Generation NEXT Franchise Brands, Inc.
Form 10-K
October 02, 2017

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

# FORM 10-K

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

**For the fiscal year ended: June 30, 2017**

o TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

**For the transition period from N/A to N/A**

**Commission file number: 000-55164**

# GENERATION NEXT FRANCHISE BRANDS, INC.

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

| | |
|---|---|
| **Nevada**<br>(State or jurisdiction of incorporation or organization) | **45-2511250**<br>(I.R.S. Employer Identification No.) |
| **2620 Financial Court, Suite 100**<br>**San Diego, CA**<br>(Address of principal executive offices) | **92117**<br>(Zip Code) |

**858-210-4200**

(Issuer’s telephone number, including area code)

**Common Stock, par value $0.001 per share**

(Title of class)

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

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

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

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-K contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K or any amendment to this Form 10-K. ¨

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

| | | | |
|---|---|---|---|
| Large accelerated filer | ¨ | Accelerated filer | ¨ |
| Non-accelerated filer | ¨ | Smaller reporting company | x |
| [1] Do not check if a smaller reporting company | | | |
| Emerging Growth Company | ¨ | | |

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

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

The aggregate market value of the voting and non-voting common equity on December 31, 2016 held by non-affiliates of the registrant (based on the stock's not having traded through that date) was $2,405,894. Shares of common stock held by each officer of the Company (or of its wholly-owned subsidiaries) and director and by each person who owns 10% or more of the outstanding common stock of the registrant have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes. Without acknowledging that any individual director of registrant is an affiliate, all directors have been included as affiliates with respect to shares owned by them.

At September 25, 2017, there were 38,235,783 shares outstanding of the issuer's common stock, par value $0.001 per share.

**DOCUMENTS INCORPORATED BY REFERENCE**

None.

**Generation NEXT Franchise Brands, Inc. (formerly known as Fresh Healthy Vending International, Inc.)**

**FORM 10-K**

**FOR THE YEAR ENDED JUNE 30, 2017**

**TABLE OF CONTENTS** **Page**

**FORWARD LOOKING STATEMENTS**

In addition to historical information, this Annual Report on Form 10-K may contain statements relating to future results of Generation NEXT Franchise Brands, Inc. (formerly known as Fresh Healthy Vending International, Inc.) (including certain projections and business trends) that are "forward-looking statements." Our actual results may differ materially from those projected as a result of certain risks and uncertainties. These risks and uncertainties include, but are not limited to, without limitation, statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, using words or phrases such as "expects" or "does not expect", "is expected", "anticipates" or "does not anticipat "plans", "estimates" or "intends", or stating that certain actions, events or results "may", "could", "would", "might" or "will" occur or be achieved) are not statements of historical fact and may be "forward-looking statements." Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results or achievements of the Company to be materially different from any future results or achievements of the Company expressed or implied by such forward-looking statements. Such factors include, among others, those set forth herein and those detailed from time to time in our other Securities and Exchange Commission ("SEC") filings. These forward-looking statements are made only as of the date hereof, and we undertake no obligation to update or revise the forward-looking statements, whether as a result of new information, future events or otherwise, except as otherwise required by law. The Company cautions readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. The Company disclaims any obligation subsequently to revise any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

*Table of Contents*

**Item 1 - Business**

*As used in this annual report, the terms "we", "us", "our", "Gen Next", and the "Company" means Generation NEXT Franchise Brands, Inc., a Nevada corporation, its wholly-owned subsidiaries Fresh Healthy Vending LLC, a California limited liability company, Fresh and Healthy Vending Corporation, a California corporation, Reis & Irvy's, Inc., a Nevada corporation, 19 Degrees, Inc., a Nevada corporation, Generation Next Vending Robots, Inc., a Nevada corporation, or their management. Also as used in this annual report, the term "Gen Next" refers to Generation NEXT Franchise Brands, Inc., "FHV LLC" refers to Fresh Healthy Vending LLC, "R&I" refers to Reis & Irvy's, Inc., "19 Degrees" refers to 19 Degrees, Inc., "Fresh and Healthy" refers to Fresh and Healthy Vending Corporation, and "GNVR" refers to Generation Next Vending Robots.*

***Business***

We have been 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 vending destinations. We and our franchisees have operated 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 and micro markets they purchase. We offer thousands of healthy food and beverage products via an agreement with a national food distributor and we train each franchisee at our San Diego headquarters. We provide dedicated account management and ongoing customer service to our franchisees. As of March 2016, we have discontinued marketing our healthy vending franchises, although we continue to support our ongoing franchisees. Furthermore, we have sold our corporate route and no longer operate our own healthy vending machines.

During fiscal 2017, we obtained the exclusive rights in the USA (excluding Puerto Rico) and Canada for a new frozen yogurt vending machine robot, branded Reis & Irvy's. As of June 30, 2017, we have received approval to sell franchises in a number of U.S. states and Canada and have booked a net 731 units aggregating $27.1 million, prior to certain offset adjustments, which is included in deferred revenues. As of June 30, 2017, and through the date of this report, the Company has not yet delivered any frozen yogurt vending machines. The Company is in the process of redeveloping the next generation frozen yogurt robot and has spent $2.1 million in research and development expenses through June 30, 2017. The Company will continue to incur additional research and development expenses until at least December 2017.

On December 29, 2016, the Company entered into an Asset Purchase Agreement (the "Agreement") with Robofusion, Inc. ("RFI"), whereby the Company acquired the intellectual property assets of RFI, a developer of robotic-kiosk vending technology, primarily frozen yogurt vending kiosks/cubes, using RFI's trademarked name of Reis & Irvy's (the "Acquisition"). Pursuant to the Agreement, the Company provided RFI, and its designees, a cash payment of

$440,000, The Company also issued to RFI a three-year, $2 million note and a five-year common stock purchase warrant for 1,520,000 shares with a strike price of $0.50 per share. Furthermore, certain RFI Officers, Directors and Shareholders will be subject to a five-year, non-compete agreement. Also, the Agreement provides for indemnification and set off of up to $1 million, under certain circumstances.

As mentioned above, we will no longer market our vending machines and micro markets to new franchisees. We will however, continue to service and support our current FHV LLC franchisees.

Table of Contents

***History***

On July 19, 2013 (the "Closing Date") our wholly-owned subsidiary, FHV Acquisition Corp., completed a Reorganization and Asset Acquisition Agreement (the "Acquisition Agreement") with FHV Holdings Corp, a California corporation ("FHV Cal") (the "FHV Acquisition"). Pursuant to the terms of the Acquisition Agreement, we issued (i) 15,648,298 shares of our Company's common stock (as adjusted for the Stock Split) to FHV Cal, in exchange for all FHV Cal's assets as of the Closing Date. FHV Cal's principal asset consisted of the operations and assets of Fresh Healthy Vending LLC, a California limited liability company. At the closing, FHV Cal distributed the Company's common stock to the sole shareholder of FHV Cal, a trust affiliated with Nicholas Yates, our Chairman.

On July 19, 2013, we also completed the sale of 2,235,951 shares of our common stock to 18 investors ("Stock Sale") in exchange for gross proceeds totaling $1,000,000 (approximately $996,000 net of estimated related costs in connection with the transaction). In addition, on July 19, 2013, we converted $210,000 of convertible notes payable into 552,418 shares of common stock.

In connection with the Acquisition Agreement, we entered into a Business Transfer and Indemnity Agreement dated July 22, 2013 (the "Indemnity Agreement") with our former Chief Executive Officer Daniel Duval providing for:

1. The sale to Mr. Duval of our business existing on the date of the Indemnity Agreement (the "GEEM Business");
2. The assumption by Mr. Duval of all liabilities of our Company and the indemnification by Mr. Duval holding our Company harmless for any and all liabilities arising at or before the date of the Indemnity Agreement;
3. The payment to Mr. Duval of $191,000 in cash; and
4. The surrender by Mr. Duval of 11,671,713 shares of our Company's common stock (all of which shares were cancelled by our Company).

We are a public company listed under the symbol "VEND." We were incorporated in the State of Nevada on June 8, 2011 as Green 4 Media, Inc. Prior to July 19, 2013, we were an eco-marketing and advertising company ("GEEM Business"). On July 22, 2013, we entered into the Indemnity Agreement and in connection with that agreement we transferred the GEEM Business to our former Chief Executive Officer. Effective August 8, 2013, we changed the name of our Company from Green 4 Media, Inc. to Fresh Healthy Vending International, Inc., and in March 2016, we changed the name of our Company to Generation NEXT Franchise Brands, Inc.

FHV LLC was formed as a limited liability company in California in 2010, as a franchisor of healthy drinks and snack vending machines. Including the operating history of YoNaturals, whose assets were contributed to FHV LLC in August 2010, we have a combined nine year operating history in vending machines providing food and beverages.

Table of Contents

***The Industry and the Overall Market***

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.

***Frozen Yogurt Robot***

We are in the process of manufacturing a state-of-the art frozen yogurt vending machine robot that is a completely unique vending machine and entertainment experience. The robot contains both a cash and cashless vending platform that allows us to readily monitor the sales of our franchisees' and our corporate-owned machines. Our vending standards are UL ("Underwriters Laboratories") and NSF ("National Sanitation Foundation") 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. Our third-party cashless payment technology provides the highest level of data and network security compliance while ensuring complete transparency. As a result, our frozen yogurt vending machine robots will contain minimal amounts of cash. All transactions are managed by third parties to facilitate financial compliance with local and national laws and regulations.

***Vending Technology***

We have developed a cash and cashless vending platform to readily monitor the sales of our franchisees. We help our franchisees to grow their business with onsite and virtual management tools, including as an example, wireless remote monitoring telemetry software. As mentioned above, our vending standards are UL recognized. 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 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.

***Vending and Micro Market Products***

We primarily provide a portfolio of fresh, organic and all-natural snacks and drinks. Most products are available via our Company's 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. We have developed customized menus that meet and exceed school and state nutrition guidelines nationwide, facilitating the placement of machines in schools. Our suppliers are available to deliver products to our franchisees on a weekly basis and charge a fee of $35 with a minimum order of $500.

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. The micro market is designed for implementation in corporate environments, hotel lobbies, auto dealerships and other retail environments.

Table of Contents

***Frozen Yogurt Products***

The Company intends to set up national distribution partners to carry the consumable products required for the frozen yogurt robots.

***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, and those locations with high transient foot traffic for our frozen yogurt robots, including hospitals, amusement parks, and other entertainment venues. 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. According to Ned Monroe, senior vice-president for government affairs for the National Automatic Merchandising Association, "There were fewer and fewer operators handling school accounts because it was a tough process to find products that met the patchwork of school guidelines." In fact, "the trade group estimates that just 10 percent of its vending operator members sell in schools now, down from about 25 percent a decade ago."
- 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.

**Our Principal Suppliers**

The Company currently purchases substantially all of its vending machines, and will purchase it frozen yogurt robots, as needed from a sole supplier, Automated Merchandising Systems Inc. ("AMS"), or its designated distributor. We believe that our relationship with our suppliers is excellent, and likely to continue. In our view, the loss of our relationship with our suppliers, should it occur, may result in short term disruptions not likely to be material. The Company has identified several other suppliers with comparable capabilities. 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 healthy vending franchisees, the Company has negotiated discounts with a national 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.

Furthermore, the Company intends to set up similar arrangements with distributors of the frozen yogurt consumables.

**Governmental Regulation**

We are required to comply with regulations governing the sale of franchises – the primary component of our business. Fifteen states directly regulate franchising and fourteen 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 35 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 15 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.

*Table of Contents*

**Our Employees**

We had approximately 43 full-time employees as of June 30, 2017. None of our employees are subject to collective bargaining agreements.

**Seasonality**

We do not expect that our business will experience significant seasonality other than that resulting from vending machine sales within schools and at seasonal frozen yogurt venues.

**Item 1A – Risk Factors**

*An investment in our common stock involves a high degree of risk. You should carefully consider the risks described below, together with all of the other information included in this Current Report, before making an investment decision. If any of the following risks actually occurs, our business, financial condition or results of operations could suffer. In that case, the trading price of our common stock could decline, and you may lose all or part of your investment. You should read the section entitled "Special Notes Regarding Forward-Looking Statements" for a discussion of what types of statements are forward-looking statements as well as the significance of such statements in the context of this report.*

**RISKS RELATED TO OUR BUSINESS**

**Reis & Irvy's**

**Risks Related to Competition, Evolving Technologies and Consumer Preferences in Our Industry**

***The termination, non-renewal or renegotiation on materially adverse terms of our contracts or relationships with one or more of our significant franchisees, or retail locations could seriously harm our business, financial condition and results of operations.*** The success of our business depends in large part on our, and our franchisees', ability to maintain contractual relationships with the providers of profitable locations in which Robots are placed, including hospitals, entertainment venues, retail stores, shopping centers and the like. Certain contract provisions with these providers vary, including product and service offerings, the service fees we, and our franchisees', are committed to pay, and the ability to cancel the contract upon notice after a certain period of time. We typically enter into Robot installation agreements that give the retailer rights of termination. We strive to provide direct and indirect benefits to our location partners that are superior to, or competitive with, other providers or systems or alternative uses of the floor space that our Robots occupy. If we are unable to provide them with adequate benefits, we may be unable to maintain or renew our contractual relationships on acceptable terms, causing our business, financial condition and results of operations to suffer. The locations in which Robots are placed may choose to replace our or our franchisees' Robots with competitor machines or not provide space for such machines at all deciding that floor space could be used for other purposes.

Table of Contents

***Competitive pressures could seriously harm our business, financial condition and results of operations.*** Our Reis & Irvy's business faces competition from other providers of frozen confections and other desert options, including some that may have more experience, better financing, and better relationships with preferred high traffic locations. We also face general competition from supermarkets, frozen yogurt stores, ice cream parlors/shops and other retail locations that provide ice cream, frozen yogurt and other frozen treats. We could also face competition from other newly created forms of similar or replacement kiosks/vending machines offering frozen treats. In addition, other ice cream/frozen yogurt retailers, some of which have significantly more resources than we do, may decide to enter the market.

***If we cannot execute on our strategy and offer new automated retail products and services, our business could suffer.*** Our strategy is based upon leveraging our core competencies in the automated retail space to provide the consumer with convenience and value and to help retailers drive incremental traffic and revenue. To be competitive, we need to offer new product and service offerings that are accepted by the market and establish third-party relationships necessary to develop and commercialize such product and service offerings. We are exploring new businesses to enter, and new products and services to offer; however, the complexities and structures of these new businesses and products could create conflicting priorities, constrain limited resources, and negatively impact our core businesses. We may use our financial resources and management's time and focus to invest in other companies offering automated retail services, such as our acquisition of the Reis & Irvy's intellectual property, or we may seek to offer new products or services on our current Robots. We may enter into joint ventures through which we may expand our product offerings. Any new business opportunity also may have its own unique risks related to operations, finances, intellectual property, technology, legal and regulatory issues, corporate governance or other challenges, for which we may have limited or no prior experience. In addition, if we fail to timely establish or maintain relationships with significant retailers and suppliers, we may not be able to provide our consumers with desirable new products and services. Further, to develop and commercialize certain new products and services, we will need to create new Robots or enhance the capabilities of our current robots, as well as adapt our related networks and systems through appropriate technological solutions for an automated retail environment, and establish market acceptance of such products or services. We cannot assure you that new products or services that we provide will be successful or profitable.

***We depend upon third-party manufacturers, suppliers and service providers for key components and substantial support for our Robots.*** We conduct no manufacturing operations and depend on outside parties to manufacture key components of our Robots. Any increase in the manufacturing costs could materially adversely impact our operations and financial condition.

We intend to continue to expand our installed base of Robots. Such expansion may be limited by the manufacturing capacity of our third-party manufacturers and suppliers. Third-party manufacturers may not be able to meet our manufacturing needs in a satisfactory and timely manner. Any delays in manufacturing could adversely affect our results of operations. If there is an unanticipated increase in demand for our Robots, or our manufacturing needs are not met in a timely and satisfactory manner, we may be unable to meet demand due to manufacturing limitations.

We currently rely on a single manufacturer of the Robots. We may be unable to continue to obtain an adequate supply of these components from our suppliers in a timely manner or, if necessary, from alternative sources. If we are unable to obtain sufficient quantities of components from our current suppliers or locate alternative sources of supply on a timely basis, we may experience delays in installing or maintaining our Robots, either of which could seriously harm our business, financial condition and results of operations.

In addition, we rely on third-party service providers for substantial support and service efforts that we currently do not provide directly. In particular, we contract with third-party providers to arrange for servicing of our Robots. We generally contract with a provider to service a particular region. We do not currently have, nor do we expect to have in the foreseeable future, the internal capability to provide back-up service in the event of a sudden disruption in service. Any failure by us to maintain our existing relationships or to establish new relationships on a timely basis or on acceptable terms could harm our business, financial condition and results of operations.

*Table of Contents*

***Defects, failures or security breaches in and inadequate upgrades of, or changes to, our operating systems could harm our business.*** The operation of our Robots depends on sophisticated software, hardware, and computer networking and communication services that may contain undetected errors or may be subject to failures or complications. These errors, failures or complications may arise particularly when new, changed or enhanced products or services are added. In the past, there have been limited delays and disruptions resulting from upgrading or improving these operating systems. Future upgrades, improvements or changes that may be necessary to expand and maintain our business could result in delays or disruptions or may not be timely or appropriately made, any of which could seriously harm our operations.

Further, certain aspects of the operating systems relating to our business are provided by third parties, including telecommunications. Accordingly, the effectiveness of these operating systems is, to a certain degree, dependent on the actions and decisions of third parties over whom we may have limited control.

***We may be unable to adequately protect our intellectual property rights.*** Our success in business is impacted by maintaining the confidentiality and proprietary nature of our intellectual property rights. Our ability to compete may be damaged, and our revenues may be reduced if we are unable to protect our intellectual property rights adequately. To protect these rights, we rely principally on a combination of:

- χοντραχτυαλ αρρανγεμεντσ προϖιδινγ φορ νον−δισχλοσυρε ανδ προηιβιτιονσ ον υσε;
- πατεντσ ανδ πενδινγ πατεντ αππλιχατιονσ;
- τραδε σεχρετ, χοπψριγητ ανδ τραδεμαρκ λαωσ; ανδ
- χερταιν βυιλτ−ιν τεχηνιχαλ προδυχτ φεατυρεσ.

