Generation NEXT Franchise Brands, Inc.
Form 10-K
October 05, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended: June 30, 2016

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	**45-2511250**
(State or jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2620 Financial Court	
Suite 100	
San Diego, CA	**92117**
(Address of principal executive offices)	(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 if the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b(2) of the Exchange Act. (Check one).

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer [(1)] Do not check if a smaller reporting company	¨	Smaller reporting company	x

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, 2015 held by non-affiliates of the registrant (based on the stock's not having traded through that date) was $920,740. 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 27, 2016 there were 27,978,580 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.)

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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 anticipate", "plans", "estimates" or "intends", or stating that certain actions, events or results "may", "could", "would", "might" or "will" be taken, 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.

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, 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., and "Fresh and Healthy" refers to Fresh and Healthy Vending Corporation.

Business

We are a Franchise Development Company and operator of Company-owned vending machines and micro markets that makes healthy eating more convenient through access to high quality healthy foods at high foot traffic vending destinations. We and our franchisees operate 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.

During fiscal 2016, 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, 2016, we have received approval to sell franchises in a number of U.S. states and Canada and have booked 76 units aggregating $2.6 million, which is included in deferred revenues. As of June 30, 2016, the Company has not yet delivered any frozen yogurt vending machines.

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.

History

On July 19, 2013 (the "Closing Date") our wholly-owned subsidiary, FHV Acquisition Corp., completed a Reorganization and Asset Acquisition Agreement dated July 19, 2013 (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 consists of the operations and assets of Fresh Healthy Vending LLC, a California limited liability company. FHV Cal has informed our Company that the shares of our Company's common stock described herein were distributed to the sole shareholder of FHV Cal, a trust operated for the benefit of and controlled by 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");

At the Closing Date subsequent to the transactions described above (and giving effect to the Stock Split), we had approximately 25,147,866 shares of common stock outstanding.

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.

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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 eight year operating history in vending machines providing food and beverages.

Reis & Irvy's, Inc. was formed as a Nevada corporation in March 2016, and operates as a franchisor of frozen yogurt robots.

19 Degrees, Inc. was formed as a Nevada corporation in March 2016, and will operate the corporate-owned frozen yogurt robots.

The Industry and the Overall Market

We are both a franchisor and operator of vending machines, micro markets and frozen yogurt robots. 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 technology provides the highest level of data and network compliance while ensuring complete transparency. As a result, we generally handle little if any cash in the process. All transactions are managed by third parties to facilitate financial compliance with local and national laws and regulations.

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. Our vending standards are UL ("Underwriters Laboratories") recognized, which we believe are among the highest standards in the industry. This ensures food temperature compliance, which includes auto-contingency processes should electrical or hardware malfunction; it also ensures that ambient air stays within specified parameters at all times. Our third-party cashless technology provides the highest level of data and network compliance while ensuring complete transparency. As a result, we generally handle little if any cash in the process. All transactions are managed by third parties to facilitate financial compliance with local and national laws and regulations.

Micro Market Technology

We have developed a high-tech cashless self-checkout kiosk that boasts state-of-the-art point of sale technology currently utilizing an iOS operating system and iPad hardware. The 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.

Frozen Yogurt Products

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

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Competition

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

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

Our Principal Suppliers

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

Additionally, primarily on behalf of our 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.

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.

Our Employees

We had approximately 38 full-time employees as of June 30, 2016 and 1 part-time position. 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.

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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

The termination, non-renewal or renegotiation on materially adverse terms of our franchise agreements with a large number of our significant franchisees could seriously harm our business, financial condition and results of operations. While franchisee revenue is not concentrated among one or a small number of parties, the success of our business does depend in large part on our ability to maintain contractual relationships with franchisees in profitable locations. A typical franchise agreement ranges from five to ten years. Certain contract provisions with our franchisees vary, including product and service offerings, the fees we receive from each franchisee and the ability to cancel the contract upon notice after a certain period of time. We strive to provide direct and indirect benefits to our franchisees that are superior to, or competitive with, other franchisors and with other potential uses for the locations of our machines. If we are unable to provide our franchisees 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.

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.

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.

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.

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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. The vending industry depends 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.

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 and frozen yogurt robots. 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.

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.

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.

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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.

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 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. 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.

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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, 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, 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.

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CORPORATE AND OTHER RISKS

Our executive officers, directors and principal stockholders beneficially own or control over 60% 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.

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.

CAPITAL MARKET RISKS

No active trading market has developed following the acquisition transaction with FHV Cal so you may be unable to sell at or near ask prices or at all if you need or otherwise desire to sell your shares in our Company. We have had limited market trading activity in our stock and we are too small to attract the interest of many brokerage firms and analysts. We cannot give you any assurance that an active public trading market for our common stock will develop or be sustained. While we are listed for trading on OTC Markets, the trading volume that can develop may be limited by the fact that many major institutional investment funds, including mutual funds, as well as individual investors follow a policy of not investing in OTC stocks and certain major brokerage firms restrict their brokers from recommending OTC stocks because they are considered high risk, volatile, thinly traded and the market price of the common stock may not accurately reflect the underlying value of our company. The market price of our common stock could be subject to wide fluctuations in response to quarterly variations in our revenues and operating expenses, announcements of new products or services by us, significant sales of our common stock, including "short" sales, the operating and stock price performance of other companies that investors may deem comparable to us, and news reports relating to trends in our markets or general economic conditions.

