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

To evaluate the effectiveness of our internal control over financial reporting, management used the criteria described in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") - 1992.

In connection with management's assessment of our internal control over financial reporting, we determined that there was a material weakness in our internal control over financial reporting as of September 30, 2015. Since the Company is not listed on a national exchange or on an automated interdealer quotation system, it is not required to have an audit committee or independent directors, and thus does not have a controlling independent board or audit committee. We consider this to be a material weakness as an independent board and audit committee provide important oversight. The Company is in the process of addressing this issue by establishing an audit committee and appointing independent directors, with at least one having financial expertise.

## Changes in Internal Control Over Financial Reporting

There were no material changes in our internal control over financial reporting (as defined in Rule 13a- 15(f) under the Exchange Act) that occurred as of September 30, 2015, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management conducted an evaluation of the effectiveness of our internal control over financial reporting as of September 30, 2015. Our management's evaluation of our internal control was based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO Framework - 1992"). The Company is in the process of integrating the updated, 2013 version of the 1992 COSO framework. Based on its evaluation under the Internal Control - Evaluation Framework, due to the material weakness described above, management concluded that our internal control over financial reporting was not effective as of September 30, 2015. A material weakness is a control deficiency, or combination of control deficiencies, such

that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected on a timely basis by the Board in the normal course of their duties.

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PART II – OTHER INFORMATION

Item 1. Legal Proceedings

In June 2014, we received an inquiry from the California Department of Business Oversight (“DBO” related to the sale of 15 franchises that occurred between March 2014 and May 2014. On November 7, 2014, the DBO issued a Stop Order and Citation (“Stop Order”), which prohibits us from selling franchises in the state of California until November 7, 2016. The DBO found that we engaged in offers and sales of franchises in California without registration with respect to the three franchise sales we made in August and September 2012, that the sale of 15 franchises that occurred outside the state of California between March 2014 and May 2014 were made pursuant to a franchise disclosure document that contained omissions of material facts by failing to disclose the DBO’s prior stop order and the statement of charges and notice of intent to enter an order to cease and desist issued by the state of Washington, and that our prior management failed to exercise due diligence with regard to our registration and disclosure obligations and exposed prospective franchisees to unreasonable risk. The DBO also denied our registration application filed in California on October 3, 2013, imposed administrative penalties against us of \$37,500, required us to pay attorneys’ fees of \$18,200 and required us to again offer rescission and restitution to the 15 franchisees who purchased franchises between March 2014 and May 2014. Nine of the 15 franchisees accepted our offer of rescission and six either denied rescission or failed to respond, and therefore lost their right of rescission due to the elapsed time as stipulated by the DBO. The total rescission payments, aggregating \$934,500, were completed by July 2015. As required by the Stop Order, we developed and implemented a compliance program and engaged an independent monitor for the duration of the Stop Order to review and report to the DBO our compliance activities, including compliance with the Stop Order.

Periodically, we are contacted by other state franchise regulatory authorities and in some cases have been required to respond to inquiries, or make changes to our franchise disclosure documents or franchise offer and sale practices. Management believes these communications from state regulators and corresponding changes in our franchise disclosure documents and practices are administrative in nature and do not indicate the presence of a loss or probable potential loss.

On June 11, 2014, Seaga Manufacturing, the Company’s supplier of automatic merchandising equipment, filed a lawsuit in Illinois state court alleging one count of breach of contract claiming that the Company failed to make payments and to meet the yearly minimum volume of purchases. On August 14, 2014, the Company filed its answer, affirmative defenses, and counterclaims against Seaga. The counterclaims included claims for breach of contract, breach of express warranty, breach of implied warranties of merchantability and fitness for particular purpose, and indemnification. On May 1, 2015, the court granted Seaga’s motion to dismiss the Company’s implied warranty claims. On January 9, 2015, Seaga filed a third-party complaint against the manufacturer of the automatic merchandising equipment, Saeco Vending S.P.A., and on August 26, 2015, the court dismissed the third-party complaint. The Company intends to vigorously contest these allegations in court.