Patent, trade secret, copyright and trademark laws provide limited protection. The protections provided by laws governing intellectual property rights do not prevent competitors from developing, independently, products similar or superior to our products and technologies. In addition, effective protection of copyrights, trade secrets, trademarks, and other proprietary rights may be unavailable or limited in certain foreign countries. We may be unaware of certain non-publicly available patent applications, which, if issued as patents, could relate to our services and products as currently designed or as we may modify them in the future. Legal or regulatory proceedings to enforce our patents, trademarks or copyrights could be costly, time consuming, and could divert the attention of management and technical personnel.

## Fresh Healthy Vending

***The termination, non-renewal or renegotiation on materially adverse terms of our contracts or relationships with one or more of our significant franchisees, or retail locations could seriously harm our business, financial***

***condition and results of operations.*** The success of our business depends in large part on our ability to maintain contractual relationships with the providers of profitable locations in which vending machines are placed, including schools, retail stores, shopping centers and the like. Certain contract provisions with these providers vary, including product and service offerings, the service fees we, and our franchisees, are committed to pay, and the ability to cancel the contract upon notice after a certain period of time. We typically enter into vending machine installation agreements that give the retailer rights of termination. We strive to provide direct and indirect benefits to our partners that are superior to, or competitive with, other providers or systems or alternative uses of the floor space that our vending machines occupy. If we are unable to provide them with adequate benefits, we may be unable to maintain or renew our contractual relationships on acceptable terms, causing our business, financial condition and results of operations to suffer. The retail locations in which vending machines are placed may choose to replace our or our franchisees' vending machines with competitor machines or not provide space for such machines at all deciding that floor space could be used for other purposes.

***Competition from other franchisors of vending machine and micro market businesses and franchisors of other businesses could impact franchise and vending machine and micro market sales and seriously harm our business, financial condition and results of operations.*** We strive to provide direct and indirect benefits to our franchisees that are superior to, or competitive with, other franchisors. In addition, we rely on our franchisees and the manner in which they operate their locations to attract future franchise and vending machine and micro market sales. If we are unable to provide our franchisees with adequate benefits, or if any significant number of our franchisees are not successful, we may be unable to sell franchises and vending machines and micro markets to new franchisees or maintain or renew our contractual relationships with existing franchisees, causing our business, financial condition and results of operations to suffer.

Table of Contents

***The vending machine industry in which we operate is highly competitive and increased competition could reduce our sales and profitability.*** We compete in different markets within the vending machine industry on the basis of the uniqueness of our product offerings, the quality of our products, customer service, price and distribution. Our markets are highly competitive. Our competitors vary in size and many may have greater financial and marketing resources than we do. If we cannot maintain quality and pricing that are comparable or superior to our competitors, we may not be able to grow our revenues and operating profits and may lose market share. Competitive conditions could result in our experiencing reduced revenues, gross margins and operating results and could cause an investor in our Company to lose a substantial amount or all of their investment in our Company.

***Defects, failures or security breaches in and inadequate upgrades of, or changes to, our vending machines and micro markets and its accompanying software could harm our business.*** The operation of our business depends on sophisticated software, hardware, computer networking and communication services that may contain undetected errors or may be subject to failures or complications. These errors, failures or complications may arise particularly when new, changed or enhanced products or services are added. Future upgrades, improvements or changes that may be necessary to expand and maintain our business could result in delays or disruptions or may not be timely or appropriately made, any of which could seriously harm our operations. Further, certain aspects of the operating systems relating to our business are provided by third parties, including telecommunications. Accordingly, the effectiveness of these operating systems is, to a certain degree, dependent on the actions and decisions of third parties over whom we may have limited control. In addition, our micro markets are open and unlocked displays with a self-checkout feature and, although we intend micro markets to be located in secure and/or controlled environments, such as corporate break rooms, hotel lobbies, and auto dealerships, there is no guarantee that products from micro markets will be consumed without customers utilizing the self-checkout feature.

***Any interruption in delivery from our only machine suppliers could impair our ability to sell our products and generate revenues.*** We currently depend on a sole supplier, AMS or their authorized distributors, for the production and delivery of our primary vending machines. We also have one primary supplier of our micro markets. We issue purchase orders for equipment as needed and neither we, nor our manufacturers or authorized distributors, are obligated to minimum purchases or deliveries in the future. We are aware of other suppliers that could fulfill our equipment requirements; however, any interruption in the distribution from our sole suppliers could affect our ability to add new franchisees and satisfy our commitments with existing franchisees. If any interruption described herein takes place, it could have a material adverse impact on our revenues and results of operations until a replacement supplier is obtained.

## Generation Next Franchising Brands

***Failure to adequately comply with information security policies or to safeguard against breaches of such policies could adversely affect our operations and could damage our business, reputation, financial position and results of operations.*** In the process of making sales using consumer credit cards or other cashless options as a method of payment, we may handle and transfer such information as part of our business. These activities are subject to laws and regulations, as well as industry standards, in the United States and other jurisdictions in which our products and services are available. These requirements, which often differ materially and sometimes conflict among the many jurisdictions in which we operate, are designed to protect the privacy of consumers' personal information and to prevent that information from being inappropriately used or disclosed. We maintain and review technical and operational safeguards designed to protect this information and generally require others with whom we work to do so as well. However, despite those safeguards, it is possible that hackers, employees acting contrary to our policies, third-party agents or others could improperly access relevant systems or improperly obtain or disclose data about our consumers, or that we may be determined not to be in compliance with applicable legal and/or regulatory requirements and industry standards for data security, such as the Payment Card Industry guidelines. A breach or purported breach of relevant security policies that compromises consumer data or determination of non-compliance with applicable legal and/or regulatory requirements and industry standards for data security could expose us to regulatory enforcement actions, card association or other monetary fines or sanctions, or contractual liabilities, limit our ability to provide our products and services, subject us to legal action and related costs and damage our business reputation, financial position, and results of operations.

Table of Contents

***Litigation, arbitration, mediation, regulatory actions, investigations or other legal proceedings could result in material rulings, decisions, settlements, fines, penalties or publicity that could adversely affect our business, financial condition and results of operations.*** Our business has in the past been, and may in the future continue to be, party to regulatory actions, investigations, arbitration, mediation and other legal proceedings. The outcome of such proceedings is often difficult to assess or quantify. Plaintiffs, regulatory bodies or other parties may seek very large or indeterminate amounts of money from us or substantial restrictions on our business activities, or delay or inhibit the sale of new franchises and additional vending machines and micro markets and the results, including the magnitude, of lawsuits, actions, settlements, decisions, and regulatory investigations and delays may remain unknown for substantial periods of time. The cost to defend, settle or otherwise finalize lawsuits, regulatory actions, investigations, arbitrations, mediations or other legal proceedings may be significant and such proceedings may divert our management's time. In addition, there may be adverse publicity associated with any such developments that could decrease consumer acceptance of our products and services, such as foodborne illness claims related to perishable foods. As a result, litigation, arbitration, mediation, regulatory actions or investigations involving us or our affiliates may adversely affect our business, financial condition and results of operations. For further description of certain material legal proceedings, please see Item 3 "Legal Proceedings" below.

***We rely in part on our franchisees, and if our franchisees cannot develop or finance their businesses, our growth and success may be affected.*** We rely on our franchisees and the manner in which they operate their locations to develop and promote our business. Although we have developed criteria to evaluate and screen prospective franchisees, we cannot be certain that our franchisees will have the business acumen or financial resources necessary to operate successful franchises in their franchise areas and state franchise laws may limit our ability to terminate or modify these franchise arrangements. Moreover, despite our training, support and monitoring, franchisees may not successfully operate vending machine routes in a manner consistent with our standards and requirements or may not hire and train qualified servicing personnel. The failure of our franchisees to operate their franchises successfully could have a material adverse effect on us, our reputation, our brand and our ability to attract prospective franchisees and could materially adversely affect our business, financial condition or results of operations.

Franchisees may not have access to the financial or management resources that they need to launch and maintain routes and vending machines contemplated by their agreements with us or be able to find suitable sites on which to develop them, or they may elect to cease development for other reasons. Franchisees may not be able to negotiate or retain acceptable lease terms, including location royalties, for the sites, obtain the necessary permits and government approvals or meet opening schedules. Any of these problems could slow our growth and reduce our franchise revenues.

Additionally, a franchisee bankruptcy could have a substantial negative impact on our ability to collect payments due under such franchisee's franchise arrangements. In a franchisee bankruptcy, the bankruptcy trustee may reject its franchise arrangements pursuant to Section 365 under the United States Bankruptcy Code, in which case there would be no further royalty payments from such franchisee, and there can be no assurance as to the proceeds, if any, that may ultimately be recovered in a bankruptcy proceeding of such franchisee in connection with a damage claim resulting from such rejection.

***Changes in economic conditions could materially affect our ability to maintain or increase sales at our existing franchisees or secure new franchisees.*** Both the vending and the frozen yogurt industries depend on consumer discretionary spending. The United States in general or the specific markets in which we operate may suffer from depressed economic activity, recessionary economic cycles, higher fuel or energy costs, low consumer confidence, high levels of unemployment, reduced home values, increases in home foreclosures, investment losses, personal bankruptcies, reduced access to credit or other economic factors that may affect consumers discretionary spending. Economic conditions may remain volatile and may continue to depress consumer confidence and discretionary spending for the near term. Negative economic conditions might cause consumers to make changes to their discretionary spending behavior, including spending currently made in our or our franchisees' vending machines. If such sales decrease, our profitability could decline as we spread fixed costs across a lower level of sales and this could materially adversely affect our business, financial condition or results of operations.

Table of Contents

***Changes in food and supply costs could adversely affect our results of operations.*** Our profitability depends in part on our ability to anticipate and react to changes in food and supply costs. Shortages or interruptions in the availability of certain supplies caused by unanticipated demand, problems in production or distribution, food contamination, inclement weather or other conditions could adversely affect the availability, quality and cost of our ingredients, which could harm our operations. Any increase in the prices of the food products most critical to our vending machine and micro market offerings could adversely affect our operating results. Although we try to manage the impact that these fluctuations have on our operating results, we remain susceptible to increases in food costs as a result of factors beyond our control, such as general economic conditions, seasonal fluctuations, weather conditions, demand, food safety concerns, generalized infectious diseases, product recalls and government regulations.

If any of our distributors or suppliers performs inadequately, or our distribution or supply relationships are disrupted for any reason, our business, financial condition, results of operations or cash flows could be adversely affected. Although we enter into contracts for the purchase of food products and supplies, we do not have long-term contracts for the purchase of all of such food products and supplies. As a result, we may not be able to anticipate or react to changing food costs by adjusting our purchasing practices or vending machine pricing, which could cause our operating results to deteriorate. If we cannot replace or engage distributors or suppliers who meet our specifications in a short period of time, that could increase our expenses and cause shortages of food and other items in our machines. If that were to happen, affected machines could experience significant reductions in sales during the shortage or thereafter, if customers change their purchasing habits as a result. Our focus on a limited menu would make the consequences of a shortage of a key ingredient more severe. In addition, because we provide moderately priced food, we, or our franchisees, may choose not to, or may be unable to, pass along commodity price increases to consumers. These potential changes in food and supply costs could materially adversely affect our business, financial condition or results of operations.

***Failure to receive frequent deliveries of the foods and beverages we offer could harm our operations.*** Our ability to maintain ours and our franchisees' machines depends in part on our ability to acquire ingredients that meet our specifications from reliable suppliers. Shortages or interruptions in the supply of ingredients caused by unanticipated demand, problems in production or distribution, food contamination, which is especially significant with regard to perishable product offerings, inclement weather or other conditions could adversely affect the availability, quality and cost of our ingredients, which could harm our operations. If any of our distributors or suppliers performs inadequately, or our distribution or supply relationships are disrupted for any reason, our business, financial condition or results of operations could be adversely affected. If we cannot replace or engage distributors or suppliers who meet our specifications in a short period of time that could increase our expenses and cause shortages of food and other items that are expected to be stocked within our, our or our franchisees' machines. If that were to happen, affected routes could experience significant reductions in sales during the shortage or thereafter, if customers change their purchasing habits as a result. Our focus on a limited menu of fresh and healthy offerings within machines would make the consequences of a shortage of one or key popular items more severe. Furthermore, certain frozen yogurt consumables may only be available from one manufacturer. This reduction in sales could materially adversely affect our business, financial condition or results of operations.

Table of Contents

**REGULATORY RISKS**

***Franchising is a highly regulated industry.*** Compliance with regulatory procedures or regulatory delays, actions or inaction could delay franchise and machine sales and seriously harm our business, financial condition and results of operations. Fifteen states directly regulate franchising and fourteen 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 35 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 15 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.

***Franchising is a highly competitive industry.*** Competition from other franchisors could impact franchise and machine sales and seriously harm our business, financial condition and results of operations. We strive to provide direct and indirect benefits to our franchisees that are superior to, or competitive with, other franchisors. In addition, we rely on our franchisees and the manner in which they operate their locations to develop future franchise and machine sales. If we are unable to provide our franchisees with adequate benefits, or if any significant number of our franchisees are not successful, we may be unable to sell franchises and machines to new franchisees or maintain or renew our contractual relationships with existing franchisees, causing our business, financial condition and results of operations to suffer.

***As a franchisor, we are subject to federal and state regulations in the various jurisdictions in which we desire to sell franchises and have existing franchisees.*** We are required to register a Franchise Disclosure Document (FDD), or offering prospectus, in 14 states, normally with the state agency that oversees the sale of securities in that state, and provide detailed and complete pre-sale disclosures in our FDD to our franchisee candidates with whom we propose to enter into franchise agreements before we can sell our franchises and vending machines.

***We have limited control over our franchisees and our franchisees could take actions that could harm our business.*** Franchisees are independent and are not our employees. We do not exercise control over their day-to-day operations. We provide training and support to franchisees, but the success and efficiency of operations may be diminished by any number of factors beyond our control. Consequently, franchisees may not successfully operate routes in a manner consistent with our standards and requirements, with practices spelled out by regulations of the jurisdictions in which they operate or may not hire and train qualified personnel. If franchisees do not meet our standards and requirements, our image and reputation, and the image and reputation of other franchisees, may suffer materially and system-wide sales could decline significantly.

Franchisees, as independent business operators, may from time to time disagree with us and our strategies regarding the business or our interpretation of our and their rights and obligations under franchise and development agreements. This may lead to disputes with our franchisees in the future. These disputes may divert the attention of our management and our franchisees from operating routes and affect our image and reputation and our ability to attract franchisees in the future, which could materially adversely affect our business, financial condition or results of operations.

13

Table of Contents

***New information or attitudes regarding diet and health could result in changes in regulations and consumer consumption habits that could adversely affect our results of operations.*** Regulations and consumer eating habits may change as a result of new information or attitudes regarding diet and health. Such changes may include federal, state and local regulations that impact the ingredients and nutritional content of the food and beverages we offer, or impact the manner or types of perishable products we can offer**.** The success of our, and our franchisees', vending operations is dependent, in part, upon our ability to effectively respond to changes in any consumer health regulations and our ability to adapt our food and beverage offerings to trends in food consumption. If consumer health regulations or consumer eating habits change significantly, we may choose or be required to modify or delete certain offered items, which may adversely affect the attractiveness of our food and beverage offerings to customers on those routes. To the extent we are unwilling or unable to respond with appropriate changes to our food and beverage offerings, it could materially affect consumer demand and have an adverse impact on our business, financial condition or results of operations.

Government regulation and consumer eating habits may impact our business as a result of changes in attitudes regarding diet and health or new information regarding the adverse health effects of consuming certain foods and the ingredients within them. These changes have resulted in, and may continue to result in, laws and regulations requiring us to disclose the nutritional content of our food offerings, and they have resulted, and may continue to result in, laws and regulations affecting permissible ingredients and menu offerings. An unfavorable report on, or reaction to, the freshness, taste, quality and perceived health promoting ingredients of our food and beverage offerings, or their nutritional content could negatively influence the demand for our offerings.

***We have been under the scrutiny of state regulators overseeing franchising and could be subject to sanctions, costly litigation and requirements to refund amounts received for franchises sold in the past.*** 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 prohibited 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. 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.

If we are required to refund amounts in excess of those that we have forecast, suffer substantial non-forecasted fines or other franchise offering restrictions from state regulators, are subject to expensive litigation or agree to enter into costly settlement agreements in order to discharge liabilities as a result of past business practices, we may be unable to marshal the resources to satisfy such obligations. This would adversely affect our business, financial condition and results of operations and an investor could suffer the loss of a substantial portion or all of his investment.

Table of Contents

## FINANCIAL RISKS

***If we cannot achieve profitable operations, we will need to raise additional capital to continue our operations, which may not be available on commercially reasonable terms, or at all, and which may dilute your investment.*** We incurred a net loss for the years ended June 30, 2017, 2016, 2015 and 2014. Returning to profitability will require us to increase our revenues and manage our product, operating and administrative expenses. We cannot guarantee that we will be successful in reestablishing profitability. If we are unable to generate sufficient revenues to pay our expenses and our existing sources of cash and cash flows are otherwise insufficient to fund our activities, we will need to raise additional funds to continue our operations. Additional funds, if needed, may not be available on favorable terms, or at all. Furthermore, if we issue equity or debt securities to raise additional funds, our existing stockholders may experience significant dilution, and the new equity or debt securities may have rights, preferences and privileges senior to those of our existing stockholders. If we are unsuccessful in achieving profitability and we cannot obtain additional funds on commercially reasonable terms, or at all, we may be required to curtail significantly or cease our operations, which could result in the loss of all of your investment in our stock.

***Our financial statements have been prepared assuming that the Company will continue as a going concern.*** We suffered a net loss for the years ended June 30, 2017, 2016, 2015 and 2014 and we had limited working capital on hand. Should we continue to experience net losses and should we lack sufficient working capital, this could raise substantial doubt about our ability to continue as a going concern. Our financial statements do not include any adjustments that might result from this uncertainty. If we cannot generate the required revenues and gross margin to achieve profitability or obtain additional capital on acceptable terms, we will need to substantially revise our business plan and an investor could suffer the loss of a significant portion or all of his investment in our Company.