The application of the "penny stock" rules to our common stock could limit the trading and liquidity of the common stock, adversely affect the market price of our common stock and increase your transaction costs to sell

those shares. As long as the trading price of our common stock is below $5 per share, the open-market trading of our common stock will be subject to the "penny stock" rules, unless we otherwise qualify for an exemption from the "penny stock" definition. The "penny stock" rules impose additional sales practice requirements on certain broker-dealers who sell securities to persons other than established customers and accredited investors (generally those with assets in excess of $1,000,000 or annual income exceeding $200,000 or $300,000 together with their spouse). These regulations, if they apply, require the delivery, prior to any transaction involving a penny stock, of a disclosure schedule explaining the penny stock market and the associated risks. Under these regulations, certain brokers who recommend such securities to persons other than established customers or certain accredited investors must make a special written suitability determination regarding such a purchaser and receive such purchaser's written agreement to a transaction prior to sale. These regulations may have the effect of limiting the trading activity of our common stock, reducing the liquidity of an investment in our common stock and increasing the transaction costs for sales and purchases of our common stock as compared to other securities. The stock market in general and the market prices for penny stock companies in particular, have experienced volatility that often has been unrelated to the operating performance of such companies. These broad market and industry fluctuations may adversely affect the price of our stock, regardless of our operating performance. Stockholders should be aware that, according to Securities and Exchange Commission ("SEC") Release No. 34-29093, the market for penny stocks has suffered in recent years from patterns of fraud and abuse. Such patterns include 1) control of the market for the security by one or a few broker-dealers that are often related to the promoter or issuer; 2) manipulation of prices through prearranged matching of purchases and sales and false and misleading press releases; 3) boiler room practices involving high-pressure sales tactics and unrealistic price projections by inexperienced sales persons; 4) excessive and undisclosed bid-ask differential and markups by selling broker-dealers; and 5) the wholesale dumping of the same securities by promoters and broker-dealers after prices have been manipulated to a desired level, along with the resulting inevitable collapse of those prices and with consequent investor losses. The occurrence of these patterns or practices could increase the volatility of our share price.

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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.

Item 1B – Unresolved staff comments

None

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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 $14,625.

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. 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 Stop Order terminates on November 7, 2016.

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.

Seaga Manufacturing, Inc. (“Plaintiff”) v. Fresh Healthy Vending, LLC, a California limited liability company (“Defendant”), Case No. 2014-L178; Circuit Court of the 17th Judicial Circuit, County of Winnebago, State of Illinois.

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.

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

On May 28, 2014 a franchisee filed a complaint against the Company and certain current and former employees (collectively, “Defendants”). The initial Complaint included employment law claims for unpaid wages, which were dismissed following demurrer. Plaintiffs' operative First Amended Complaint alleges the following six causes of action: (1) Restitution following Rescission; (2) Fraud; (3) Breach of Contract – Franchise Agreement; (4) Breach of Contract – Franchisee Development Team Agreement; (5) Unfair Competition under California Business and Professions Code section 17200; and (6) False Advertising under California Business and Professions Code section 17500. Each of these causes of action are alleged against the Company. In addition, Plaintiffs named certain individual defendants in their causes of action for Fraud, Unfair Competition, and False Advertising. Defendants filed an Answer with affirmative defenses to Plaintiffs’ First Amended Complaint in April of 2015.

Following the completion of discovery, Plaintiffs filed a Motion for Summary Adjudication, which motion was opposed by Defendants. The court denied Plaintiffs’ Motion for Summary Adjudication on July 29, 2016. On August 10, 2016, Plaintiffs filed a Motion to Amend Complaint. The court denied that motion on August 17, 2016. Plaintiffs filed a petition asking the Court of Appeal to review the court’s denial of Plaintiffs’ Motion for Summary Adjudication and Motion to Amend. Trial of the matter is scheduled to begin on September 26, 2016. The Company intends to vigorously contest Plaintiffs’ allegations at trial.

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.

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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 19, 2016, the closing price of our common stock as reported on the OTCQB was $.30 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 27, 2016, 27,978,580 shares of our common stock were issued and outstanding, and held by approximately 31 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, 2016, with respect to compensation plans under which our common stock is authorized for issuance.

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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	2,514,448	$ 0.219	2,045,000

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.

Our MD&A consists of the following sections:

- Overview – a general description of our business and fiscal 2015 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, 2016 and 2015. 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. 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 2016, 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, 2016, we have received approval to sell franchises in a number of U.S. states and Canada and have booked 76 units aggregating $2.6 million, which is included in deferred revenues. As of June 30, 2016, the Company has not yet delivered any frozen yogurt vending machines.

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.

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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 2017 and beyond. Among the changes implemented or in the process of being implemented were the following:

- We launched our new frozen yogurt robot franchise concept, Reis & Irvy's in April 2016 and have produced record bookings;

Results of Operations

Revenues

We had revenues of $5,685,199 for the year ended June 30, 2016, compared to revenues of $6,273,722 for the year ended June 30, 2015. This represented a decrease in revenues of $588,523 or 9.4%. This decrease was primarily a result of decreased revenues from installation of vending machines, offset partially by an increase in Company owned machines and royalties. Our overall orders and installations (at which point our Company recognizes revenue) of machines decreased during the year ended June 30, 2016 as compared to the year ended June 30, 2015. During the year ended June 30, 2016, the Company had 385 and 483 machine orders and installations, respectively. During the year ended June 30, 2015, the Company had 701, and 562 orders and installations, respectively. As a result of the decrease in orders and installations, franchise fees also decreased approximately $85,000 from fiscal 2015 to fiscal 2016.