On May 28, 2014 a franchisee filed a complaint against the Company and certain current and former employees (collectively “Defendants”). The initial Complaint included employment law claims for unpaid wages, which were dismissed on demurrer. Plaintiffs’ operative First Amended Complaint alleges the following six causes of action: (1) Restitution following Rescission; (2) Fraud; (3) Breach of Contract – Franchise Agreement; (4) Breach of Contract – Franchisee Development Team Agreement; (5) Unfair Competition under California Business and Professions Code section 17200; and (6) False Advertising. Each of these causes of action are alleged against the Company. In addition, Plaintiffs named certain individual defendants in their causes of action for Fraud, Unfair Competition, and False Advertising.

Defendants filed an Answer to Plaintiffs’ First Amended Complaint in April of 2015. Written discovery has commenced and trial of the matter is currently scheduled to begin in January of 2016. No depositions have taken place



and the parties have submitted a joint stipulation to continue the trial until April of 2016. The Company intends to vigorously contest these allegations in Court.

The Company is also subject to normal and routine litigation and other legal actions by current or former franchisees, employees, and vendors. We assess contingencies to determine the degree of probability and range of possible loss for potential accrual in its financial statements. An estimated loss contingency is accrued in the financial statements if it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Because litigation is inherently unpredictable and unfavorable resolutions could occur, assessing contingencies is highly subjective and requires judgments about future events. The Company regularly reviews contingencies to determine the adequacy of the accruals and related disclosures. The amount of ultimate loss may differ from these estimates. Although we currently believe that the ultimate outcome of these matters will not have a material adverse effect on the results of operations, liquidity or financial position of the Company, it is possible they could be materially affected in any particular future reporting period by the unfavorable resolution of one or more of these matters or contingencies.

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Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1, "Risk Factors" in our Current Report on Form 10-K filed on October 13, 2015, which could materially affect our business, financial condition or operating results. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

In instances where we issued securities in reliance upon Regulation D, we relied upon Rule 506 of Regulation D. The parties who received the securities in such instances made representations that such party (a) is acquiring the securities for his, her or its own account for investment and not for the account of any other person and not with a view to or for distribution, assignment or resale in connection with any distribution within the meaning of the Securities Act, (b) agrees not to sell or otherwise transfer the purchased shares unless they are registered under the Securities Act and any applicable state securities laws, or an exemption or exemptions from such registration are available, (c) has knowledge and experience in financial and business matters such that the purchaser is capable of evaluating the merits and risks of an investment in us, (d) had access to all of our documents, records, and books pertaining to the investment and was provided the opportunity to ask questions and receive answers regarding the terms and conditions of the offering and to obtain any additional information which we possessed or were able to acquire without unreasonable effort and expense, and (e) has no need for the liquidity in its investment in us and could afford the complete loss of such investment. Management made the determination that the investors in instances where we relied on Regulation D are accredited investors (as defined in Regulation D) based upon management's inquiry into their sophistication and net worth. In addition, there was no general solicitation or advertising for securities issued in reliance upon Regulation D.

In instances where we indicate that we relied upon Section 4(a)(2) of the Securities Act in issuing securities, our reliance was based upon the following factors: (a) the issuance of the securities was an isolated private transaction by us which did not involve a public offering; (b) there were only a limited number of offerees, each of whom was deemed in our view to be an "accredited investor" within the meaning of federal securities laws; (c) there were no subsequent or contemporaneous public offerings of the securities by us; and (d) the securities were not broken down into smaller denominations.

Item 3. Defaults Upon Senior Securities

None.

Item 4 Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None.

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Item 6. Exhibits

A. Exhibits

- 31.1 Certification of the Principal Executive and Financial Officer Pursuant to Rule 13a-14 or 15d-14 of the Exchange Act pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Principal Executive and Financial Officer Pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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FRESH HEALTHY VENDING INTERNATIONAL, INC.

SIGNATURES

Pursuant to the requirements 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.

FRESH HEALTHY VENDING INTERNATIONAL, INC.

Dated: November 23, 2015 By: /s/ Arthur S. Budman

Arthur S. Budman, Chief Executive Officer

Principal Executive Officer and Principal Financial Officer