***Should we be successful in growing our revenues according to our operating plans, we may not be able to manage our growth effectively, which could adversely affect our operations and financial performance.*** The ability to manage and operate our business as we execute our growth strategy will require effective planning. Significant rapid growth could strain our internal resources, leading to a lower quality of customer service, reporting problems and delays in meeting important deadlines resulting in loss of market share and other problems that could adversely affect our financial performance. Our efforts to grow could place a significant strain on our personnel, management systems, infrastructure, liquidity and other resources. If we do not manage our growth effectively, our operations could be adversely affected, resulting in slower growth, critical shortages of cash and a failure to achieve or sustain profitability.

***We do not expect to pay dividends for the foreseeable future, and we may never pay dividends and, consequently, the only opportunity for investors to achieve a return on their investment is if a trading market develops and investors are able to sell their shares for a profit, or if our business is sold at a price that enables investors to recognize a profit.*** We currently intend to retain any future earnings to support the development and expansion of our business and do not anticipate paying cash dividends for the foreseeable future. Our payment of any future dividends will be at the discretion of our Board of Directors after taking into account various factors, including but not limited to our financial condition, operating results, cash needs, growth plans and the terms of any credit agreements that we may be a party to at the time. In addition, our ability to pay dividends on our common stock may be limited by state law. Accordingly, we cannot assure investors any return on their investment, other than in connection with a sale of their shares or a sale of our business. At the present time there is a limited trading market for our shares. Therefore, holders of our securities may be unable to sell them. We cannot assure investors that an active trading market will develop or that any third party will offer to purchase our business on acceptable terms and at a price that would enable our investors to recognize a profit.

***Our net operating loss ("NOL") carry-forward is limited.*** We have recorded a valuation allowance amounting to our entire net deferred tax asset balance due to our lack of a history of earnings, possible statutory limitations on the use of tax loss carry-forwards generated in the past and the future expiration of our NOL. This gives rise to uncertainty as to whether the net deferred tax asset is realizable. Internal Revenue Code Section 382, and similar California rules, place a limitation on the amount of taxable income that can be offset by carry-forwards after a change in control (generally greater than a 50% change in ownership). As a result of these provisions, it is likely that given our acquisition of FHV Cal, and current losses, future utilization of the NOL will be severely limited. Our inability to use our Company's historical NOL, or the full amount of the NOL, would limit our ability to offset any future tax liabilities with its NOL.

Table of Contents

## CORPORATE AND OTHER RISKS

***Our executive officers, directors and principal stockholders beneficially own or control over 49% of our outstanding common stock, which may limit your ability and the ability of our other stockholders, whether acting alone or together, to propose or direct the management or overall direction of our Company.*** Additionally, this concentration of ownership could discourage or prevent a potential takeover of our Company that might otherwise result in an investor receiving a premium over the market price for his shares. A substantial portion of our outstanding shares of common stock is beneficially owned and controlled by a group of insiders, including our directors and executive officers. Accordingly, our principal stockholder together with our directors, executive officers and insider shareholders would have the power to control the election of our directors and the approval of actions for which the approval of our stockholders is required. If you acquire shares of our common stock, you may have no effective voice in the management of our Company. Such concentrated control of our Company may adversely affect the price of our common stock. Our principal stockholders may be able to control matters requiring approval by our stockholders, including the election of directors, mergers or other business combinations. Such concentrated control may also make it difficult for our stockholders to receive a premium for their shares of our common stock in the event we merge with a third party or enter into different transactions which require stockholder approval. These provisions could also limit the price that investors might be willing to pay in the future for shares of our common stock.

***Our Chief Executive Officer and Chief Financial Officer have limited experience as an Officer of a public company.*** To serve in the role of a Chief Executive Officer for a public company, an individual needs to be aware of responsibilities in addition to those shouldered by the leader of a private company. Among such additional responsibilities, the Chief Executive Officer must be able to communicate fairly and effectively with the stakeholders of a public company, be aware of the controls required to be maintained by a public company and act in accordance with the legal requirements incumbent upon such a leader. Our Chief Executive Officer’s lack of such experience could increase the danger that we fail to carry out these additional responsibilities effectively and thus materially prejudice our Company and shareholders’ financial interests.

***We appointed our single independent member of our Board of Directors in September 2013 and we do not have an Audit Committee.*** We have two management members and one independent member of our Board of Directors. Independent directors can act as a check on management and can advise and guide management on corporate actions and in good corporate governance practices. With our lack of multiple independent Board members, our management could make subjective decisions without the benefit of more measured independent guidance. An independent Audit Committee can assure procedural and administrative adherence to internal controls over transactions, financial reporting and the audit process. Among its functions, independent Audit Committees review the financial reporting, internal controls safeguarding Company assets, interact with auditors, may oversee material financial decisions and provide a sounding board for individuals who may question a company’s accounting policies and procedures. With our lack of an Audit Committee at this time, we run a greater risk that a significant error or irregularity could occur that could be materially damaging to our shareholders.

***Issuances of our authorized preferred stock may make it more difficult for a third party to effect a change-of-control.*** Our articles of incorporation authorizes the Board of Directors to issue up to 25,000,000 shares of preferred stock. The preferred stock may be issued in one or more series, the terms of which may be determined at the time of issuance by the Board of Directors without further action by the stockholders. These terms may include preferences as to dividends and liquidation, conversion rights, redemption rights and sinking fund provisions. The issuance of any preferred stock could diminish the rights of holders of our common stock, and therefore could reduce the value of such common stock. In addition, specific rights granted to future holders of preferred stock could be used to restrict our ability to merge with, or sell assets to, a third party. The ability of the Board of Directors to issue preferred stock could make it more difficult, delay, discourage, prevent or make it more costly to acquire or effect a change-in-control, which in turn could prevent our stockholders from recognizing a gain in the event that a favorable offer is extended and could materially and negatively affect the market price of our common stock.

Table of Contents

***We are dependent for our success on a few key employees and consultants.*** Our inability to retain these individuals and attract additional people that we will need to maintain and grow our business would impede our business plan and growth strategies. This would have a negative impact on our business and the value of your investment. Our success depends on the skills, experience and performance of key members of our management team. Each of those individuals may voluntarily terminate his employment with our Company at any time. Were we to lose one or more of these key individuals, we could be forced to expend significant time and money in the pursuit of a replacement, which would result in both a delay in the implementation of our business plan and the diversion of limited working capital. We do not maintain a key man insurance policy on any of our employees or consultants.

***Our operations will incur increased costs of being a public company.*** In reviewing our past operations and future prospects, investors should recognize that we will incur significant legal, accounting and other expenses that we did not incur as a private company, particularly if we are no longer an "emerging growth company" as defined under the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act"). In addition, new and changing laws, regulations and standards relating to corporate governance and public disclosure, including the Dodd-Frank Wall Street Reform and Consumer Protection Act and the rules and regulations promulgated and to be promulgated thereunder, as well as under the Sarbanes-Oxley Act of 2002, as amended (the "Sarbanes-Oxley Act"), and the JOBS Act, have created uncertainty for public companies and increased costs and time that boards of directors and management must devote to complying with these rules and regulations. The Sarbanes-Oxley Act and related rules of the U.S. Securities and Exchange Commission, or SEC, and the Nasdaq Global Select Market regulate corporate governance practices of public companies. We expect compliance with these rules and regulations to increase our legal and financial compliance costs and lead to a diversion of management time and attention from revenue generating activities. For example, we will be required to adopt new internal controls and disclosure controls and procedures. In addition, we will incur additional expenses associated with our SEC reporting requirements.

For as long as we remain an "emerging growth company" as defined in the JOBS Act, we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not "emerging growth companies." These exceptions provide for, but are not limited to, relief from the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, less extensive disclosure obligations regarding executive compensation in our periodic reports and proxy statements, exemptions from the requirements to hold a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved and an extended transition period for complying with new or revised accounting standards. We may take advantage of these reporting exemptions until we are no longer an "emerging growth company." We may remain an "emerging growth company" for up to five years. To the extent we do not use exemptions from various reporting requirements under the JOBS Act, we may be unable to realize our anticipated cost savings from those exemptions.

***Pursuant to the JOBS Act, our independent registered public accounting firm will not be required to attest to the effectiveness of our internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act for so long as we are an "emerging growth company."*** Section 404 of the Sarbanes-Oxley Act requires annual management assessments of the effectiveness of our internal control over financial reporting, starting with the second annual report that we file with the SEC as a public company, and generally requires in the same report a report by our independent registered public accounting firm on the effectiveness of our internal control over financial reporting.

However, under the recently enacted JOBS Act, our independent registered public accounting firm will not be required to attest to the effectiveness of our internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act until we are no longer an “emerging growth company.” We could be an “emerging growth company” for up to five years.

Table of Contents

## CAPITAL MARKET RISKS

***Trading on the OTCQB tier of the OTC Markets may be volatile and sporadic, which could depress the market price of our common stock and make it difficult for our stockholders to resell their shares.*** Since October 24, 2016 our common stock has been quoted on the OTCQB tier of the electronic quotation system operated by OTC Markets. Trading in stock quoted on the OTC Markets is often thin and characterized by wide fluctuations in trading prices, due to many factors that may have little to do with our operations or business prospects. This volatility could depress the market price of our common stock for reasons unrelated to operating performance. Moreover, the OTC Markets is not a stock exchange, and trading of securities on the OTC Markets is often more sporadic than the trading of securities listed on a quotation system like NASDAQ or a stock exchange like the NYSE MKT. Accordingly, shareholders may have difficulty reselling any of their shares and the lack of liquidity may negatively impact our ability to pursue strategic alternatives.

***Penny stock rules will limit the ability of our stockholders to sell their stock.*** The Securities and Exchange Commission has adopted regulations which generally define "penny stock" to be any equity security that has a market price (as defined) less than $5.00 per share or an exercise price of less than $5.00 per share, subject to certain exceptions. Our securities are covered by the penny stock rules, which impose additional sales practice requirements on broker-dealers who sell to persons other than established customers and "accredited investors." The term "accredited investor" refers generally to institutions with assets in excess of $5,000,000 or individuals with a net worth in excess of $1,000,000 or annual income exceeding $200,000 or $300,000 jointly with their spouse. The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document in a form prepared by the Securities and Exchange Commission, which provides information about penny stocks and the nature and level of risks in the penny stock market. The broker-dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction and monthly account statements showing the market value of each penny stock held in the customer's account. The bid and offer quotations, and the broker-dealer and salesperson compensation information, must be given to the customer orally or in writing prior to effecting the transaction and must be given to the customer in writing before or with the customer's confirmation. In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from these rules, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for the stock that is subject to these penny stock rules. Consequently, these penny stock rules may affect the ability of broker-dealers to trade our securities. We believe that the penny stock rules discourage investor interest in and limit the marketability of our common stock.

***The Financial Industry Regulatory Authority, or FINRA, has adopted sales practice requirements which may also limit a shareholder's ability to buy and sell our stock.*** In addition to the penny stock rules described above, FINRA has adopted rules that require that, in recommending an investment to a customer, a broker-dealer must have reasonable grounds for believing that the investment is suitable for that customer. Prior to recommending speculative, low-priced securities to their non-institutional customers, broker-dealers must make reasonable efforts to obtain information about the customer's financial status, tax status, investment objectives and other information. Under interpretations of these rules, FINRA believes that there is a high probability that speculative, low-priced securities will not be suitable for at least some customers. FINRA requirements make it more difficult for broker-dealers to recommend that their customers buy our common stock, which may limit your ability to buy and sell our stock and have an adverse effect on the market for its shares.

Table of Contents

***Volatility of the market price of our common stock could adversely affect our shareholders and us.*** The market price of our common stock has been subject to fluctuations in the past and may be subject to wide fluctuations in response to numerous factors, including the following:

- actual or anticipated variations in our quarterly operating results or those of our competitors;
- announcements by us or our competitors of new and enhanced products;
- developments or disputes concerning proprietary rights;
- introduction and adoption of new industry standards;
- market conditions or trends in our industry;
- announcements by us or our competitors of significant acquisitions;
- entry into strategic partnerships or joint ventures by us or our competitors;
- additions or departures of key personnel;
- political and economic conditions, such as a recession or interest rate or currency rate fluctuations or political events; and
- other events or factors in any of the countries in which we do business, including those resulting from war, incidents of terrorism, natural disasters or responses to such events.

In addition, in recent years the stock market has been highly volatile. Many of these factors are beyond our control and may materially adversely affect the market price of our ordinary shares, regardless of our performance. In the past, following periods of market volatility, shareholders have often instituted securities class action litigation relating to the stock trading and price volatility of the company in question. If we were involved in any securities litigation, it could result in substantial cost to us to defend and divert resources and the attention of management from our business.

***We may not be able to attract the attention of major brokerage firms, which could have a material adverse impact on the market value of our common stock.*** Security analysts of major brokerage firms may not provide coverage of our common stock since there is no incentive to brokerage firms to recommend the purchase of our common stock. The absence of such coverage limits the likelihood that an active market will develop for our common stock. It will also likely make it more difficult to attract new investors at times when we require additional capital.

***We may be unable to list our common stock on NASDAQ or on any securities exchange.*** Although we may apply to list our common stock on NASDAQ or on the NYSE MKT LLC, formerly known as the American Stock Exchange (“AMEX”) in the future, we cannot assure you that we will be able to meet the initial qualitative or quantitative listing standards, including the minimum per share price and minimum capitalization requirements, or that we will be able to maintain a listing of our common stock on either of those or any other trading venue. Until such time as we qualify for listing on NASDAQ, the AMEX or another trading venue, our common stock will continue to trade on OTC Markets or another over-the-counter quotation system where an investor may find it more difficult to dispose of shares or obtain accurate quotations as to the market value of our common stock. In addition, rules promulgated by the SEC impose various practice requirements on broker-dealers who sell securities that fail to meet certain criteria set forth in those rules to persons other than established customers and accredited investors. Consequently, these rules may deter broker-dealers from recommending or selling our common stock, which may further affect the liquidity of our common stock. It would also make it more difficult for us to raise additional capital.

***Future sales of our equity securities could put downward selling pressure on our securities, and adversely affect the stock price.*** There is a risk that this downward pressure may make it impossible for an investor to sell his or her securities at any reasonable price, if at all. Future sales of substantial amounts of our equity securities in the public market, or the perception that such sales could occur, could put downward selling pressure on our securities, and adversely affect the market price of our common stock.

***We do not intend to pay cash dividends.*** Our policy is to retain earnings, if any, for use in our business and, for this reason, we do not intend to pay cash dividends on our shares of common stock in the foreseeable future.

**Item 1B – Unresolved staff comments**

**None**

Table of Contents

**Item 2 – Properties**

The Company leases corporate and warehouse facilities (the “Facility Leases”) in San Diego aggregating 8,654, square feet. Our corporate offices are located at 2620 Financial Court, Suite 100, San Diego, California 92117. This Facility Lease commenced in August 2015 and is for a term of 84 months. The current monthly rental payment, net of utilities and operating expenses for the Facility Lease, is approximately $12,979.

**Item 3 – Legal Proceedings**

*In Re: California Commissioner of Business Oversight v. Fresh Healthy Vending LLC, California Department of Business Oversight, File No. 993-6326. Order Entered November 7, 2014.*

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. The independent monitor has issued his final compliance report, and the Stop Order has ended.

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.

*Slender Vender, LLC and John Coffin v. Fresh Healthy Vending, LLC; Alex Kennedy; Nicholas Yates; Todd William London; Mark Trotter; Jolly Backer; Maria Truong; Ryan Ball; and T.J. Rogers. (Case Number 37-2014-00017075-CU-FR-CTL, Superior Court of the State of California for the County of San Diego, filed May 28, 2014.)*

On May 28, 2014, Slender Vender, LLC, and John Coffin, a former FHV franchisee and its owner (“Plaintiffs”), filed a complaint against FHV and certain of its current and former officers (“Defendants”) alleging violations of the California Franchise Investment Law, fraud, breach of contract, unfair competition, false advertising and violations of the California Labor Code in connection with the sale and purchase of Plaintiffs’ franchises. The complaint sought rescission of the franchise agreement, restitution, unpaid wages, and damages, including compensatory and punitive damages.

On February 6, 2015, the California Labor Code violations were dismissed without leave to amend. In addition, Defendant London was dismissed from the action that same day. Defendants Truong, Rogers, and Ball were later dismissed from the action during trial. On February 20, 2015, Plaintiffs filed a first amended complaint against the remaining defendants alleging causes of action for rescission, fraud, breach of contract, unfair competition, and false advertising.

On September 23, 2016, a jury trial commenced in the action, and the jury found in favor of Plaintiffs. The jury returned a total compensatory damages verdict of $535,091 against all Defendants, and further returned a punitive damages verdict of $140,000 against Yates and $14,000 against Kennedy. The compensatory damages award was later reduced to $295,091 following post-trial motions and stipulation. In addition, following the jury trial, the court awarded Plaintiff attorneys fees of $565,386 against FHV and costs of $29,682 against FHV, Kennedy, Yates, Trotter, and Backer. Judgment was entered on February 21, 2017.

On March 22, 2017, Defendants filed a notice of appeal, and on March 30, 2017, Plaintiff filed a notice of cross-appeal. On June 21, 2017, the parties reached a global settlement.

Despite an initial award of $1.1million, under the terms of the confidential settlement Plaintiff agreed to cause the judgment to be set aside, to withdraw all claims for wage garnishments against any of the Defendants, and to cause the removal of all recorded abstracts of judgment and the removal of any financing statements. The parties agreed to dismiss their appeals and to grant one another full mutual general releases. In exchange, Defendants agreed to pay Plaintiff $500,000, over a 25 month period, as well as a guarantee of $200,000 of securities valued at $1 per share. GNFB has guaranteed the settlement.

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 3, 2016, the parties entered into a stipulation to settle the matter. Neither side admitted wrongdoing or liability, and neither party paid compensation to the other. The court dismissed the action with prejudice on May 5, 2016.

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.

**Item 4 – Mine Safety Disclosures**

Not applicable.