Cost of revenues

Cost of revenues was $3,138,422 during the year ended June 30, 2016 as compared to $2,940,528 during the year ended June 30, 2015. This represents an increase of $197,894 or 6.7%.

Gross margin

Gross margin for the year ended June 30, 2016 was $2,546,777 compared to $3,333,194 for the year ended June 30, 2015, representing a decrease of $786,417 or 23.6%. Gross margin percentage was 44.8% and 53.1% for the years ended June 30, 2016 and 2015, respectively. The decrease in gross margin percentage of 8.3% in fiscal 2016 from 2015 is primarily a result of decreased margin associated with franchisee machines, lower margins on food sales for company-owned machines, as well as costs associated with the write-off of obsolete inventory, offset in part by an increase in royalties.

Operating expenses

Personnel compensation increased $203,525 to $3,066,888 in fiscal 2016 as compared to $2,863,363 in fiscal 2015, representing an increase of 7.1%. The increase was primarily due to additional personnel and an increase in commissions in connection with an increase in bookings. Marketing and advertising increased $276,292, or 33.1%, to $1,111,402 in fiscal 2016 as compared to $835,110 in fiscal 2015. The increase was a result of an increase in overall marketing expenditures as well as an increase in national radio advertising related to the Company's new franchise concept, Reis & Irvy's frozen yogurt robot. Rent expense increased $64,039 or 46.8% from $136,905 in 2015 to $ 200,944 in 2016. The increase was primarily the result of the Company's move to a new corporate headquarters. Insurance expense increased $119,258 from $139,054 in fiscal 2015 to $258,312 in fiscal 2016. The increase was primarily related to an increase in Directors and Officers insurance as well as an increase in General Liability and Employer's Liability premiums. Professional fees increased $86,041 to $481,133 in fiscal 2016 compared to $395,092 in fiscal 2015. 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.

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Provision for income taxes

Prior to the Acquisition, we were a limited liability company and were treated as a partnership for income tax purposes. Consequently, we were not subject to federal income taxes. Accordingly, all tax attributes derived from the operations of the limited liability company were passed through to its members and were reported on the members' tax return. There was no provision for federal income taxes included in our financial statements during the time we operated as a limited liability company. Although we were not subject to federal income taxes, we incurred various state fees and taxes.

During the years ended June 30, 2016, and 2015, we incurred net losses and operated as a C-Corp for federal and state income tax purposes. Accordingly we are now 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 $5,087,711 for the year ended June 30, 2016 compared to a net loss of $2,117,075 for the year ended June 30, 2015. This represents an increase in net loss of $2,970,636 or 140%. In addition to the items noted above, the increase in net loss is also attributable to an increase of $983,615 related to interest expense, discount accretion, loss on conversion of franchisee debt to stock and derivative loss.

Basic and diluted net loss per share for the years ended June 30, 2016 and 2015 was $.19 and $.08, respectively.

Liquidity and Capital Resources

For the year ended June 30, 2016 the Company had a net loss of $5,087,711. We had negative cash flows from operations totaling $556,474. Our cash balance at June 30, 2016 was $409,706. 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 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 pending our receipt of added capital.

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. As of June 30, 2016, $521,700 was outstanding under the Loan.

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.

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

The conversion terms of the Promissory Note were amended pursuant to a first amendment to Promissory Note, dated October 14, 2015. The adjustable pricing mechanism commencing 6 months after the Promissory Note issuance date at a 20% discount to the lowest trading price 10 business days prior to conversion was removed. The negative covenants set forth in the subscription agreement were also amended pursuant to a first amendment to subscription agreement, dated October 14, 2015. Furthermore, on June 8, 2016, the Promissory Note was extended for an additional six months.

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

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

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

It is not our policy to allow for returns, discounts or warranties to our franchisees. Under certain circumstances, including as the result of regulatory action, our Company may become obligated to offer our franchisees amounts in rescission to reacquire their existing franchises, including machines. Additionally, if our Company is unable to fulfill its obligations under a franchise agreement we may, at our sole discretion, agree to refund or reduce part or all of a franchisees payments or commitments to pay. As of June 30, 2016 and 2015, the Company's provision for franchisee rescissions and refunds totaled $1,844,176 and $575,750, respectively. There are warranties extended by the machine manufacturer and its distributors, but required repairs to the machines are the responsibility of the franchisees. To the extent the machines remain under warranty, our franchisees transact directly with the manufacturer or its distributor.

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 50% of machines plus 50% of the franchise fees) is due at the time of signing, while remaining amounts outlined under the contract are generally due upon the sooner of 60 days or our locating 50% of the sites for the machines.

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, 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. As of June 30, 2015, the Company had accounts receivable, deferred costs and customer advances and deferred revenues totaling $2,067,761, $884,885 and $6,428,156 respectively.

Furthermore, deferred revenue of $1,592,591 in excess of one year as of June 30, 2016 consisted of the following: amounts related to ongoing franchisees - $1,271,947; amounts related to a franchisee requesting a hold on location procurement - $292,310; amounts related to franchisees that voluntarily left the system - $28,334. As of June 30, 2015, deferred revenue in excess of one year aggregated $874,909.

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 $160,647 and $100,692 at June 30, 2016 and 2015, 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.

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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

New Accounting Pronouncements

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

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

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

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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

On June 5, 2015, the Company was notified of the resignation of its independent accounting firm, PKF, Certified Public Accountants, A Professional Corporation ("PKF") effective that date. The Company's Board of Directors accepted the resignation of PKF upon receipt of the notification.