*Table of Contents*

**Part II**

**Item 5 – Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

Our common stock trades publicly on the OTCQB under the symbol "VEND." The OTCQB is a regulated quotation service that displays real-time quotes, last-sale prices and volume information in over-the-counter equity securities. The OTCQB securities are traded by a community of market makers that enter quotes and trade reports. This market is extremely limited and any prices quoted may not be a reliable indication of the value of our common stock. On September 22, 2017, the closing price of our common stock as reported on the OTCQB was $1.00 per share. Our stock began trading on the OTCQB under the symbol "GEEM" on August 26, 2013 and was later changed to "VEND" on September 19, 2013.

**Holders of Record**

As of September 25, 2017, 38,235,783 shares of our common stock were issued and outstanding, and held by approximately 109 stockholders of record.

**Transfer Agent and Registrar**

Our common shares are issued in registered form. VStock, LLC, 18 Lafayette Place, Woodmere, NY 11598. Telephone: (212) 828-8436 is the registrar and transfer agent for our common shares.

**Dividends**

We have never declared or paid any cash dividends on our common stock. For the foreseeable future, we intend to retain any earnings to finance the development and expansion of our business, and we do not anticipate paying any cash dividends on our common stock. Any future determination to pay dividends will be at the discretion of our Board of Directors.

**Securities Authorized for Issuance under Equity Compensation Plans**

The table below sets forth information as of June 30, 2017, with respect to compensation plans under which our common stock is authorized for issuance.

Table of Contents

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 and on April 28, 2016 that number increased to 6,000,000.

| **Plan Category** | **Number of securities to be issued upon exercise of outstanding options** | **Weighted-average exercise price of outstanding options** | **Number of securities remaining available for future issuance under equity compensation plans** |
|---|---|---|---|
| 2013 Plan | 4,120,074 | $ 0.253 | 3,059,300 |

**Item 6 – Selected Consolidated Financial Data**

Disclosure not required as a result of our Company's status as a smaller reporting company.

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

*The following discussion and analysis is intended as a review of significant factors affecting our financial condition and results of operations for the periods indicated. The discussion should be read in conjunction with our consolidated financial statements and the notes presented herein. In addition to historical information, the following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") contains forward-looking statements that involve risks and uncertainties. Such factors include, among others, those set forth herein and those detailed from time to time in our other Securities and Exchange Commission ("SEC") filings. These forward-looking statements are made only as of the date hereof, and we undertake no obligation to update or revise the forward-looking statements, whether as a result of new information, future events or otherwise, except as otherwise required by law. The Company cautions readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. The Company disclaims any obligation subsequently to revise any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.*

23

Table of Contents

Our MD&A consists of the following sections:

- Overview – a general description of our business and fiscal 2016 highlights.
- Results of operations.
- Liquidity and capital resources.
- Discussion of critical accounting estimates.
- Off balance sheet arrangements.
- New accounting pronouncements.

***Overview***

Historical discussions with respect to our Company’s operations included herein refer to our operations for the years ended June 30, 2017 and 2016. Effective as of July 19, 2013 our Company acquired all assets of FHV Cal which included FHV LLC in a transaction accounted for as a reverse acquisition. With the sale of the GEEM Business under the Indemnity Agreement effective July 22, 2013, our continuing operations are those of FHV LLC, The Fresh and Healthy Vending Corp, Reis & Irvy’s, Inc., Generation Next Vending Robots, Inc. and 19 Degrees, Inc. Forward looking information and discussion with respect to our Company’s operations subsequent to the FHV Acquisition is also included herein.

During fiscal 2017, we obtained the exclusive rights in the USA (excluding Puerto Rico) and Canada for a new frozen yogurt vending machine robot, branded Reis & Irvy’s. As of June 30, 2017, we have received approval to sell franchises in a number of U.S. states and Canada and have booked a net 731 units aggregating $27.1 million, prior to certain offset adjustments, which is included in deferred revenues. As of June 30, 2017, and through the date of this report, the Company has not yet delivered any frozen yogurt vending machines. The Company is in the process of redeveloping the next generation frozen yogurt robot and has spent $1.6 million in research and development expenses through June 30, 2017. The Company will continue to incur additional research and development expenses until at least December 2017.

On December 29, 2016, the Company entered into an Asset Purchase Agreement (the “Agreement”) with Robofusion, Inc. (“RFI”), whereby the Company acquired the intellectual property assets of RFI, a developer of robotic-kiosk vending technology, primarily frozen yogurt vending kiosks/cubes, using RFI's trademarked name of Reis & Irvy's (the “Acquisition”). Pursuant to the Agreement, the Company provided RFI, and its designees, a cash payment of $440,000, The Company also issued to RFI a three-year, $2 million note and a five-year common stock purchase warrant for 1,520,000 shares with a strike price of $0.50 per share. Furthermore, certain RFI Officers, Directors and Shareholders will be subject to a five-year, non-compete agreement. Also, the Agreement provides for indemnification and set off of up to $1 million, under certain circumstances.

As mentioned above, we will no longer market our vending machines and micro markets to new franchisees. We will however, continue to service and support our current FHV LLC franchisees.

Table of Contents

We have effected changes to our operations in order to restore our previous levels of revenues enjoyed in prior years in the hope that such changes will also position our Company for future growth in fiscal 2018 and beyond. Among the changes implemented or in the process of being implemented were the following through September 22, 2017:

- We launched our new frozen yogurt robot franchise concept, Reis & Irvy’s in April 2016 and have produced record bookings;
- Reis & Irvy’s total franchise network aggregates over 200 franchises;
- Reis & irvy’s frozen yogurt robots aggregate over 800 units;
- Notable locations secured include Henry Ford Museum, Jeff Gordon Hospital, University of Pennsylvania, McCarren Airport Las Vegas, Indianapolis International Airport, Nissan Headquarters, Austin Convention Center, Hyundai Headquarters, The Kraft Company Headquarters and Fedex Express World Headquarters;
- Largest franchise to date totals 12 units (several at this level);
- The company raised proceeds totaling $4.3 million in the form of an equity offering;
- We repaid $623,500 in debt principal during the period from June 30, 2017 through September 22, 2017. Also, various loan agreements were extended through dates ranging from June 30, 2017 to December 31, 2017;
- The company completed the fiscal year with $1.8 million in cash;
- We completed the acquisition of all Robofusion assets, including patents, trademarks and tradenames;
- The company’s next generation robot prototype was built and has commenced performance testing, including 400,000 cycles of its robotic arm without failure;
- We initiated our international Master License program in which we will partner with in-country entrepreneurs to distribute our frozen yogurt robots. These in-country entrepreneurs will represent the Reis and Irvy’s brand around the globe. To date we have inked deals with two Master Licensees in Israel and Oman aggregating up to $4.5 million over five years;
- We engaged Flex as our contract manufacturer to build our next generation frozen yogurt robots. With approximately 200,000 professionals across 30 countries, Flex provides innovative design, engineering, manufacturing, and real time supply-chain insight, and logistics services to companies of all sizes and industries;
- We have expanded our media and Internet presence to provide new potential Reis & Irvy’s franchisees better awareness of the benefits of our product and franchisee offerings;
- We expanded our management team with key hires.

25

*Table of Contents*

***Results of Operations***

Revenues

We had revenues of $4,278,388 for the year ended June 30, 2017, compared to revenues of $5,685,199 for the year ended June 30, 2016. This represented a decrease in revenues of $1,406,811 or 24.7%. This decrease was primarily a result of decreased revenues from the installation of vending machines, as we wind down operations of our healthy vending franchise, As previously mentioned, we have discontinued sales of our healthy vending franchises, but continue to support our existing franchisees.

Cost of revenues

Cost of revenues was $1,960,074 during the year ended June 30, 2017 as compared to $3,138,422 during the year ended June 30, 2016. This represents a decrease of $1,178,348 or 37.5%.

Gross margin

Gross margin for the year ended June 30, 2017 was $2,318,314 compared to $2,546,777 for the year ended June 30, 2016, representing a decrease of $228,463 or 9.0%. Gross margin percentage was 54.2% and 44.8% for the years ended June 30, 2017 and 2016, respectively. The increase in gross margin percentage of 9.4% is primarily a result of increased margin on vending sales as well as the elimination of the Company's corporate vending route, which produced lower margins.

Operating expenses

Personnel compensation increased $995,772 to $4,062,660 in fiscal 2017 as compared to $3,066,888 in fiscal 2016, representing an increase of 32.5%. The increase was primarily due to additional personnel and an increase in commissions in connection with an increase in pre-bookings for our frozen yogurt robots.

Marketing and advertising increased $1,178,063, or 106.0%, to $2,289,465 in fiscal 2017 as compared to $1,111,402 in fiscal 2016. The increase was a result of an increase in overall marketing expenditures as well as an increase in national radio advertising and Internet marketing related to the Company's new franchise concept, Reis & Irvy's frozen yogurt robots.

Rent expense increased $27,770 or 13.8% from $200,944 in fiscal 2016 to $ 228,714 in fiscal 2017. The increase was primarily the result of escalating rents in the Company's new headquarter facility.

Professional fees increased $737,827 to $1,218,960 in fiscal 2017 compared to $481,133 in fiscal 2016. The increase was primarily attributable to increased legal fees associated with franchise legal matters as well as legal fees associated with the new Reis & Irvy's franchise concept, including the acquisition of the Robofusion assets. The increase was also attributable to legal fees associated with the Company's fund-raising activities.

Research and development fees increased 1,629,917 in fiscal 2017 compared to 7,567 in fiscal 2016. The increase was related to the complete redesign and development of the Company next generation frozen yogurt robot.

The provision for legal settlement increased 903,675 to 1,056,629 in fiscal 2017 compared to 152,954 in fiscal 2016. The increase was primarily attributable to franchisee refunds associated with the Fresh Healthy Vending franchise.

Provision for income taxes

During the years ended June 30, 2017, and 2016, we incurred net losses and operated as a C-Corp for federal and state income tax purposes. Accordingly we are subject to federal and state income taxes at the prescribed statutory rates. A valuation allowance has been recorded to eliminate the tax benefit arising from our net operating losses due to the substantial uncertainty about whether such benefit will ever be realized. We anticipate that our provision for income taxes in the future will be significantly higher should we operate profitably under our current structure.

Net loss

Our net loss was $11,269,295 for the year ended June 30, 2017 compared to a net loss of $5,087,711 for the year ended June 30, 2016. This represents an increase in net loss of $6,181,584 or 121.5%. Furthermore, the increase in net loss was offset by a decrease in other income (expense) including interest expense, accretion of discount on notes payable, and derivative liability loss aggregating $372,615.

Basic and diluted net loss per share for the years ended June 30, 2017 and 2016 was $.39 and $.19, respectively.

***Liquidity and Capital Resources***

For the year ended June 30, 2017 the Company had a net loss of $11,269,295. We had negative cash flows from operations totaling $339,848. Our cash balance at June 30, 2017 was $1,751,022. Since the date of the closing of the Acquisition, our orders and installations of machines were less than anticipated and the resulting cash flows from franchisee sales was not sufficient to cover expenditures associated with our ongoing operations. Also, we have used cash on hand to retire liabilities associated with the franchisee rescissions in California (see Legal above) and other franchisee refunds. To provide adequate liquidity for our continuing operations, we need to obtain additional capital in the form of either debt or equity (or a combination thereof) financing. Although management believes that it will be able to obtain such financing on terms acceptable to the Company, no assurance can be given that we will be successful in doing so.

Our current plans include capital expenditures for the purchase of corporate-owned and operated frozen yogurt robots as well as the option to repurchase machines from franchisees and the ongoing production of robots for our franchisees. Given our current cash position, we may be forced to curtail our plans by delaying or suspending the purchase of robots for our corporate operations pending our receipt of added capital, electing to forego repurchasing machines from franchisees and slowing the ordering of production units.

As of June 30, 2017, the Company had $334,000 outstanding under the Initial Notes, $250,000 outstanding under the Financing Agreement, $300,000 outstanding under the Promissory Note, $353,000 outstanding under a loan agreement with its Chairman, approximately $297,000 under two Secured Promissory Notes, $345,000 outstanding under a bridge loan and $2 million under a loan related to the Robofusion acquisition.

During the year ended June 30, 2017, the Company raised equity proceeds aggregating $2.3 million (net of a $300,000 receivable). Furthermore, subsequent to June 30, 2017, through September 22, 2017, the Company raised an additional $1.7 in equity proceeds.

27

Table of Contents

***Critical Accounting Estimates***

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 consolidated financial statements.

*Revenue recognition* — Our primary revenue generating transactions will come from the sale of franchises and frozen yogurt robots to the franchisees. There are no franchise fees charged beyond the initial first year franchise fees. We receive ongoing royalty fees, which represent other revenues in the Company's financial statements, as a percentage of either franchisees' gross revenues or gross margins on vending machine sales. We also receive rebates on purchases of products made by our franchisees.

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. 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.

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 June 30, 2017, and 2016, the Company's provision for franchisee rescissions and refunds totaled $2,692,618 and $1,844,176, respectively. There are vending 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 vending machines remain under warranty, our franchisees transact directly with the manufacturer or its distributor. Our frozen yogurt robots include a one-year warranty from the Company. Extended parts warranties beyond the initial year may be purchased for an additional cost by the franchisee.

*Vending & Micro Market 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.

*Reis & Irvy's 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% - 50% of machines plus 50% - 100% of the franchise fees) is due at the time of signing, while remaining amounts outlined under the contract are generally due upon the securing of locations and/or prior to shipment of the machines.

Table of Contents

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 consolidated financial statements. As of June 30, 2017, the Company had accounts receivable, deferred costs and customer advances and deferred revenues totaling $12,947,611, $196,317 and $25,042,850, respectively. As of June 30, 2016, the Company had accounts receivable, deferred costs and customer advances and deferred revenues totaling $2,411,346, $394,563 and $8,062,982 respectively.

*Accounts receivable, net* — Accounts receivable arise primarily from invoices for customer deposits, product royalties and annual advertising fees and are carried at their estimated collectible amounts, net of any estimated allowances for doubtful accounts. We grant unsecured credit to our customers 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 $198,710 and $160,647 at June 30, 2017 and 2016, respectively.

*Share-based Compensation* — We offer share-based compensation plans to attract, retain and motivate key officers, non-employee directors and employees to work toward the financial success of the Company. Share-based compensation cost for our stock option grants is estimated at the grant date based on the award's fair-value as calculated by an option pricing model and is recognized as expense ratably over the requisite service period. The option pricing models require various highly judgmental assumptions including volatility, forfeiture rates and expected option life. If any of the assumptions used in the model change significantly, share-based compensation expense may differ materially in the future from that recorded in the current period.

*Legal accruals* — The Company is subject to claims and lawsuits in the ordinary course of its business. A determination of the amount accrued, if any, for these contingencies is made after analysis of each matter. We continually evaluate such accruals and may increase or decrease accrued amounts, as we deem appropriate. Because lawsuits are inherently unpredictable, and unfavorable resolutions could occur, assessing contingencies is highly subjective and requires judgment about future events. As a result, the amount of ultimate loss may differ from those estimates.

*Income taxes* — We estimate certain components of our provision for income taxes. These estimates include, among other items, depreciation and amortization expense allowable for tax purposes, allowable tax credits, effective rates for state and local income taxes and the tax deductibility of certain other items. We adjust our effective income tax rate as additional information on outcomes or events becomes available. Our estimates are based on the best available information at the time that we prepare the income tax provision. We generally file our annual income tax returns several months after our fiscal year-end. Income tax returns are subject to audit by federal, state and local governments, generally years after the returns are filed. These returns could be subject to material adjustments or differing interpretations of the tax laws.

*Valuation of options and warrants* — 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.

Table of Contents

*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.

*Fair value of financial instruments* — 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 6, Notes payable.

**Off Balance Sheet Arrangements**

None

30

*Table of Contents*

**New Accounting Pronouncements**

In January 2017, the Financial Accounting Standards Board (the "FASB") issued new guidance for goodwill impairment which requires only a single-step quantitative test to identify and measure impairment and record an impairment charge based on the excess of a reporting unit's carrying amount over its fair value. The option to perform a qualitative assessment first for a reporting unit to determine if a quantitative impairment test is necessary does not change under the new guidance. This guidance is effective for the Company beginning in fiscal year 2020 with early adoption permitted. The Company expects to adopt this guidance in fiscal year 2017. The adoption of this guidance will have no impact on the Company's consolidated financial statements.

In November 2016, the FASB issued new guidance addressing diversity in practice that exists in the classification and presentation of changes in restricted cash in the statements of cash flows. This guidance is effective for the Company beginning in fiscal year 2018 with early adoption permitted. The Company expects to adopt this guidance retrospectively beginning in fiscal year 2017. Upon adoption, restricted cash will be combined with cash and cash equivalents when reconciling the beginning and end of period balances in the consolidated statements of cash flows, and the current presentation of changes in restricted cash within operating and financing activities will be eliminated. The adoption of this guidance will have no impact on the Company's consolidated financial statements.

In March 2016, the Financial Accounting Standards Board (the "FASB") issued new guidance for employee share-based compensation which simplifies several aspects of accounting for share-based payment transactions, including excess tax benefits, forfeiture estimates, statutory tax withholding requirements, and classification in the statements of cash flows. This guidance is effective for the Company in fiscal year 2017. Under the new guidance any future excess tax benefits or deficiencies are recorded to the provision for income taxes in the consolidated statements of operations, instead of additional paid-in capital in the consolidated balance sheets. During fiscal years ended 2017 and 2016, no excess tax benefits were recorded to additional paid-in capital that would have been recorded as a reduction to the provision for income taxes.

In February 2016, the FASB issued new guidance for lease accounting, which replaces existing lease accounting guidance. The new guidance aims to increase transparency and comparability among organizations by requiring lessees to recognize lease assets and lease liabilities on the balance sheet and requiring disclosure of key information about leasing arrangements. This guidance is effective for the Company in fiscal year 2019 with early adoption permitted, and modified retrospective application is required. The Company expects to adopt this new guidance in fiscal year 2019 and is currently evaluating the impact the adoption of this new guidance will have on the Company's consolidated financial statements and related disclosures. The Company expects that substantially all of its operating lease commitments (see note 11) will be subject to the new guidance and will be recognized as operating lease liabilities and right-of-use assets upon adoption.