During the Company's two fiscal years ended June 30, 2014 and the subsequent period through June 5, 2015, there were no disagreements between the Company and PKF on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to PKF'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.

On July 24, 2015 (the "Engagement Date"), our Company engaged Anton & Chia, LLP ("Anton Chia"), as our new independent registered public accounting firm. The engagement of Anton Chia was approved by our Company's Board of Directors on July 24, 2015. During the year ended June 30, 2015 and through the Engagement Date, we did not consult with Anton Chia regarding (i) the application of accounting principles to a specified transaction, (ii) the type of audit opinion that might be rendered on the Company's financial statements by Anton Chia, in either case where written or oral advice provided by Anton Chia would be an important factor considered by the Company in reaching a decision as to any accounting, auditing or financial reporting issues or (iii) any other matter that was the subject of a disagreement between us and our former auditor or was a reportable event (as described in Items 304(a)(1)(iv) or Item 304(a)(1)(v) of Regulation S-K, respectively).

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, 2016.

Based upon an evaluation of the effectiveness of disclosure controls and procedures, our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have 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).

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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, 2016. 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, 2016, 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, 2016. 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, 2016. 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

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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	40	Vice President Corporate Operations, Director
Arthur S. Budman	54	Chief Executive Officer, Chief Financial Officer, Director
Steven Finley	51	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 working 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).

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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;

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.

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.

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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.

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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 Vice President, Operations, Director	2016	200,000	90,997	-	34,000	-	-	5,402	330,399
	2015	200,000	111,500	-	-	-	-	3,980	315,480
Arthur S. Budman (4) Chief Executive Officer, Chief Financial Officer, Director	2016	175,000	47,867	21,500	17000	-	-	4,740	266,107
	2015	184,281	29,410	102,187	-	-	-	1,185	317,063
Alex Kennedy (5) Director of Franchise Development, Director	2016	52,616	-	-	-	-	-	2,593	55,209
	2015	111,179	81,480	-	-	-	-	4,182	196,841
Steve Finley (6) Independent Director	2016	12,000	-	-	-	-	-	-	12,000
	2015	12,000	-	-	-	-	-	-	12,000

(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 8 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.

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.

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.

During the year ended June 30, 2014, Mr. Yates was granted options to purchase 500,000 shares of common stock at $.1815 per share, representing 110% of the then fair value of the options at the time of grant. The options were exercisable immediately and were exercised during fiscal 2015 using the cashless exercise feature. As a result, Mr. Yates was issued 488,556 common shares.

Also during the year ended June 30, 2014, Ms. Kennedy was granted options to purchase 200,000 shares of common stock at $.165 per share, representing the then fair value of the options at the time of grant. The options are exercisable immediately and were exercised during fiscal 2015 using the cashless exercise feature. As a result, Ms. Kennedy was issued 193,542 common shares.

Furthermore, during the year ended June 30, 2014, Mr. Finley was granted non-qualified options to purchase 500,000 shares of common stock at $.165 per share, representing the then fair value of the options at the time of grant. The options vest ratably over a three year period and expire five years from the date of grant. During fiscal 2015, Mr. Finley exercised 55,922 options using the cashless exercise feature. As a result, Mr. Finley was issued 50,922 shares of common stock. During fiscal 2016, Mr. Finley exercised 100,000 options using the cashless exercise feature. As a result, Mr. Finley was issues 60,715 shares of common stock.

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Option Exercises and Stock Vested

During the year ended June 30, 2014, Mr. Yates and Ms. Kennedy exercised 500,000 and 200,000 options to purchase common stock, respectively. Additionally, during the years ended June 30, 2016 and 2015, Mr. Finley exercised 100,000 and 55,552 options to purchase common stock, respectively.

Outstanding Equity Awards at Fiscal Year End

At June 30, 2016, Mr. Yates held 500,000 options to purchase common stock, of which 0 were exercisable at $.095 per share. At June 30, 2016, Mr. Finley held 344,448 options to purchase common stock, of which 302,781 were exercisable at $.165 per share. At June 30, 2016, Mr. Budman held 250,000 options to purchase common stock, of which 0 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, 2016, Mr. Finley was paid $12,000 in connection with his Board appointment.

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

The following table sets forth, as of September 12, 2016, 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 prepared based on the number of shares outstanding after giving effect to: (i) the Stock Split (ii) cancellation of the shares delivered to the Company pursuant to the Business Transfer and Indemnity Agreement, (iii) 15,648,298 shares issued in connection with the acquisition of assets from FHV Cal (iv) sale of 2,235,951 shares effective July 19, 2013 in a private placement of our securities (v) conversion of notes payable into 706,077 shares of common stock (vi) exercise of stock options and warrants and (vii) grant of stock to an employee.

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]	16,185,233	57.85%
Arthur S. Budman, Chief Executive Officer, Chief Financial Officer, Director (4)	250,000	*
Steven Finley, Director [5]	456,085	1.63%
All directors, former directors and executive officers as a group (4 persons)	16,891,318	60.37%

* 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 27,978,580 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 the principal beneficiary, 488,556 shares are owned by Mr. Yates personally and 48,379 shares are owned by the spouse of Mr. Yates.
(4) Amount represents shares granted to Mr. Budman under an initial employment agreement dated October 1, 2014.
(5) Amounts represent the vested portion of 263,893 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 111,637 shares of common stock held by Mr. Finley in connection with the cashless exercise of 155,552 options to purchase common stock.

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, 2016, the Company paid $87,604 and $69,568 of principal and interest, respectively, under the Notes.

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. As of June 30, 2016, $521,700 was outstanding under the Loan.

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.

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, 2016 and 2015, 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, 2016	Year ended June 30, 2015
Audit fees (1)	$ 69,592.00	$ 80,326.00
Audit related fees (2)	$ 13,122.00	$ -
Tax fees (3)	$ 18,938.00	$ 47,000.00
All other fees (4)	$ -	$ -
	$ 101,652.00	$ 127,326.00

(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.
(4) All other fees consist of fees billed for all other services.

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.

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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, 2016 and 2015.

(d) Exhibits

Exhibit No.	Description
21.1	List of subsidiaries
31.1	Certification under Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification under Section 906 of the Sarbanes-Oxley Act of 2002

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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: October 5, 2016

By: */s/ ARTHUR S. BUDMAN*
Arthur S. Budman
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 Art Budman	Chief Executive Officer, Chief Financial Officer	October 5, 2016
/s/ NICHOLAS YATES	Chairman	October 5, 2016

Nicholas Yates

/s/ STEVEN FINLEY Steven Finley	Director	October 5, 2016

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Fresh Healthy Vending International, Inc. and Subsidiaries

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, 2016 and 2015, 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, 2016 and 2015, 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

October 5, 2016

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GENERATION NEXT FRANCHISE BRANDS, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2016 and 2015

	As of June 30	
	2016	**2015**
Assets		
Current assets:		
Cash	$ 409,706	$ 325,337
Cash in escrow	208,767	93,000
Accounts receivable, net	2,411,346	2,067,761
Deferred costs	394,563	884,885
Inventories, net	318,707	289,279
Prepaid expenses and other current assets	479,559	89,662
Total current assets	4,222,648	3,749,924
Property and equipment, at cost:		
Vending equipment	-	312,058
Computer hardware and software	145,060	145,060
Furniture and fixtures	50,725	40,769
Vehicle	-	15,597
Leasehold improvements	22,846	63,500
	218,631	576,984
Less accumulated depreciation and amortization	(124,033)	(223,455)
	94,598	353,529
Deposits	32,904	41,793
Total assets	$ 4,350,150	$ 4,145,246
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable and accrued liabilities	$ 1,172,978	$ 1,047,675
Customer advances and deferred revenues	8,062,982	6,428,156
Provision for franchisee rescissions and refunds	1,844,176	575,750
Accrued personnel expenses	266,926	221,194
Notes payable, net of discount of $0 in 2016 and $453,793 in 2015	1,357,666	653,873
Derivative liability	336,027	397,840
Due to related party, net of discount of $193,766 in 2016 and $0 in 2015	740,330	95,000
Deferred rent	11,497	1,440
Total current liabilities	13,792,582	9,420,928
Convertible notes payable - long term	-	250,000

		13,792,582		9,670,928
Commitments and contingencies (Notes 5 and 9)		-		-
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; 27,978,580 issued and outstanding at June 30, 2016 and 26,784,767 issued and outstanding at June 30, 2015		27,916		26,783
Additional paid-in capital		3,242,250		2,072,422
Accumulated deficit		(12,712,598)		(7,624,887)
Total stockholders' deficit		(9,442,432)		(5,525,682)
Total liabilities and stockholders' deficit	$	4,350,150	$	4,145,246

See accompanying notes to the consolidated financial statements.

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GENERATION NEXT FRANCHISE BRANDS, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

For the years ended June 30, 2016 and 2015

	2016	2015
Revenues:		
Vending machine sales, net	$ 4,537,463	$ 5,214,992
Franchise fees	382,992	467,983
Company owned machines	294,565	227,117
Agency sales (net)	93,933	117,413
Other	376,246	246,217
	5,685,199	6,273,722
Cost of revenues	3,138,422	2,940,528
Gross margin	2,546,777	3,333,194
Operating expenses:		
Personnel	3,066,888	2,863,363
Marketing	1,111,402	835,110
Professional fees	481,133	395,092
Insurance	258,312	139,054
Rent	200,944	136,905
Depreciation and amortization	90,071	88,517
Stock compensation	307,440	297,115
Other	983,615	545,645
	6,499,805	5,300,801
Loss from operations	(3,953,028)	(1,967,607)
Other income (expense):		
Interest expense	(261,898)	(95,014)
Accretion of discount on notes payable	(560,027)	(105,057)
Loss on conversion of franchisee debt to stock	(263,338)	
Derivative liability	(44,620)	53,803
	(1,129,883)	(146,268)
Loss before provision for income taxes	(5,082,911)	(2,113,875)
Provision for income tax	4,800	3,200
Net loss	$ (5,087,711)	$ (2,117,075)
Net loss per share - basic and diluted	$ (0.19)	$ (0.08)

Weighted average shares used in computing net loss per share - basic and diluted	27,210,290	26,665,768

See accompanying notes to the consolidated financial statements.

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GENERATION NEXT FRANCHISE BRANDS, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Deficit

For the years ended June 30, 2016 and 2015

	Common Shares	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Deficit
Balance at June 30, 2014	26,546,348	$ 26,546	$ 1,696,837	$ (5,507,812)	$ (3,784,429)
Exercise of stock options	50,922	51	(51)		-
Issuance of common stock to employee	187,497	186	102,001		102,187
Stock-based compensation			194,928		194,928
Valuation of warrants issued with debt			78,707		78,707
Net loss				(2,117,075)	(2,117,075)
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)
	27,978,580	$ 27,977	$ 3,242,189	$ (12,712,598)	$ (9,442,432)

Balance at June 30, 2016

See accompanying notes to the consolidated financial statements.