In May 2014, the FASB issued new guidance for revenue recognition related to contracts with customers, except for contracts within the scope of other standards, which supersedes nearly all existing revenue recognition guidance. The new guidance provides a single framework in which revenue is required to be recognized to depict the transfer of goods or services to customers in amounts that reflect the consideration to which a company expects to be entitled in exchange for those goods or services. The new guidance is effective for the Company in fiscal year 2018 with early adoption permitted in fiscal year 2017. The Company expects to adopt this new guidance in fiscal year 2018 using the full retrospective transition method, which will result in restating each prior reporting period presented in the year of adoption. The Company expects the adoption of the new guidance to change the timing of recognition of initial franchise fees. Currently, these fees are recognized when a machine is installed or when a renewal agreement becomes effective. The new guidance will generally require these fees to be recognized over the term of the related franchise license for the respective machines, which we expect will result in a material impact to revenue recognized for franchise fees and renewal fees. The Company does not expect this new guidance to materially impact the recognition of royalty income, or sales of frozen yogurt and other products. The Company is continuing to evaluate the impact the adoption of this new guidance will have on these and other revenue transactions.

*Table of Contents*

**Item 7A – Quantitative and Qualitative Disclosures about Market Risk**

Disclosure not required as a result of our Company's status as a smaller reporting company.

**Item 8 – Financial Statements and Supplementary Data–** Included on page F-1 within this Annual Report on Form 10-K.

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

During the Company's two fiscal years ended June 30, 2017, there were no disagreements between the Company and Anton Chia on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to Anton Chia's satisfaction, would have caused them to make reference to the subject matter of the disagreement in connection with their reports on the Company's financial statements for such years or periods; and there were no reportable events as described in Item 304(a)(1)(v) of Regulation S-K.

**Item 9A – 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.

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 June 30, 2017.

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 Annual Report on Form 10K, 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).

Table of Contents

***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 June 30, 2017. 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 June 30, 2017, 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 June 30, 2017. 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"). 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 June 30, 2017. 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.

This Annual Report on Form 10-K does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management’s report was not subject to attestation by our registered public accounting firm pursuant to a permanent exemption for non-accelerated filers from the internal control audit requirements of Section 404(b) of the Sarbanes-Oxley Act of 2002.

***Officers’ Certifications***

Appearing as exhibits to this Annual Report are “Certifications” of our Chief Executive Officer and Chief Financial Officer. The Certifications are required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (the “Section 302 Certifications”). This section of the Annual Report contains information concerning the Controls Evaluation referred to in the Section 302 Certification. This information should be read in conjunction with the Section 302 Certifications for a more complete understanding of the topics presented.

**Item 9B – Other Information**

None

*Table of Contents*

## Part III

### Item 10 – Directors, Executive Officers and Corporate Governance

The names of our current officers and directors, as well as certain information about them, are set forth below:

| Name | Age | Position |
|---|---|---|
| Nicholas Yates | 41 | Vice President Corporate Operations, Director |
| Arthur S. Budman | 55 | Chief Executive Officer, Chief Financial Officer, Director |
| Steven Finley | 52 | Director |

Nicholas Yates has been our Chairman of the Board of Directors and our Vice President of Operations, as well as the Vice President of Corporate Operations of FHV LLC since July 2013, responsible for the development of FHV LLC's company-owned businesses. Effective October 1, 2014, Mr. Yates resigned his position as Vice President of Corporate Operations of FHV LLC. From July 2011 to July 2013, Mr. Yates provided consulting services to the Chief Executive Officer of FHV LLC in San Diego, California and, prior to that time, from April 2006 to May 2010, Mr. Yates was the General Manager for FHV Cal. In January 2014, FHV Cal was dissolved and its shares of the Company's common stock were distributed to a trust of which Mr. Yates is the principal beneficiary. On March 30, 2007, Mr. Yates filed a Debtor's Petition with the Insolvency and Trustee Service in Australia to declare himself bankrupt in that country.

Arthur S. Budman was appointed as our Chief Executive Officer and Chief Financial Officer on October 1, 2014. From May 19, 2014 to September 30, 2014, he oversaw our financial and accounting departments in a consultancy capacity. Mr. Budman has been a Managing Partner of Ameritege Technology Partners, a boutique private equity firm, located in San Diego California, since February 2002. Mr. Budman has been a principal at Rudy Biscuit, Inc. in Buena Park, California, an overstock merchandise liquidation business, since March 2011.

Mr. Finley has been a member of our Company's Board of Directors since September 2013. Mr. Finley graduated with a degree in Physiology from Southern Illinois University at Carbondale in 1987. Mr. Finley was a major league baseball player for 19 years from 1989 through 2007 winning five gold gloves, appearing in two All-Star games and winning a World Series with the Arizona Diamondbacks in 2001. Throughout his career Mr. Finley was known for his physical fitness programs which enabled him to play until his retirement in 2007 at age 42. Since late 2009 until the present Mr. Finley has been worked on business development with Apheta (a company providing advance planning services for high net worth individuals and athletes) and GS Levine Insurance services (a property/casualty and commercial insurance agency) and currently works with Morgan Stanley and the San Diego Padres.

34

Table of Contents

In evaluating director nominees, we principally consider the following among other business and personal factors:

- The appropriate size of the Board;
- Our needs with respect to the particular talents and experience of our directors;
- The knowledge, skills and experience of nominees;
- Experience with accounting rules and practices; and
- The nominees' other commitments.

Our goal is to assemble a Board of Directors that brings our Company a variety of perspectives and skills derived from high quality business, professional and personal experience. Personal integrity is a necessary requirement for every member of our Board.

There are no family relationships among any of our officers or directors. No non-independent director is compensated for his or her service on our Board of Directors. Mr. Finley is paid an annual retainer of $12,000, payable $1,000 per month. In addition, he receives $250 for each meeting attended, and $150 for each telephonic meeting or written action of the Board in which he participates and/or signs.

**Corporate Governance**

***Board Committees***

We presently do not have an audit committee, compensation committee or nominating committee or committee performing similar functions. Our current Board plans to form an audit, compensation and nominating committee in the future. We envision that the audit committee will be primarily responsible for reviewing the services performed by our independent auditors and evaluating our accounting policies and systems of internal controls. We envision that the compensation committee will be primarily responsible for reviewing and approving our salary and benefits policies and other compensation of our executive officers. The nominating committee would be primarily responsible for nominating directors and setting policies and procedures for the nomination of directors. The nominating committee would also be responsible for overseeing the creation and implementation of our corporate governance policies and procedures. Until these committees are established, these decisions will continue to be made by our Board of Directors.

***Director Independence***

The Board believes that Mr. Finley is independent as the term “independent” is defined by the rules of NASDAQ Rule 5605.

*Table of Contents*

***Involvement in Certain Legal Proceedings***

To our knowledge except as may be noted above or under "Legal Proceedings", none of our directors or executive officers have been convicted in a criminal proceeding, excluding traffic violations or similar misdemeanors, or have been a party to any judicial or administrative proceeding during the past ten years that resulted in a judgment, decree or final order enjoining the person from future violations of, or prohibiting activities subject to, federal or state securities laws, or a finding of any violation of federal or state securities laws, except for matters that were dismissed without sanction or settlement.

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

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our directors, executive officers and beneficial owners of more than 10% of a registered class of our equity securities to file with the Securities and Exchange Commission ("SEC") initial reports of ownership and reports of changes in ownership of our common stock and other equity securities. Directors, executive officers and greater than 10% beneficial owners are required by SEC regulations to furnish to us copies of all Section 16(a) reports they file.

The Company's Officers and Directors have properly filed beneficial holdings reports as required under Section 16a of the SEC.

**Code of Business Conduct and Ethics**

We have adopted a Code of Business Conduct and Ethics that applies to, among other persons, our principal executive officer, principal financial officer, principal accounting officer or controller, and persons performing similar functions.

*Table of Contents*

**Item 11 – Executive Compensation**

**Summary Compensation Table**

The following table sets forth information concerning all cash and non-cash compensation awarded to, earned by or paid to the named persons for services rendered in all capacities during the noted periods. No other executive officers received total annual compensation in excess of $100,000.

| Position | Year | Salary ($) | Bonus ($) | Stock Awards ($)(1) | Option Awards ($)(2) | Non-equity Incentive Comp ($) | Change in Pension Value and Non-Qualified Deferred Compensation Earnings ($) | All Other Comp. ($)(3) | Total ($) |
|---|---|---|---|---|---|---|---|---|---|
| Nicholas Yates | 2017 | 200,000 | 315,265 | - | 508,000 | - | - | 12,796 | 1,036,061 |
| Vice President, Operations, Director | 2016 | 200,000 | 90,997 | - | 34,000 | - | - | 5,402 | 330,399 |
| Arthur S. Budman (4) | 2017 | 175,000 | 112,829 | - | 50,800 | - | - | 5,264 | 343,893 |
| Chief Executive Officer, Chief Financial Officer, Director | 2016 | 175,000 | 47,867 | 21,500 | 17,000 | - | - | 4,740 | 266,107 |
| Alex Kennedy (5) | 2017 | - | 1,200 | - | - | - | - | - | 1,200 |
| Director of Franchise Development, Director | 2016 | 52,616 | - | - | - | - | - | 2,593 | 55,209 |
| Steve Finley (6) | 2017 | 12,000 | - | - | - | - | - | - | 12,000 |
| Independent Director | 2016 | 12,000 | - | - | - | - | - | - | 12,000 |

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(1) The amounts in this column are the fair value of stock awards.
(2) The amounts in this column are the annual fair values of stock option grants in accordance with ASC 718. The grant date fair values have been determined based on the assumptions and methodologies set forth in Note 9 to the consolidated financial statements.
(3) The amounts in this column are for Company provided health benefits.
(4) Mr Budman was appointed Chief Executive Officer and Chief Financial Officer on October 1, 2014. Included in Mr. Budman's salary was approximately $60,323 related to consulting wages.
(5) Ms. Kennedy resigned from the Board of Directors and her position as Director of Franchise Development on October 1, 2015.
(6) Mr. Finley is paid $1,000 per month in connection with his role as an independent director of the Company.

*Table of Contents*

**Grants of Stock Awards**

In connection with his initial employment agreement, Mr. Budman was granted 250,000 shares of common stock that vested ratably over twelve months, commencing October 15, 2014. Furthermore, during fiscal 2016, Mr. Budman was granted options to purchase 250,000 shares of common stock at $.095 per share, representing the then fair market value of the options at the time of grant. The options vest 100% in twelve months from the date of grant. On January 20, 2017, the Company granted non-qualified stock options (outside of the 2013 Plan) aggregating 500,000 shares, to Mr. Budman. The options vest 50% upon the delivery of 400 frozen yogurt robots or achieving cumulative revenue of $15 million and 50% upon the delivery of 800 frozen yogurt robots or achieving cumulative revenue of $30 million.

During fiscal 2016, Mr. Yates was granted options to purchase 500,000 shares of common stock at $.095 per share, representing the then fair market value of the options at the time of grant. The options vest 100% in twelve months from the date of grant.

On January 20, 2017, the Company granted non-qualified stock options (outside of the 2013 Plan) aggregating 5,000,000 shares to its Chairman. The options vest 50% upon the delivery of 400 frozen yogurt robots or achieving cumulative revenue of $15 million and 50% upon the delivery of 800 frozen yogurt robots or achieving cumulative revenue of $30 million.

**Option Exercises and Stock Vested**

During fiscal 2016, Mr. Finley exercised 100,000 options using the cashless exercise feature. As a result, Mr. Finley was issued 60,715 shares of common stock. Furthermore, during fiscal 2017, Mr. Finley exercised 150,000 options using the cashless exercise feature. As a result, Mr. Finley was issued 119,854 shares of common stock.

**Outstanding Equity Awards at Fiscal Year End**

At June 30, 2017, Mr. Yates held 5,500,000 options to purchase common stock, of which 500,000 were exercisable at $.095 per share. At June 30, 2017, Mr. Finley held 194,488 options to purchase common stock, of which 194,488 were exercisable at $.165 per share. At June 30, 2017, Mr. Budman held 250,000 options to purchase common stock, of which 250,000 were exercisable at $.095 per share.

**Compensation of Directors**

On September 4, 2013, the Company appointed Steve Finley as an independent member to its Board of Directors. In connection with Mr. Finley's appointment, he was granted non-qualified stock options to purchase 500,000 shares of the Company's common stock at $.165 per share, the then current value of the stock. The options vest ratably over a three year period and expire five years from the date of grant. Additionally, Mr. Finley is paid $1,000 per month for Board services. During the year ended June 30, 2017, Mr. Finley was compensated $12,000 in connection with his Board appointment.

*Table of Contents*

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

The following table sets forth, as of September 25, 2017 information with respect to the securities holdings of (i) our officers and directors, and (ii) all persons which, pursuant to filings with the SEC and our stock transfer records, we have reason to believe may be deemed the beneficial owner of more than five percent (5%) of the Common Stock. The securities "beneficially owned" by an individual are determined in accordance with the definition of "beneficial ownership" set forth in the regulations promulgated under the Exchange Act and, accordingly, may include securities owned by or for, among others, the spouse and/or minor children of an individual and any other relative who resides in the same home as such individual, as well as other securities as to which the individual has or shares voting or investment power or which each person has the right to acquire within 60 days through the exercise of options or otherwise. Beneficial ownership may be disclaimed as to certain of the securities. This table has been provided accounting for all equity common stock issuances as of September 25, 2017.

| **Name and Address of Beneficial Owner (1)** | **Amount and Nature of Beneficiary Ownership** | **Percentage of Class Beneficially Owned (2)** |
|---|---|---|
| *Officers and directors* | | |
| Nicholas Yates, Vice President Corporate Operations, Director (3) | 16,685,233 | 43.64% |
| Arthur S. Budman, Chief Executive Officer, Chief Financial Officer, Director (4) | 395,835 | 1.04% |
| Steven Finley, Director (5) | 314,979 | 0.82% |
| All directors, former directors and executive officers as a group (4 persons) | 17,396,047 | 45.50% |

* Represents less than 1% of the outstanding shares.

(1) Unless otherwise noted, the address is c/o Generation NEXT Franchise Brands, Inc. 2620 Financial Court, Suite 100, San Diego California 92117.
(2) Percentage of class beneficially owned is calculated by dividing the amount and nature of beneficial ownership by 38,235,783 shares, deemed to be the total shares of common stock outstanding as of the date of this table.
(3) 15,648,298 shares are owned by a trust of which Mr. Yates is an affiliate, 488,556 shares are owned by Mr. Yates personally, 48,379 shares are owned by the spouse of Mr. Yates and 500,000 shares are available through the exercise of options.
(4) Amount represents shares granted to Mr. Budman under an initial employment agreement dated October 1, 2014.
(5) Amounts represent the vested portion of 194,488 shares eligible to be purchased within sixty days of the date of this table, under an option to purchase common stock granted to Mr. Finley, as well as 120,491 shares of common stock held by Mr. Finley.

39

*Table of Contents*

**Item 13 - Certain Relationships and Related Transactions, and Director Independence**

**Transactions with Related Persons**

The following includes a summary of transactions occurring since July 19, 2013, in which we were or are a participant and the amount involved exceeded or exceeds $120,000, and in which any related person had or will have a direct or indirect material interest (other than compensation described under “Executive Compensation” above). This summary also includes transactions of FHV LLC, a legal entity acquired in connection with the FHV Acquisition since July 1, 2012. We believe the terms obtained or consideration that we paid or received, as applicable, in connection with the transactions described below were comparable to terms available or the amounts that would be paid or received, as applicable, in arm’s-length transactions.

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 during the term of the Note. During the year ended June 30, 2017, the Company paid $115,617 and $34,383 of principal and interest, respectively, under the Notes. During the year ended June 30, 2016, the Company paid $87,604 and $69,568 of principal and interest, respectively, under the Notes.

On January 20, 2017, Socially Responsible Brands agreed to extend the maturity date on their notes until December 31, 2017. In connection with the loan extension, the holder may convert their Notes into shares of the Company’s stock at $.16 per share. Furthermore, on September 18, 2017, the Notes were amended whereby the interest rate was modified to a rate of 20% per annum effective October 1, 2016.

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. Mr. Yates further agreed to loan the Company up to $550,000. Amounts borrowed under the Loan bear interest at 10% per annum and are due on December 31, 2016. The Loan also provides for conversion to common stock, at the option of the holder, at a price equal to the Company’s next round of funding. In connection with the beneficial conversion option, the Company has recorded $300,000 as a discount on the Loan and charged $193,766 and 106,234, to operations during the years ended June 30, 2017 and 2016, respectively. As of June 30, 2017, and 2016, $353,187 and $521,700, respectively were outstanding under the Loan.

On January 20, 2017, Mr. Yates agreed to extend his loans until December 31, 2017. In exchange for extending the loans, Mr. Yates was granted an option to convert the loan to common stock at $.16 per share.

On January 20, 2017, the Company executed a loan agreement with Nine Dragons Investments (“Nine Dragons”) for borrowings in an amount not to exceed $300,000. Nine Dragons is an entity affiliated with our Chairman Nick Yates. In connection with the loan agreement, the Company borrowed proceeds aggregating $209,931. The loans bear interest at 10% per annum, are due on December 31, 2017 and are secured by certain assets of the Company, including its intellectual property. Furthermore, the loans are convertible at the option of the holder at $.16 per share. During the year ended June 30, 2017, $209,931 of the Nine Dragons loans were redeemed for cash.

One of FHV Holdings’ (the parent company to FHV LLC prior the Acquisition) owners became an employee of our Company in July 2013 (the “Employee”). We owed $42,000 to the Employee at June 30, 2013, which was paid off in full during the year ended June 30, 2014.

*Table of Contents*

**Review, approval or ratification of transactions with related persons**

We do not have any other special committee, policy or procedure related to the review, approval or ratification of related party transactions.