GENERATION NEXT FRANCHISE BRANDS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Net loss	$ (5,087,711)	$ (2,117,075)
Adjustments to reconcile net loss to net cash flows		
used in operating activities:		
Depreciation and amortization	90,071	88,517
Interest accretion on notes payable	560,027	105,057
Loss on conversion of franchisee refund	263,338	-
(Gain) loss on derivative liability	44,620	(53,803)
Issuance of common stock to employee	21,562	102,187
Stock-based compensation	285,878	194,928
Loss (gain) on sales and disposals of property and equipment	29,134	6,714
Deferred rent	10,057	(17,982)
Bad debt expense	59,955	34,111
Allowance for obsolete Inventory	-	50,000
Changes in operating assets and liabilities:		
Accounts receivable	(403,540)	(79,555)
Deferred costs	490,322	(146,363)
Inventories	192,784	(157,117)
Prepaid expenses and other assets	(389,897)	(72,092)
Deposits	8,889	(1,726)
Accounts payable and accrued liabilities	125,303	13,563
Customer advances and deferred revenues	1,634,826	971,187
Provision for franchisee rescissions and refunds	1,462,176	44,827
Accrued personnel expenses	45,732	98,480
Cash flows used in operating activities	(556,474)	(936,142)
Cash flows from investing activities:		
Cash in escrow	(115,767)	(93,000)
Purchases of property and equipment	(82,486)	(169,747)
Proceeds from sales of property and equipment	-	438
Cash flows (used in) provided by investing activities	(198,253)	(262,309)
Cash flows from financing activities:		
Amounts received from related party	839,096	100,000
Repayments of amounts from related party	-	(5,000)
Proceeds from issuance of notes payable	-	1,196,500
Repayment of notes payable	-	(375,000)
Cash flows provided by financing activities	839,096	916,500

Change in cash		84,369		(281,951)
Cash, beginning of year		325,337		607,288
Cash, end of year	$	409,706	$	325,337
Supplemental disclosure of cash flow information:				
Cash paid for:				
Interest expense	$	128,319	$	36,871
Income taxes	$	800	$	3,200
Supplemental disclosure of non-cash investing and financing activities:				
Transfer of corporate mahcines from fixed assets to inventory	$	222,212		-
Exercise of cashless warrants	$	106,433		-
Issuance of common stock in lieu of franchisee liability payments	$	193,750		-

See accompanying notes to the consolidated financial statements.

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GENERATION NEXT FRANCHISE BRNADS, 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. (“Reis”), and 19 Degrees, Inc. (“19 Degrees”) as a franchisor and owner and operator of healthy drink and snack vending machines and micro markets, and frozen yogurt robots (“Robots”) that feature cashless payment devices and remote monitoring software. The Company uses in-house location specialists that are responsible for securing locations for the franchisees; additionally, the Company has negotiated discounts with a national product distribution chain. The Company also operates its own machines and micro markets and will operate its own frozen yogurt robots.

During fiscal 2016, 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, 2016, we have received approval to sell franchises in a number of U.S. states and Canada and have booked 92 units aggregating $3.2 million, which is included in deferred revenues. As of June 30, 2016, the Company has not yet delivered any frozen yogurt vending machines.

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.

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, 2016 we had a net loss totaling $5,087,711 and negative cash flows from operations totaling $556,474. Our cash balance at June 30, 2016 was $409,706. Since the date of the closing of the FHV Acquisition, our sales were less than anticipated and the resulting cash flows from franchise sales was not sufficient to cover expenditures associated with our daily operations resulting in a substantial decrease in our cash balances. Also, we used cash on hand to retire liabilities associated with the franchise rescissions. Our Company has consumed the vast majority of its available cash, including the cash proceeds from the sale of our common stock received in July of 2013 and the issuance of several debt instruments. In order to ensure sufficient liquidity for our continuing operations, we will require additional capital financing in the form of either debt or equity (or a combination thereof) financing. Management believes that it will be able to obtain such financing on terms acceptable to the Company, although there can be no assurance that we will be successful.

Our current plans include capital expenditures for the purchase of corporate-owned and operated 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., and 19 Degrees, Inc. All significant intercompany accounts and transactions are eliminated.

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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, 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, 2016, we had no company owned machines 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, 2016 and 2015, the Company's provision for franchisee rescissions and refunds totaled $1,844,176 and $575,750, respectively. There are warranties extended by the machine manufacturer and its distributors, but required repairs to the machines are the responsibility of the franchisees. To the extent the machines remain under warranty, our franchisees transact directly with the manufacturer or its distributor.

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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.

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, 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. As of June 30, 2015, the Company had accounts receivable, deferred costs and customer advances and deferred revenues totaling $2,067,761, $884,885 and $6,428,156, respectively.

Furthermore, the Company has deferred revenue of $1,592,591 in excess of one year as of June 30, 2016 which consisted of the following: amounts related to ongoing franchisees - $1,271,947; amounts related to a franchisee requesting a hold on location procurement - $292,310; amounts related to franchisees that voluntarily left the system - $28,334. As of June 30, 2015, deferred revenue in excess of one year aggregated $874,909.

Deferred revenue consisted of the following as of June 30, 2016 and 2015.

	As of June 30	
	2016	**2015**
Vending machines - new	$ 4,449,950	$ 3,856,387
Vending machines - used	282,887	1,244,770
Micro markets - new	213,500	800,000
Franchise fees	682,145	522,517
Frozen yogurt robots	2,427,500	-
Other	7,000	4,482
	$ 8,062,982	$ 6,428,156

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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, 2016 and 2015. We may maintain our cash and cash equivalents in amounts that may, at times, exceed federally insured limits. At June 30, 2016, bank balances, per our bank, exceeding federally insured limits totaled $155,349. We have not experienced any losses with respect to cash, and we believe our Company is not exposed to any significant credit risk with respect to our cash.

Certain states require the Company to maintain customer deposits in escrow accounts until the Company has substantially performed its obligations. At June 30, 2016 and 2015, the Company had $208,767 and $93,000, respectively maintained in escrow accounts for this purpose.

Accounts receivable, net

Accounts receivable arise primarily from invoices for customer deposits, and product orders and are carried at their estimated collectible amounts, net of any estimated allowances for doubtful accounts. We grant unsecured credit to our customers (located throughout North America, the Bahamas and Puerto Rico) deemed credit worthy. Ongoing credit evaluations are performed and potential credit losses estimated by management are charged to operations on a regular basis. At the time any particular account receivable is deemed uncollectible, the balance is charged to the allowance for doubtful accounts. Our allowance for doubtful accounts aggregated $160,647 and $100,692 at June 30, 2016 and 2015, respectively.

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 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). Leasehold improvements are amortized over the lesser of the term of the related lease or the estimated useful life of the asset (63 months). 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, 2016 and 2015 totaled $90,071 and $88,517, 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, 2016 and 2015, respectively.

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. Additionally, our Company recorded as deferred rent the cost of the leasehold improvements paid by the landlord, which is amortized on a straight-line basis over the term of the lease. Effective, August 1, 2015, the Company entered into a new seven year lease agreement for its corporate operations and warehouse facilities.

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 $1,111,402 and $835,110 for the years ended June 30, 2016 and 2015, 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, 2016 and 2015, 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, 2016 and 2015, and the Company has not recognized interest and/or penalties in the consolidated statements of operations for the years ended June 30, 2016 and 2015.

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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.

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

FASB Statement no.133 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. 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.

Net loss per share

Our Company calculates basic earnings per share ("EPS") by dividing our net loss by the weighted average number of common shares outstanding for the period, without considering common stock equivalents. Diluted EPS is computed by dividing net income or net loss and comprehensive net loss applicable to common shareholders by the weighted average number of common shares outstanding for the period and the weighted average number of dilutive common stock equivalents, such as options and warrants. Options and warrants are only included in the calculation of diluted EPS when their effect is dilutive. Total anti-dilutive stock options, warrants and conversion rights excluded from earnings per share totaled 7,318,261 and 1,134,448 at June 30, 2016 and 2015, 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.

New accounting standards

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

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

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

2. 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 four frozen yogurt robots. Initial franchise fees are primarily intended to compensate our Company for granting the right to use our Company's trademark 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 $93,933 and $117,413 for the years ended June 30, 2016 and 2015, respectively.

United States franchise statistics for the years ended June 30, 2016 and 2015 are as follows:

Franchises in operation as of June 30, 2014	180
New franchises granted	58
Franchises cancelled	(28)
Franchises in operation as of June 30, 2015	210
New franchises granted	94
Franchises cancelled	(26)
Franchises in operation as of June 30, 2016	278

We operated 0 and 60 vending machines and micro markets for our own benefit as of June 30, 2016 and 2015, 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 June 30, 2016, the Company paid $87,604 and $69,568 of principal and interest, respectively, under the Notes.

On January 13, 2015, the Company's Chairman, Nicholas Yates, agreed to loan the Company up to $200,000 (the "Loan"), with each incremental borrowing under the Loan to be evidenced by a promissory note. During fiscal 2016, 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. As of June 30, 2016 and 2015, $521,700 and $95,000, respectively were outstanding under the Loan

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, we anticipate that 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 is 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.

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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. The total rescission payments, aggregating $934,500, were completed by July 2015. As required by the Stop Order, we developed and implemented a compliance program and engaged an independent monitor for the duration of the Stop Order to review and report to the DBO our compliance activities, including compliance with the Stop Order.

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

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

On May 28, 2014 a franchisee ("Plaintiff") filed a complaint against the Company and certain current and former employees (collectively, “Defendants”). The initial Complaint included employment law claims for unpaid wages, which were dismissed following demurrer. Plaintiff's operative First Amended Complaint alleges the following six causes of action: (1) Restitution following Rescission; (2) Fraud; (3) Breach of Contract – Franchise Agreement; (4) Breach of Contract – Franchisee Development Team Agreement; (5) Unfair Competition under California Business and Professions Code section 17200; and (6) False Advertising under California Business and Professions Code section 17500. Each of these causes of action are alleged against the Company. In addition, Plaintiff named certain individual defendants in their causes of action for Fraud, Unfair Competition, and False Advertising. Defendants filed an Answer with affirmative defenses to Plaintiff's First Amended Complaint in April of 2015.

Following the completion of discovery, Plaintiff filed a Motion for Summary Adjudication, which motion was opposed by Defendants. The court denied Plaintiff's Motion for Summary Adjudication on July 29, 2016. On August 10, 2016, Plaintiff filed a Motion to Amend Complaint. The court denied that motion on August 17, 2016. Plaintiff filed a petition asking the Court of Appeal to review the court's denial of Plaintiff's Motion for Summary Adjudication and Motion to Amend. Trial of the matter is scheduled to begin on September 26, 2016. The Company intends to vigorously contest Plaintiff's allegations at trial.