**Item 14 – Principal Accounting Fees and Services**

The aggregate fees billed for the years ended June 30, 2017 and 2016, for professional services rendered by the principal accountant for the audit of our annual financial statements and review of the financial statements included in our quarterly reports on Form 10-Q and services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for these fiscal periods were as follows:

| | Year ended June 30, 2017 | Year ended June 30, 2016 |
|---|---|---|
| Audit fees (1) | $ 66,494.00 | $ 69,592.00 |
| Audit related fees (2) | 11,955.00 | 13,122.00 |
| Tax fees (3) | 47,598.00 | 18,938.00 |
| | $ 126,047.00 | $ 101,652.00 |

(1) Audit fees consist of fees incurred for professional services rendered for the audit of our financial statements, for reviews of our interim financial statements included in our quarterly reports on Form 10-Q and for services that are normally provided in connection with statutory or regulatory filings or engagements.
(2) Audit-related fees consist of fees billed for professional services that are reasonably related to the performance of the audit or review of our consolidated financial statements, but are not reported under "Audit fees."
(3) Tax fees consist of fees billed for professional services relating to tax compliance, tax planning, and tax advice.

Our Board of Directors pre-approves all services provided by our independent auditors. All of the above services and fees were reviewed and approved by the board of directors either before or after the respective services were rendered.

Our Board of Directors has considered the nature and amount of fees billed by our independent auditors and believes that the provision of services for activities unrelated to the audit is compatible with maintaining our independent auditors' independence.

*Table of Contents*

## Part IV

### Item 15 – Exhibits, Financials Statements and Schedules

(a) Financial Statements

Filed at the end of this Annual Report are the audited financial statements of Generation NEXT Franchise Brands, Inc. for the years ended June 30, 2017 and 2016.

(d) Exhibits

| **Exhibit No.** | **Description** |
|---|---|
| 2.1 | Asset Purchase Agreement dated December 30, 2016, by and among Registrant and Robofusion, Inc. (incorporated by reference to the Registrant's Current Report on Form 8-K filed on January 4, 2017 (File No. 000-55164)). (Pursuant to Item 601(b)(2) of Regulation S-K, the schedules and exhibits have been omitted from this filing). |
| 3.1 | Certificate of Amendment of Articles of Incorporation of Generation Next Franchise Brands, inc. (incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K filed on July 13, 2016 (File No. 000-55164). |
| 3.2 | By-laws of Registrant, effective June 9, 2011 (Incorporated by reference to Exhibit 3.2 of the Registrant's Current Report on Form S-1 filed on October 13, 2011 (File No. 333-177305). |
| 10.1 | Amendment No. 2 to July 19, 2013 Employment Agreement between Fresh Healthy vending International, Inc. and Nicholas Yates (Incorporated by reference to Exhibit 99.1 of the Registrant's Current Report on Form 8-K filed on May 27, 2016 (File No. 000-55164). |
| 10.2 | Amendment No. 1 to October 1, 2014 Employment Agreement dated between Fresh Healthy Vending International, Inc. and Arthur Budman (Incorporated by reference to Exhibit 99.2 of the Registrant's Current Report on Form 8-K filed on May 27, 2016 (File No. 000-55164). |
| 21.1 | List of subsidiaries* |
| 23.1 | Consent of Independent Registered Accounting Firm.* |
| 31.1 | Certification by Arthur Budman pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.* |
| 32.1 | Certification by Arthur Budman pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.* |

* Filed herewith.

Table of Contents

## 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 hereunto duly authorized.

| | |
|---|---|
| | **Generation NEXT Franchise Brands, Inc.** |
| Date: September 29, 2017 | By: */s/ ARTHUR S. BUDMAN*<br>Arthur S. Budman<br>Chief Executive Officer, Chief Financial Officer |

## Power of Attorney

We, the undersigned directors and/or officers of Generation NEXT Franchise Brands, Inc., a Nevada corporation, hereby severally constitute and appoint Arthur S. Budman, acting individually, his true and lawful attorney-in-fact and agent, with full power of substitution and re-substitution, for his and in his name, place and stead, in any and all capacities, to sign any and all amendments to this annual report on Form 10-K, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done that such annual report and its amendments shall comply with the Securities Act, and the applicable rules and regulations adopted or issued pursuant thereto, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

In accordance with the requirements of the Securities Act of 1934, this report has been signed by the followings persons in the capacities and on the dates stated.

| **Signature** | **Title** | **Date** |
|---|---|---|
| */s/ ART BUDMAN*<br><br>Art Budman | Chief Executive Officer, Chief Financial Officer | September 29, 2017 |
| */s/ NICHOLAS YATES*<br>Nicholas Yates | Chairman | September 29, 2017 |

| | | |
|---|---|---|
| */s/ STEVEN FINLEY*<br>Steven Finley | Director | September 29, 2017 |

*Table of Contents*

# INDEX TO FINANCIAL STATEMENTS

***Fresh Healthy Vending International, Inc. and Subsidiaries***

*Table of Contents*

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders

Generation Next Franchise Brands, Inc.

(Formerly Fresh Healthy Vending International, Inc.)

We have audited the accompanying consolidated balance sheets of Generation Next Franchise Brands, Inc. (Formerly Fresh Healthy Vending International, Inc.) (the "Company") as of June 30, 2017 and 2016, and the related consolidated statements of operations, changes in stockholders' deficit and cash flows for each of the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company has determined that it is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of June 30, 2017 and 2016, and the consolidated results of its operations, its changes in stockholders' deficit and its cash flows for each of the years then ended, in conformity with accounting principles generally accepted in the United States of America.

*/s/ Anton & Chia, LLP*

Newport Beach, California

September 29, 2017

F-2

Table of Contents

GENERATION NEXT FRANCHISE BRANDS, INC. AND SUBSIDIARIES
Consolidated Balance Sheets

| | As of June 30 | |
|---|---|---|
| | **2017** | **2016** |
| **Assets** | | |
| **Current assets:** | | |
| Cash | $ 1,751,022 | $ 409,706 |
| Cash in escrow | 1,500 | 208,767 |
| Accounts receivable, net | 12,947,611 | 2,411,346 |
| Deferred costs | 196,317 | 394,563 |
| Inventories, net | 252,492 | 318,707 |
| Prepaid expenses and other current assets | 305,508 | 479,559 |
| Total current assets | 15,454,450 | 4,222,648 |
| Property and equipment: | | |
| Equipment | 125,000 | - |
| Computer hardware and software | 148,693 | 145,060 |
| Furniture and fixtures | 44,065 | 50,725 |
| Intangible intellectual property | 2,440,000 | - |
| Leasehold improvements | 22,846 | 22,846 |
| | 2,780,604 | 218,631 |
| Less accumulated depreciation and amortization | (364,791) | (124,033) |
| Total property and equipment, net | 2,415,813 | 94,598 |
| Deposits | 32,904 | 32,904 |
| **Total assets** | $ 17,903,167 | $ 4,350,150 |
| **Liabilities and Stockholders' Deficit** | | |
| **Current liabilities:** | | |
| Accounts payable and accrued liabilities | $ 2,727,873 | $ 1,172,978 |
| Customer advances and deferred revenues | 25,042,850 | 8,062,982 |
| Provision for franchisee rescissions and refunds | 2,692,618 | 1,844,176 |
| Accrued personnel expenses | 391,072 | 266,926 |
| Notes payable, net of discount of $169,542 in 2017 and $0 in 2016 | 1,710,291 | 1,357,666 |
| Derivative liability | 560,007 | 336,027 |
| Due to related party, net of discount of $0 in 2017 and $193,766 in 2016 | 649,966 | 740,330 |
| Deferred rent | 19,375 | 11,497 |
| Total current liabilities | 33,794,052 | 13,792,582 |
| Note payable - long term | 1,333,333 | |

| | | | | |
|---|---|---|---|---|
| **Commitments and contingencies (Notes 6 and 10)** | | - | | - |
| | | | | |
| **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; 34,826,646 outstanding at June 30, 2017 | | 34,825 | | 27,916 |
| Additional paid-in capital | | 6,722,850 | | 3,242,250 |
| Accumulated deficit | | (23,981,893) | | (12,712,598) |
| | | | | |
| Total stockholders' deficit | | (17,224,218) | | (9,442,432) |
| | | | | |
| **Total liabilities and stockholders' deficit** | $ | 17,903,167 | $ | 4,350,150 |

*See accompanying notes to the consolidated financial statements.*

Table of Contents

GENERATION NEXT FRANCHISE BRANDS, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
For the years ended June 30, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| Revenues: | | |
| Vending machine sales, net | $ 3,346,776 | $ 4,537,463 |
| Franchise fees | 307,159 | 382,992 |
| Company owned machines | 140,690 | 294,565 |
| Agency sales (net) | 88,826 | 93,933 |
| Other | 394,937 | 376,246 |
| Total revenues | 4,278,388 | 5,685,199 |
| Cost of revenues | 1,960,074 | 3,138,422 |
| Gross margin | 2,318,314 | 2,546,777 |
| Operating expenses: | | |
| Personnel | 4,062,660 | 3,066,888 |
| Marketing | 2,289,465 | 1,111,402 |
| Professional fees | 1,218,960 | 481,133 |
| Insurance | 262,969 | 258,312 |
| Rent | 228,714 | 200,944 |
| Depreciation and amortization | 243,416 | 90,071 |
| Stock compensation | 401,878 | 307,440 |
| Research and Development | 1,637,484 | 7,567 |
| Provision for Legal Settlement | 1,056,629 | 152,954 |
| Other | 1,398,509 | 823,094 |
| Total operating expenses | 12,800,684 | 6,499,805 |
| Loss from operations | (10,482,370) | (3,953,028) |
| Other expenses: | | |
| Interest expense | (257,921) | (261,898) |
| Accretion of discount on notes payable | (300,224) | (560,027) |
| Loss on conversion of franchisee debt to stock | - | (263,338) |
| Derivative liability | (223,980) | (44,620) |
| Total other expenses | (782,125) | (1,129,883) |
| Loss before provision for income taxes | (11,264,495) | (5,082,911) |
| Provision for income tax | 4,800 | 4,800 |
| Net loss | $ (11,269,295) | $ (5,087,711) |

| | | |
|---|---|---|
| Net loss per share - basic and diluted | $ (0.39) | $ (0.19) |
| Weighted average shares used in computing net loss per share - basic and diluted | 29,252,793 | 27,210,290 |

*See accompanying notes to the consolidated financial statements.*

Table of Contents

GENERATION NEXT FRANCHISE BRANDS, INC. AND SUBSIDIARIES
Consolidated Statements of Changes in Stockholders' Deficit
For the years ended June 30, 2017 and 2016

| | Common Shares | Common Stock | Additional Paid-in Capital | Accumulated Deficit | Total Stockholders' Deficit |
|---|---|---|---|---|---|
| Balance at June 30, 2015 | 26,784,767 | $ 26,783 | $ 2,072,422 | $ (7,624,887) | $ (5,525,682) |
| Issuance of common stock to employee | 62,499 | 62 | 21,500 | | 21,562 |
| Stock-based compensation | | | 285,878 | | 285,878 |
| Exercise of warrants on $375,000 convertible loan | 101,849 | 102 | 106,331 | | 106,433 |
| Issuance of common stock to franchisees in lieu of debt repayment | 968,750 | 969 | 192,781 | | 193,750 |
| Loss on issuance of stock in lieu of debt repayment | | | 263,338 | | 263,338 |
| Beneficial conversion feature on related party note | | | 300,000 | | 300,000 |
| Exercise of stock options | 60,715 | 61 | (61) | | - |
| Net loss | | | | (5,087,711) | (5,087,711) |
| Balance at June 30, 2016 | 27,978,580 | 27,977 | 3,242,189 | (12,712,598) | (9,442,432) |
| Stock-based compensation | | | 401,878 | | 401,878 |
| Value of warrant issued in connection with notes payable | | | 174,000 | | 174,000 |
| Conversion of note payable to common stock | 1,325,821 | 1,326 | 210,805 | | 212,131 |
| Common stock issued in connection with notes payable | 75,000 | 75 | 56,925 | | 57,000 |
| | 162,245 | 162 | (162) | | - |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Exercise of stock options | | | | | | | | | |
| Issuance of common stock for cash | 4,685,000 | | 4,685 | | 2,343,215 | | | | 2,347,900 |
| Issuance of common stock subscription receivable | 600,000 | | 600 | | 294,000 | | | | 294,600 |
| Net loss | | | | | | | (11,269,295) | | (11,269,295) |
| Balance at June 30, 2017 | 34,826,646 | $ | 34,825 | $ | 6,722,850 | $ | (23,981,893) | $ | (17,224,218) |

*See accompanying notes to the consolidated financial statements.*

*Table of Contents*

GENERATION NEXT FRANCHISE BRANDS, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the years ended June 30, 2017 and 2016

| | | 2017 | | 2016 |
|---|---|---|---|---|
| Cash flows from operating activities: | | | | |
| Net loss | | (11,269,295) | $ | (5,087,711) |
| Adjustments to reconcile net loss to net cash flows used in operating activities: | | | | |
| Depreciation and amortization | | 243,416 | | 90,071 |
| Interest accretion on notes payable discount | | 300,224 | | 560,027 |
| Loss on conversion of franchisee refund | | - | | 263,338 |
| Loss on derivative liability | | 223,980 | | 44,620 |
| Issuance of common stock to employee | | - | | 21,562 |
| Stock-based compensation | | 401,878 | | 285,878 |
| Loss (gain) on sales and disposals of property and equipment | | (2,658) | | 29,134 |
| Deferred rent | | 7,878 | | 10,057 |
| Bad debt expense | | 38,063 | | 59,955 |
| Changes in operating assets and liabilities: | | | | |
| Accounts receivable | | (10,274,328) | | (403,540) |
| Deferred costs | | 198,246 | | 490,322 |
| Inventories | | 66,215 | | 192,784 |
| Prepaid expenses and other assets | | 174,051 | | (389,897) |
| Deposits | | - | | 8,889 |
| Accounts payable and accrued liabilities | | 1,600,026 | | 125,303 |
| Customer advances and deferred revenues | | 16,979,868 | | 1,634,826 |
| Provision for franchisee rescissions and refunds | | 848,442 | | 1,462,176 |
| Accrued personnel expenses | | 124,146 | | 45,732 |
| Cash flows used in operating activities | | (339,848) | | (556,474) |
| | | | | |
| Cash flows from investing activities: | | | | |
| Purchases of property and equipment | | (561,973) | | (82,486) |
| Cash flows used in investing activities | | (561,973) | | (82,486) |
| | | | | |
| Cash flows from financing activities: | | | | |
| Amounts received from related party | | 209,931 | | 839,096 |
| Repayments of advances from related party | | (494,061) | | - |
| Proceeds from issuance of notes payable | | 300,000 | | - |
| Repayment of notes payable | | (322,500) | | - |
| Proceeds from issuance of common stock for cash | | 2,342,500 | | - |
| Cash flows provided by financing activities | | 2,035,870 | | 839,096 |
| | | | | |
| Change in cash and restricted cash | | 1,134,049 | | 200,136 |
| | | | | |
| Cash and restricted cash, beginning of year | | 618,473 | | 418,337 |
| | | | | |
| Cash and restricted cash, end of year | $ | 1,752,522 | $ | 618,473 |

| | | | | |
|---|---|---|---|---|
| Supplemental disclosure of cash flow information: | | | | |
| Cash paid for: | | | | |
| Interest expense | $ | 66,867 | $ | 128,319 |
| Income taxes | $ | 4,800 | $ | 800 |
| | | | | |
| Supplemental disclosure of non-cash investing and financing activities: | | | | |
| Transfer of corporate machines from fixed assets to inventory | $ | - | $ | 222,212 |
| Conversion of debt to common stock | $ | 212,131 | $ | - |
| Exercise of cashless warrants | $ | - | $ | 106,433 |
| Note payable issued for purchase of intangible assets | $ | 2,000,000 | $ | - |
| Issuance of common stock in connection with bridge loan | $ | 57,000 | $ | - |
| Issuance of common stock in lieu of franchisee liability payments | $ | - | $ | 193,750 |
| Debt discounts | $ | 276,000 | $ | 560,027 |
| Value of stock issued in connection with notes payable | $ | 174,000 | $ | - |
| Stock subscriptions receivable | $ | 300,000 | $ | - |
| Exercise of cashless stock options | $ | 162 | $ | 61 |

*See accompanying notes to the consolidated financial statements.*

**GENERATION NEXT FRANCHISE BRANDS, INC. AND SUBSIDIARIES**

**(FORMERLY KNOWN AS FRESH HEALTHY VENDING INTERNATIONAL, INC.)**

Notes to Consolidated Financial Statements

**1. Organization and description of business**

Generation NEXT Franchise Brands, Inc. (formerly known as Fresh Healthy Vending International, Inc. and referred to herein collectively with its subsidiaries as "we", the "Company", "our Company", or "GNext") operates through its wholly-owned subsidiaries, Fresh Healthy Vending LLC ("FHV LLC"), The Fresh and Healthy Vending Corporation, FHV Acquisition Corp. ("FHV Acquisition") and our newly formed subsidiaries, Reis & Irvy's, Inc. ("R&I"), 19 Degrees, Inc. and Generation Next Vending Robots, Inc. as a franchisor, direct seller and owner and operator of frozen yogurt Robots, 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 frozen yogurt equipment. Effective May 2016, the Company discontinued new franchise sales of its healthy drink and snack vending machines and micro markets. We will no longer market our vending machines and micro markets to new franchisees. We will however, continue to service and support our current FHV LLC franchisees.

During fiscal 2017, we obtained the exclusive rights in the USA (excluding Puerto Rico) and Canada for a new frozen yogurt vending machine robot, branded Reis & Irvy's. As of June 30, 2017, we have received approval to sell franchises in a number of U.S. states and Canada and have booked a net 731 units aggregating approximately $25 million in deferred revenues. As of June 30, 2017, and through the date of this report, the Company has not yet delivered any frozen yogurt vending machines. The Company is in the process of redeveloping the next generation frozen yogurt robot and has spent $1.6 million in research and development expenses through June 30, 2017. The Company will continue to incur additional research and development expenses.

On December 29, 2016, the Company entered into an Asset Purchase Agreement (the "Agreement") with Robofusion, Inc. ("RFI"), whereby the Company acquired the intellectual property assets of RFI, a developer of robotic-kiosk vending technology, primarily frozen yogurt vending kiosks/cubes, using RFI's trademarked name of Reis & Irvy's (the "Acquisition"). Pursuant to the Agreement, the Company provided RFI, and its designees, a cash payment of $440,000, The Company also issued to RFI a three-year, $2 million note and a five-year common stock purchase warrant for 1,520,000 shares with a strike price of $0.50 per share. Furthermore, certain RFI Officers, Directors and Shareholders will be subject to a five-year, non-compete agreement. Also, the Agreement provides for indemnification and set off of up to $1 million, under certain circumstances.

**2. Summary of significant accounting policies**

**Basis of Accounting**

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. ("GAAP") and the rules and regulations of the Securities and Exchange Commission ("SEC").

**Liquidity and capital resources**

For the year ended June 30, 2017 the Company had a net loss of $11,269,295. We had negative cash flows from operations totaling $339,848. Our cash balance at June 30, 2017 was $1,751,022. Since the date of the closing of the Acquisition, our orders and installations of machines were less than anticipated and the resulting cash flows from franchisee sales was not sufficient to cover expenditures associated with our ongoing operations. Also, we have used cash on hand to retire liabilities associated with the franchisee rescissions in California (see Legal above) and other franchisee refunds. To provide adequate liquidity for our continuing operations, we need to obtain additional capital in the form of either debt or equity (or a combination thereof) financing. Although management believes that it will be able to obtain such financing on terms acceptable to the Company, no assurance can be given that we will be successful in doing so.

Our current plans include capital expenditures for the purchase of corporate-owned and operated frozen yogurt robots and 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 Robots 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, FHV Acquisition, Corp. and its newly formed subsidiaries, Reis & Irvy's, Inc., 19 Degrees, Inc. and Generation Next Vending Robots. All significant intercompany accounts and transactions are eliminated.

***Concentration of credit risk***

The Company is subject to credit risk through its accounts receivable consisting primarily of amounts due from franchisees for machine purchases, franchise fees, royalty income, and other products. The financial condition of these franchisees is largely dependent upon the underlying business trends of our brands and market conditions within the vending industry. This concentration of credit risk is mitigated, in part, by the large number of franchisees of each brand and the short-term nature of the receivables.

**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, volatility in the Black Scholes model, valuation model of derivative liability, stock compensation 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 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.

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. As of June 30, 2017, we had three company-owned frozen yogurt vending robots in operation.

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 June 30, 2017 and 2016, the Company’s provision for franchisee rescissions and refunds totaled $2,692,618 and $1,844,176, 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.

*Table of Contents*

**Vending 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: $1,250

Cost per machine: $10,000

Total franchise cost: $112,500 ($1,250 X 10 + $10,000 X 10)

Initial payment upon signing contract: $52,500 (100% of franchise fees of $12,500 + 40% of machine cost of $100,000)

Upon the signing of the contract, the Company records the initial payment of $52,500 to cash, with the remaining contract value of $60,000 to accounts receivable and records the total contract value of $112,500 to deferred revenue.

**Frozen yogurt 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% - 50% of amounts due for vending machines plus 50% - 100% of the initial franchise fees) is due at the time of signing, while remaining amounts outlined under the contract are generally due on a pro rata basis upon our locating the sites for the frozen yogurt robots.

A typical three unit franchise contract would include the following:

Franchise fee per machine: $5,000

Location fee per machine: $2,500

Cost per machine: $42,500

Total franchise cost: $150,000 ($5,000 X 3 + $2,500 X 3 + 42,500 X 3)

Initial payment upon signing contract: $69,000 (100% of franchise fees of $15,000 + 40% of location fees of $7,500 + 40% of machine cost of $127,500)

Upon the signing of the contract, the Company records the initial payment of $69,000 to cash, with the remaining contract value of $81,000 to accounts receivable and records the total contract value of $150,000 to deferred revenue.

Table of Contents

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 consolidated financial statements. As of June 30, 2017, the Company had accounts receivable, deferred costs and customer advances and deferred revenues totaling $12,947,611, $196,317 and $25,042,850, respectively. As of June 30, 2016, the Company had accounts receivable, deferred costs and customer advances and deferred revenues totaling $2,411,346, $394,563 and $8,062,982, respectively.

Deferred revenue consisted of the following as of June 30, 2017 and 2016.

| | As of June 30 | |
|---|---|---|
| | **2017** | **2016** |
| Vending machines - new | $ 793,559 | $ 4,449,950 |
| Vending machines - used | 46,750 | 282,887 |
| Micro markets - new | - | 213,500 |
| Franchise fees | 118,011 | 682,145 |
| Frozen yogurt robots | 23,997,780 | 2,427,500 |
| Other | 86,750 | 7,000 |
| | $ 25,042,850 | $ 8,062,982 |

**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 June 30, 2017 and 2016. We may maintain our cash and cash equivalents in amounts that may, at times, exceed federally insured limits. At June 30, 2017, bank balances, per our bank, exceeding federally insured limits totaled $1,501,328. 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. Furthermore, certain franchisees have elected to pay their remaining balance due directly to an escrow account for the beneficiary of the Company's contract manufacturer. At June 30, 2017 and 2016, the Company had $1,500 and $208,767, respectively maintained in escrow accounts for these purposes.

**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 $198,710 and $160,647 at June 30, 2017 and 2016, respectively.

*Table of Contents*

**Inventories and deferred costs**

Inventories consist of vending machines and micro markets held for sale, 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 patents and trademarks and 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 their estimated useful lives of the individual assets (generally five to seven years and the remaining useful lives of intangibles). Leasehold improvements are amortized over the lesser of the term of the related lease or the estimated useful life of the asset. 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 years ended June 30, 2017 and 2016 totaled $243,416 and $90,071, 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 years ended June 30, 2017 and 2016, respectively.

**License fee**

The Company initially recorded $395,000 related to the exclusive license fee and purchase of frozen yogurt robots from Robofusion, Inc. as a prepaid expense. In connection with the acquisition of the Robofusion intellectual property in December 2016, the Company charged this amount to operations (see Note 10).

***Intangible assets***

We evaluate the remaining useful life of our intangible assets to determine whether current events and circumstances continue to support their remaining useful life. In addition, all of our intangible assets are tested for impairment annually. We first assess qualitative factors to determine whether it is more likely than not that an intangible asset is impaired. In the event we were to determine that the carrying value of an intangible asset would more likely than not exceed its fair value, quantitative testing would be performed which consists of a comparison of the fair value of each intangible asset with its carrying value, with any excess of carrying value over fair value being recognized as an impairment loss.

Intangible assets consist primarily of patents, trademarks and trade names. Amortization of intangible assets is recorded as amortization expense in the consolidated statements of operations and amortized over the respective useful lives using the straight-line method.

Management makes adjustments to the carrying amount of such intangible assets acquired if they are deemed to be impaired using the methodology for long-lived assets, or when such assets are reduced or terminated.

**Deferred rent**

We entered into an operating lease for our corporate offices in San Diego, California that 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 consolidated balance sheet. Effective, August 1, 2015, the Company entered into a new seven year lease agreement for its corporate operations and warehouse facilities (see Note 9).

Table of Contents

**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 $2,289,465 and $1,111,402 for the years ended June 30, 2017 and 2016, 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.

**Income taxes**

The Company provides for income taxes utilizing the liability method. Under the liability method, current income tax expense or benefit is the amount of income taxes expected to be payable or refundable for the current year. A deferred income tax asset or liability is computed for the expected future impact of differences between the financial reporting and tax bases of assets and liabilities and for the expected future tax benefit to be derived from tax credits. Tax rate changes are reflected in the computation of the income tax provision during the period such changes are enacted.

Deferred tax assets are reduced by a valuation allowance when, in management's opinion, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The Company's valuation allowance is based on available evidence, including its current year operating loss, evaluation of positive and negative evidence with respect to certain specific deferred tax assets including evaluation sources of future taxable income to support the realization of the deferred tax assets. The Company has established a full valuation allowance on the deferred tax assets as of June 30, 2017 and 2016, and therefore has not recognized any income tax benefit or expense (other than the state minimum income tax) for the periods presented.

ASC 740, Income Taxes ("ASC 740"), clarifies the accounting for uncertainty in income taxes recognized in the financial statements. ASC 740 provides that a tax benefit from uncertain tax positions may be recognized when it is more-likely-than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits of the position. Income tax positions must meet a more-likely-than-not recognition threshold to be recognized. ASC 740 also provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

The Company recognizes interest and/or penalties related to income tax matters in income tax expense. There is no accrual for interest or penalties for income taxes on the balance sheets as of June 30, 2017 and 2016, and the Company has not recognized interest and/or penalties in the consolidated statements of operations for the years ended June 30, 2017 and 2016.

**Valuation of options and warrants to purchase common stock and share grants**

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.

*Table of Contents*

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).

The fair value of derivative instruments is recorded and shown separately under current liabilities. Changes in fair value are recorded in the consolidated statements of operations under other income (expenses).

*Table of Contents*

The accounting treatment of derivative financial instruments requires that the Company record the embedded conversion option and warrants at their fair values as of the inception date of the agreement and at fair value as of each subsequent balance sheet date. Any change in fair value is recorded as a non-operating, non-cash income or expense for each reporting period at each balance sheet date. If the classification changes as a result of events during the period, the contract is reclassified as of the date of the event that caused the reclassification.

The Company evaluates all of its financial instruments to determine if such instruments are derivatives or contain features that qualify as embedded derivatives. For derivative financial instruments that are accounted for as liabilities, the derivative instruments are initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported in the consolidated statements of operations. For stock-based derivative financial instruments, the Company uses the Black-Sholes option pricing model to value the derivative instruments at inception and on subsequent valuation dates. The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is evaluated at the end of each reporting period. Derivative instrument liabilities are classified in the balance sheet as current or non-current based on whether or not net-cash settlement of the derivative instrument could be required within twelve months of the balance sheet date.

**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 and warrants excluded from earnings per share totaled 7,640,000 and 4,514,448 at June 30, 2017 and 2016, 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 of Company granted franchises. We estimate the range of liability related to any pending litigation or franchise agreement 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. Where 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 consolidated balance sheet and statements of operations.

Additionally, our Company is subject to certain state reviews of our Franchise Disclosure Documents. Such state reviews could lead to our Company being fined or prohibited from entering into franchising agreements with the reviewing state.

**Recent accounting standards**

In January 2017, the Financial Accounting Standards Board (the “FASB”) issued new guidance for goodwill impairment which requires only a single-step quantitative test to identify and measure impairment and record an impairment charge based on the excess of a reporting unit’s carrying amount over its fair value. The option to perform a qualitative assessment first for a reporting unit to determine if a quantitative impairment test is necessary does not change under the new guidance. This guidance is effective for the Company beginning in fiscal year 2020 with early adoption permitted. The Company expects to adopt this guidance in fiscal year 2017. The adoption of this guidance will have no impact on the Company’s consolidated financial statements.

Table of Contents

In November 2016, the FASB issued new guidance addressing diversity in practice that exists in the classification and presentation of changes in restricted cash in the statements of cash flows. This guidance is effective for the Company beginning in fiscal year 2018 with early adoption permitted. The Company expects to adopt this guidance retrospectively beginning in fiscal year 2017. Upon adoption, restricted cash will be combined with cash and cash equivalents when reconciling the beginning and end of period balances in the consolidated statements of cash flows, and the current presentation of changes in restricted cash within operating and financing activities will be eliminated. The adoption of this guidance will have no impact on the Company's consolidated financial statements.

In March 2016, the Financial Accounting Standards Board (the "FASB") issued new guidance for employee share-based compensation which simplifies several aspects of accounting for share-based payment transactions, including excess tax benefits, forfeiture estimates, statutory tax withholding requirements, and classification in the statements of cash flows. This guidance is effective for the Company in fiscal year 2017. Under the new guidance any future excess tax benefits or deficiencies are recorded to the provision for income taxes in the consolidated statements of operations, instead of additional paid-in capital in the consolidated balance sheets. During fiscal years ended 2017 and 2016, no excess tax benefits were recorded to additional paid-in capital that would have been recorded as a reduction to the provision for income taxes.

In February 2016, the FASB issued new guidance for lease accounting, which replaces existing lease accounting guidance. The new guidance aims to increase transparency and comparability among organizations by requiring lessees to recognize lease assets and lease liabilities on the balance sheet and requiring disclosure of key information about leasing arrangements. This guidance is effective for the Company in fiscal year 2019 with early adoption permitted, and modified retrospective application is required. The Company expects to adopt this new guidance in fiscal year 2019 and is currently evaluating the impact the adoption of this new guidance will have on the Company's consolidated financial statements and related disclosures. The Company expects that substantially all of its operating lease commitments (see note 9) will be subject to the new guidance and will be recognized as operating lease liabilities and right-of-use assets upon adoption.

In May 2014, the FASB issued new guidance for revenue recognition related to contracts with customers, except for contracts within the scope of other standards, which supersedes nearly all existing revenue recognition guidance. The new guidance provides a single framework in which revenue is required to be recognized to depict the transfer of goods or services to customers in amounts that reflect the consideration to which a company expects to be entitled in exchange for those goods or services. The new guidance is effective for the Company in fiscal year 2018 with early adoption permitted in fiscal year 2017. The Company expects to adopt this new guidance in fiscal year 2018 using the full retrospective transition method, which will result in restating each prior reporting period presented in the year of adoption. The Company expects the adoption of the new guidance to change the timing of recognition of initial franchise fees. Currently, these fees are recognized when a machine is installed or when a renewal agreement becomes effective. The new guidance will generally require these fees to be recognized over the term of the related franchise license for the respective machines, which we expect will result in a material impact to revenue recognized for franchise fees and renewal fees. The Company does not expect this new guidance to materially impact the recognition of royalty income, or sales of frozen yogurt and other products. The Company is continuing to evaluate the impact the adoption of this new guidance will have on these and other revenue transactions.

***Subsequent events***

Subsequent events have been evaluated up through the date that these consolidated financial statements were filed.

*Table of Contents*

**Franchise information**

Our franchise agreements generally require an initial non-refundable fee per machine of $1,000 to $5,000. New franchisees are generally required to purchase a minimum of ten vending machines or micro markets or three frozen yogurt robots. Initial franchise fees are primarily intended to compensate our Company for granting the right to use our Company's trademark and tradenames and patents and to offset the costs of finding locations for vending machines, developing training programs and the operating manual. The term of the initial franchise agreement is generally five to ten years. Options to renew the franchise for one or five year terms are available for an additional fee.

Franchise agreements generally also provide for continuing royalty fees that are based on monthly gross revenues of each machine. The royalty fee (generally 6% - 12% of gross revenues) compensates our Company for various advisory services and certain merchant fees that we provide to the franchisee on an on-going basis.

We recorded net agency revenues for the sales of food and beverages in the accompanying statements of operations of $88,826 and $93,933 for the years ended June 30, 2017 and 2016, respectively.

United States franchise statistics for the years ended June 30, 2017 and 2016 are as follows:

| | |
|---|---|
| FHV franchises in operation as of June 30, 2015 | 210 |
| New franchises granted | 66 |
| Franchises cancelled | (26) |
| FHV Franchises in operation as of June 30, 2016 | 250 |
| New franchises granted | - |
| Franchises cancelled | (22) |
| FHV franchises in operation as of June 30, 2017 | 228 |
| | |
| Reis and Irvy's franches in operation as of June 30, 2015 | 0 |
| New franchises granted | 28 |
| Franchises cancelled | 0 |
| Reis and Irvy's franches in operation as of June 30, 2016 | 28 |
| New franchises granted | 161 |
| Franchises cancelled | -10 |
| | 179 |

We operated 3 and 0 frozen yogurt robots, vending machines and micro markets for our own benefit as of June 30, 2017 and 2016, respectively.

**3. Related party transactions**

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 during the term of the Note. During the year ended 2016, the Company paid $87,604 and $69,568 of principal and interest, respectively, under the Notes. During the year ended 2017, the Company paid $115,617 and $34,383 of principal and interest, respectively, under the Notes.

*Table of Contents*

On January 20, 2017, Socially Responsible Brands agreed to extend the maturity date on their notes until December 31, 2017. In connection with the loan extension, the holder may convert their Notes into shares of the Company's stock at $.16 per share. Furthermore, on September 18, 2017, the Notes were amended whereby the interest rate was modified to a rate of 20% per annum effective October 1, 2016.

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. Mr. Yates further agreed to loan the Company up to $550,000. Amounts borrowed under the Loan bear interest at 10% per annum and are due on December 31, 2016. The Loan also provides for conversion to common stock, at the option of the holder, at a price equal to the Company's next round of funding. In connection with the beneficial conversion option, the Company has recorded $300,000 as a discount on the Loan and charged $193,766 and $106,234, to operations during the years ended June 30, 2017 and 2016, respectively. As of June 30, 2017 and 2016, $353,187 and $521,700, respectively were outstanding under the Loan.

On January 20, 2017, Mr. Yates agreed to extend his loans until December 31, 2017. In exchange for extending the loans, Mr. Yates was granted an option to convert the loan to common stock at $.16 per share.

On January 20, 2017, the Company executed a loan agreement with Nine Dragons Investments ("Nine Dragons") for borrowings in an amount not to exceed $300,000. Nine Dragons is an entity affiliated with our Chairman Nick Yates. In connection with the loan agreement, the Company borrowed proceeds aggregating $209,931. The loans bear interest at 10% per annum, are due on December 31, 2017 and are secured by certain assets of the Company, including its intellectual property. Furthermore, the loans are convertible at the option of the holder at $.16 per share. During the year ended June 30, 2017, $209,931 of the Nine Dragons loans were redeemed for cash.

**4. Concentrations**

Our vending machines and micro markets are 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. Additionally, our frozen yogurt robots will be manufactured by one supplier; a change in suppliers could cause a delay in deliveries and possible loss of sales, which could adversely affect our operating results.

Our vending food products are primarily supplied by one national 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. The Company, and its franchisees, also use supplemental suppliers for their product selections, in addition to the national distributor. 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.

**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. The independent monitor has issued his final compliance report, and the Stop Order has ended.

Table of Contents

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 May 28, 2014, Slender Vender, LLC, and John Coffin, a former FHV franchisee and its owner ("Plaintiffs"), filed a complaint against FHV and certain of its current and former officers ("Defendants") alleging violations of the California Franchise Investment Law, fraud, breach of contract, unfair competition, false advertising and violations of the California Labor Code in connection with the sale and purchase of Plaintiffs' franchises. The complaint sought rescission of the franchise agreement, restitution, unpaid wages, and damages, including compensatory and punitive damages.

On February 6, 2015, the California Labor Code violations were dismissed without leave to amend. In addition, Defendant London was dismissed from the action that same day. Defendants Truong, Rogers, and Ball were later dismissed from the action during trial. On February 20, 2015, Plaintiffs filed a first amended complaint against the remaining defendants alleging causes of action for rescission, fraud, breach of contract, unfair competition, and false advertising.

On September 23, 2016, a jury trial commenced in the action, and the jury found in favor of Plaintiffs. The jury returned a total compensatory damages verdict of $535,091 against all Defendants, and further returned a punitive damages verdict of $140,000 against Yates and $14,000 against Kennedy. The compensatory damages award was later reduced to $295,091 following post-trial motions and stipulation. In addition, following the jury trial, the court awarded Plaintiff attorneys fees of $565,386 against FHV and costs of $29,682 against FHV, Kennedy, Yates, Trotter, and Backer. Judgment was entered on February 21, 2017.

On March 22, 2017, Defendants filed a notice of appeal, and on March 30, 2017, Plaintiff filed a notice of cross-appeal. On June 21, 2017, the parties reached a global settlement.

Despite an initial award of $1.1million, under the terms of the confidential settlement Plaintiff agreed to cause the judgment to be set aside, to withdraw all claims for wage garnishments against any of the Defendants, and to cause the removal of all recorded abstracts of judgment and the removal of any financing statements. The parties agreed to dismiss their appeals and to grant one another full mutual general releases. In exchange, Defendants agreed to pay Plaintiff $500,000, over a 25 month period, as well as a guarantee of $200,000 of securities valued at $1 per share. GNFB has guaranteed the settlement.

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 3, 2016, the parties entered into a stipulation to settle the matter. Neither side admitted wrongdoing or liability, and neither party paid compensation to the other. The court dismissed the action with prejudice on May 5, 2016.

*Table of Contents*

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. Notes payable**

**Convertible 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 June 30, 2017 and 2016, $6,666 of principal remained outstanding under the above notes.

**Senior secured promissory 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, and on March 15, 2016, the Notes were further extended to September 30, 2016. The notes aggregating $334,000 have been further extended to December 31, 2017 and $167,000 of the notes, plus accrued interest, were converted to common stock at $.16 per share on January 20, 2017. The remaining outstanding notes, aggregating $334,000, have been granted conversion rights at $.16 per share. The modification of the debt terms was not deemed substantive and therefore, was not accounted for as an extinguishment of debt with the recognition of a gain or loss.

*Table of Contents*

**Financing and security agreement**

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.
- 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.

At June 30, 2017, there was $250,000 outstanding under the Financing Agreement, of which $150,000 originally matured on September 23, 2016 and $100,000 originally matured on December 15, 2016. On September 23, 2016, the Company elected to extend the first tranche of $150,000 until September 23, 2017. On January 20, 2017, the Company extended both tranches until December 31, 2017. As part of the extension, the holder was granted conversion rights at $.16 per share. The modification of the debt terms was not deemed substantive and therefore, was not accounted for as an extinguishment of debt with the recognition of a gain or loss.

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

F-20

*Table of Contents*

**Securities purchase agreement**

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 fiscal 2016 and charged $106,433 to additional paid-in capital.

**Convertible promissory note**

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 accretion of discount on notes payable over the term of the loan using the effective interest rate method. During the years ended June 30, 2017 and 2016, the Company charged $0 and $120,025, respectively to accretion of discount on notes payable relating to the discount on the Promissory Note. The derivative liability is revalued each period. During the years ended June 30, 2017 and 2016, the Company has recorded a derivative loss of $729,327 and gain of $1,600 respectively. At June 30, 2017 the Company had a derivative liability related to the Promissory Note of $560,006.

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 - $0.45; strike price - $0.75; term – 4 years.

Table of Contents

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 six 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. The modification of an embedded conversion feature is separately accounted for as a derivative before the modification, after the modification or both. Since the bifurcated conversion option is accounted for at fair value both before and after the modification, any changes in the fair value of the conversion option would be reflected in earnings. Furthermore, the Promissory Note was extended for an additional six months from the original maturity.

On January 20, 2017, the note was extended through June 30, 2017 and the warrant price was reduced to $.30 per share, provided that the warrants must be exercised for cash. Furthermore, the warrant expiration date was amended to June 20, 2018. The modification of the debt terms was not deemed substantive and therefore, was not accounted for as an extinguishment of debt with the recognition of a gain or loss.

The principal balance of $600,000 plus accrued interest was repaid during the first quarter of Fiscal 2018.

**Robofusion note payable**

On December 29, 2016, the Company entered into an Asset Purchase Agreement (the “Agreement”) with Robofusion, Inc. (“RFI”), whereby the Company acquired the intellectual property assets of RFI, a developer of robotic-kiosk vending technology, primarily frozen yogurt vending kiosks/cubes, using RFI's trademarked name of Reis & Irvy's (the “Acquisition”). Pursuant to the Agreement, the Company provided RFI, and its designees, a cash payment of $440,000. The Company also issued to RFI a three-year, $2 million note and a five-year common stock purchase warrant for 1,520,000 shares with a strike price of $0.50 per share (see Note 10).

**Bridge notes payable**

On February 28, 2017, the Company executed two short-term bridge notes aggregating $345,000 ($300,000 net of discount). The notes bear interest at 0% per annum and mature on July 28, 2017. In connection with the note issuances, the Company also issued 75,000 shares of the Company's common stock (Note 7). In connection with the stock issuance and original issue discount, the Company has recorded $102,000 as a debt discount. The discount is being amortized over the life of the loan. The loan was repaid during the first quarter of Fiscal 2018.

As of June 30, 2017 and 2016, notes payable consisted of the following:

| | | 2017 | | 2016 |
|---|---|---|---|---|
| Senior Secured Promissory Notes, bearing interest at 12% per annum, payable monthly. | $ | 334,000 | $ | 501,000 |
| $600,000 convertible promissory note, bearing interest at 10% per annum, net of discount on note of $453,793 in 2015. | | 300,000 | | 600,000 |
| Convertible secured debt, bearing interest at 10% per annum, payable quarterly. | | 250,000 | | 250,000 |
| $2,000,000 Promissory Note, bearing interest at 3.25% per annum. Principal and interest is due quarterly, over a three year period, net of discount of $169,542. | | 1,850,858 | | - |
| $345,000 promissory note, with 0% interest, payable quarterly. The promissory note matures on July 28, 2017. | | 302,100 | | - |
| Other | | 6,666 | | 6,666 |
| | | 3,043,624 | | 1,357,666 |
| Less current maturities | | (1,710,291) | | (1,357,666) |
| | $ | 1,333,333 | $ | - |
| Maturities of notes payable, net of discounts, are as follows: | | | | |
| June 30, 2018 | $ | 1,710,291 | $ | 1,357,666 |
| June 30, 2019 | $ | 1,333,333 | $ | - |
| | $ | 3,043,624 | $ | 1,357,666 |

F-22

Table of Contents

**7. 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. During the years ended June 30, 2017 and 2016, the Company charged $0 and $21,562, respectively to compensation expense in the accompanying consolidated statements of operations.

On August 19, 2015, the Purchaser (Note 6) 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 and charged $106,433 to additional paid-in capital.

During Fiscal 2017, two franchisees converted refunds aggregating $193,750 into 968,750 shares of common stock at $.20 per common share. The Company recorded a loss on the conversion of $263,338.

During Fiscal 2017, a note holder converted principal of $167,000 plus accrued interest into 1,325,821 shares of common stock at $.20 per share.

In connection with the issuance of bridge notes payable (Note 6), the Company also issued 75,000 common shares to the note holders.

In connection with the Company’s private placement, we issued 5,285,000 shares of common stock during the year ended June 30, 2017 for proceeds aggregating $2,642,500. Furthermore, subsequent to June 30, 2017, on various dates through September 22, 2017, we issued an additional 3,306,000 shares of common stock for proceeds aggregating $1,653,000.

During the year ended June 30, 2017, the Company issued 2,300,000 options under the 2013 Equity Incentive Plan (Note 8). In connection with the option issuance, the Company charged $401,878 to operations and additional paid-in capital. Additionally, during the year ended June 30, 2017, 215,000 options (162,245 options on a cashless basis) were exercised.

During the year ended June 30, 2016, the Company issued 1,935,000 options under the 2013 Equity Incentive Plan (Note 8). In connection with the option issuance, the Company charged $285,878 to operations and additional paid-in capital. Additionally, during the year ended June 30, 2016, 100,000 options (60,715 options on a cashless basis) were exercised.

**8. 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 to 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. Furthermore, in April 2016, the Company further increased the total number of shares that may be issued under the Plan to 6,000,000.

Table of Contents

During the years ended June 30, 2017 and 2016, the Company granted stock options under its 2013 Plan. Stock- based compensation related to these awards is recognized on a straight-line basis over the applicable vesting period and is included in operating expense in the accompanying consolidated statement of operations for the years ended June 30, 2017 and 2016. During the years ended June 30, 2017 and 2016, options issued were valued using the Black Scholes method assuming the following:

| | |
|---|---|
| Expected volatility | 133% |
| Dividend yield | 0% |
| Risk-free interest rate | 1.38% |
| 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 $401,878 and $307,440 for the years ended June 30, 2017, and 2016, respectively.

The following table summarizes the stock option activity for the years ended June 30, 2017 and 2016:

| | **Years ended June 30, 2017 and 2016** | | | |
|---|---|---|---|---|
| | **Options** | **Weighted Averge Exercise Price** | **Weighted Average Remaining Contractual Term (years)** | **Aggregate Intrinsic Value** |
| Outstanding at June 30, 2015 | 1,134,448 | $ 0.372 | 5.38 | $ 20,420 |
| Granted | 1,935,000 | $ 0.171 | | |
| Exercised | (100,000) | $ 0.165 | | |
| Forfeited | (455,000) | $ 0.405 | | |
| | | | | |
| Outstanding at June 30, 2016 | 2,514,448 | $ 0.219 | 5.84 | $ 455,115 |
| Granted | 2,300,000 | 0.270 | | |
| Exercised | (215,000) | 0.210 | | |
| Forfeited | (479,374) | 0.160 | | |
| | | | | |
| Outstanding at June 30, 2017 | 4,120,074 | $ 0.253 | 5.67 | $ 2,397,883 |
| | | | | |
| Vested at June 30, 2017 | 2,321,322 | $ 0.228 | 5.26 | $ 1,467,076 |

| | | | | | |
|---|---|---|---|---|---|
| Nonvested at June 30, 2017 | 1,798,752 | $ | 0.200 | 1.57 | $ 1,185,378 |

At June 30, 2017, the total estimated unrecognized compensation cost related to non-vested stock options totaled $222,192 which is expected to be recognized over a weighted average period of 14 months. The weighted-average grant date fair value of options granted during the year ended June 30, 2017 was $.270 per share.

*Table of Contents*

| **Stock Options** | **Share** | | **Weighted Average Grant-Date Fair Value** |
|---|---|---|---|
| Nonvested shares at June 30, 2015 | 898,334 | | 0.48 |
| | | | |
| Granted | 1,935,000 | | 0.171 |
| Vested/Issued | (371,667) | | 0.502 |
| Forfeited | (455,000) | | 0.405 |
| Nonvested shares at June 30, 2016 | 2,006,667 | $ | 0.195 |
| | | | |
| Granted | 2,300,000 | | 0.271 |
| Vested/Issued | (2,028,541) | | 0.091 |
| Forfeited | (479,374) | | 0.160 |
| Nonvested shares at June 30, 2017 | 1,798,752 | | 0.201 |

During the year ended June 30, 2017, warrants to purchase 1,520,000 shares at $.50 per share were granted to Robofusion as part of the asset purchase agreement (Note 10). As of June 30, 2017, there were 3,520,000 warrants outstanding, of which 2,000,000 have an exercise price of $.30 per share and 1,520,000 have an exercise price of $.50 per share. The warrants expire five years from the date of grant.

**9. 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 $15,995. Future minimum lease payments under the Company’s Facility Lease is as follows:

2018: $191,492; 2019: $196,928; 2020: $202,554; 2021: $208,377; 2022: $214,403: Thereafter: $17,909 Rent expense totaled $228,714 and $200,944 for the years ended June 30 2017 and 2016, respectively.

**10. Intangible intellectual property acquisition**

On December 29, 2016, the Company entered into an Asset Purchase Agreement (the “Agreement”) with Robofusion, Inc. (“RFI”), whereby the Company acquired the intellectual property assets of RFI, a developer of robotic-kiosk vending technology, primarily frozen yogurt vending kiosks/cubes, using RFI's trademarked name of Reis & Irvy's (the “Acquisition”). Pursuant to the Agreement, the Company provided RFI, and its designees, a cash payment of $440,000, The Company also issued to RFI a three-year, $2 million note and a five-year common stock purchase warrant for 1,520,000 shares with a strike price of $0.50 per share. Furthermore, certain RFI Officers, Directors and Shareholders will be subject to a five-year, non-compete agreement. Also, the Agreement provides for indemnification and set off of up to $1 million, under certain circumstances.

Table of Contents

RFI previously granted the Company an exclusive license to market RFI's frozen yogurt vending kiosks/cubes, using RFI's trademarked name of Reis & Irvy's, in the United States and its territories (excluding Puerto Rico) and Canada. The assets acquired pursuant to the Agreement, are substantially all of the assets previously licensed to the Company.

**11. Income taxes**

The Company uses the asset and liability method of accounting for income taxes, in accordance with ASC 740-10, which requires that the Company recognize deferred tax liabilities for taxable temporary differences and deferred tax assets for deductible temporary differences and operating loss carry-forwards using enacted tax rates in effect in the years the differences are expected to reverse. Deferred income tax benefit or expense is recognized as a result of changes in net deferred tax assets or deferred tax liabilities. A valuation allowance is recorded when it is more likely than not that some or all of any deferred tax assets will not be realized. As of June 30, 2017 and 2016, the Company had a full valuation allowance on its deferred tax assets.

The following table presents the current and deferred income tax provision (benefit) for federal, state and foreign income taxes:

| | | 2017 | | 2016 |
|---|---|---|---|---|
| Current tax provision (benefit): | | | | |
| Federal | $ | - | $ | - |
| State | | 4,800 | | 4,800 |
| | | 4,800 | | 4,800 |
| | | | | |
| Deferred tax provision (benefit): | | | | |
| Federal | | - | | - |
| State | | - | | - |
| | | - | | - |
| | | | | |
| Total provision for income taxes | $ | 4,800 | $ | 4,800 |

A reconciliation of income taxes computed by applying the federal statutory income tax rate of 34% to income (loss) before income taxes to the recognized income tax (benefit) provision reported in the accompanying consolidated statements of operations is as follows for the years ended June 30, 2017 and 2016:

| | | Jun-17 | | Jun-16 |
|---|---|---|---|---|
| Expected tax at 34% | $ | (3,830,044) | $ | (1,728,509) |

| | | |
|---|---|---|
| State income tax, net of federal tax | (537,880) | (200,963) |
| Change in valuation allowance | 4,097,830 | 1,537,285 |
| Non deductible expenses | 181,491 | 175,953 |
| Other | 93,403 | 221,034 |
| Provision (Benefit) for income taxes | $ 4,800 | $ 4,800 |

F-26

*Table of Contents*

Significant components of deferred tax assets and liabilities are shown below:

| | **June 30, 2017** | **June 30, 2016** |
|---|---|---|
| Deferred tax assets (liabilities) | | |
| Net Operating Loss | 6,958,598 | 3,681,820 |
| Accruals | 566,470 | 152,242 |
| Compensation | 287,609 | 180,373 |
| Inventory | 19,917 | 19,917 |
| State Tax | 2,176 | 2,467 |
| Bad Debt Reserve | 79,155 | 63,993 |
| Revenue | 229,451 | 63,932 |
| Contributions | 2,083 | 7,681 |
| Other | 18,901 | - |
| Total gross deferred tax assets | 8,164,360 | 4,172,425 |
| Valuation allowance | (8,208,126) | (4,101,075) |
| Net deferred tax assets | (43,766) | 71,350 |
| Total deferred tax liabilities | | |
| Property and Equipment | 103,585 | (10,120) |
| Other | (59,819) | (61,230) |
| | 43,766 | (71,350) |
| Totals | - | - |

During the years ended June 30, 2017 and 2016, the valuation allowance increased 4,107,051 and $1,428,305, respectively. At June 30, 2017, the Company had federal and state net operatng carryforwards of approximately $17,695,938. The federal and state loss carryforwards begin to expire in 2031 unless previously utilized. Our tax returns for the years 2013 - 2016 are open for examination by the taxing authorities.

Utilization of the NOL carryforwards may be subject to an annual limitation due to ownership change limitations that may have occurred or could occur in the future, as required by Section 382 of the Internal Revenue Code of 1986, as amended (the "Code"). These ownership changes may limit the amount of the NOL carry forwards that can be utilized annually to offset future taxable income and tax, respectively. In general, an "ownership change" as defined by Section 382 of the Code results from a transaction or series of transactions over a three-year period resulting in an ownership change of more than 5 percentage points of the outstanding stock of a company by certain shareholders.

*Table of Contents*

**12. Subsequent events**

Subsequent to June 30, 2017, the Company's Board of Directors granted 97,500 options to employees of the Company at exercise prices ranging from $0.88 - $.97 per share.

As a result of our focus on Reis & Irvy's, we will no longer market our vending machines and micro markets to new franchisees. We will however, continue to service and support our current FHV LLC franchisees.

On various dates from July 1, 2017 through September 22, 2017, the company issued an additional 3,306,000 shares of common stock for aggregate proceeds of $1,653,000.

On various dates subsequent to June 30, 2017 through September 22, 2017, the Company redeemed the principal balance on various loans aggregating $623,500.