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 Chairman of the 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 (Note 7), $33,333 was repaid and $9,666 principal remained outstanding. As of June 30, 2016 and 2015, $6,666 of principal remained outstanding under the above notes.

The notes were issued with non-assignable rights to purchase securities should our Company consummate a merger with a public company. The purchase price of any such securities would be equal to 85% of the selling price to investors in any sale and issuance of securities following such a merger. We recorded the value of the options issued with the notes payable at the time of their issuance as an addition to accumulated deficit and a discount from notes payable totaling $72,339. We calculated the value of the discount purchase option using the Black-Scholes option pricing model employing the following assumptions: volatility of common stock – 88%; risk-free interest rate – 0.05%; forfeiture rate – 0%; value per share of common stock - $0.447; strike price - $0.380; term – 90 days.

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 14, 2015 to March 15, 2016 and on March 15, 2016, the Initial Notes were extended to September 30, 2016. Although the Initial Notes matured on September 30, 2016, the Company believes that it can extend these loans on commercially reasonable terms.

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.

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

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

On September 23, 2016, the Company elected to extend the first tranche of $150,000 until September 23, 2017.

Chairman loan

On January 13, 2015, the Company's Chairman, Nicholas Yates, agreed to loan the Company up to $200,000 (the "Loan"), with each incremental borrowing under the Loan to be evidenced by a promissory note. During fiscal 2016, 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 $106,234 to operations during the year ended June 30, 2016. As of June 30, 2016 and June 30, 2015, $521,700 and $95,000, respectively were outstanding under the Loan.

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 discount is amortized as interest expense over the term of the loan using the effective interest rate method. During the year ended June 30, 2015, the Company charged $78,750 to interest expense relating to the discount on the Note. The derivative liability is revalued each period. During the year ended June 30, 2015, the Company recorded a derivative loss of $45,375. At June 30, 2015 the Company had a derivative liability related to the Purchase Agreement of $95,625.

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.

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

In connection with the issuance of the Promissory Note and warrant, the Company has recorded the fair value of the warrant of $78,707 as additional paid-in capital. Furthermore, the Company has recorded a discount on the Promissory Note of $480,100 and a derivative liability of $401,393 due to the lack of explicit limit on the number of shares that may be required to be issued upon future conversion. The discount is amortized as interest expense over the term of the loan using the effective interest rate method. During the years ended June 30, 2016 and 2015, the Company charged $453,793 and $26,307, respectively to interest expense relating to the discount on the Promissory Note. The derivative liability is revalued each period. During the years ended June 30, 2016 and 2015, the Company has recorded a derivative loss of $33,813 and a gain of $99,178, respectively. At June 30, 2016 and 2015 the Company had a derivative liability related to the Promissory Note of $336,027 and $302,215, respectively.

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.

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

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

As of June 30, 2016 and 2015, notes payable consisted of the following:

		2016		2015
Senior Secured Promissory Notes, bearing interest at 12% per annum, payable monthly. The Senior Secured Notes mature on September 30, 2016.	$	501,000	$	501,000
$600,000 convertible promissory note, bearing interest at 10% per annum. All principal and interest is due on December 10, 2016, net of discount on note of $453,793 in 2015.		600,000		146,207
Convertible secured debt, bearing interest at 10% per annum, payable quarterly. The convertible secured debt matures two years from each funding. The Company has elected to extend the first tranche for an additional year.		250,000		250,000
Other		6,666		6,666
		1,357,666		903,873
Less current maturities		(1,357,666)		(653,873)
	$	-	$	250,000

Maturities of notes payable, net of discounts, are as follows:

June 30, 2017	$	1,357,666

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7. Stockholders' deficit

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.

During the year ended June 30, 2015, the Company issued 735,000 options under the 2013 Equity Incentive Plan (Note 8). In connection with the option issuance, the Company charged $194,928 to operations and additional paid-in capital. Additionally, during the year ended June 30, 2015, 55,552 options (50,922 options on a cashless basis) were exercised.

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 stock compensation expense in the accompanying consolidated statements of operations. We recorded stock-based compensation expense totaling $21,562 and $102,187 for the years ended June 30, 2016 and 2015, respectively related to this stock grant.

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. On August 19, 2015, the Purchaser (Note 7) 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, 2016, 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.

The Loan from the Company’s Chairman 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 a charge to Additional Paid-in Capital.

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 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.

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During the years ended June 30, 2016 and 2015, 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, 2016 and 2015. During the years ended June 30, 2016 and 2015, options issued were valued using the Black Scholes method assuming the following:

Expected volatility	173%
Dividend yield	0%
Risk-free interest rate	0.71%
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 $307,440 and $297,115 for the years ended June 30, 2016, and 2015, respectively.

The following table summarizes the stock option activity for the years ended June 30, 2016 and 2015:

	Years ended June 30, 2016 and 2015			
	Options	**Weighted Averge Exercise Price**	**Weighted Average Remaining Contractual Term (years)**	**Aggregate Intrinsic Value**
Outstanding at June 30, 2014	500,000	$ 0.165	4.25	$ 937,500
Granted	735,000	$ 0.508		
Exercised	(55,552)	$ 0.165		
Forfeited	(45,000)	$ 0.550		
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
Vested at June 30, 2016	507,781	$ 0.315	3.57	$ 43,161

Nonvested at June 30, 2016	2,006,667	$ 0.195	6.41	$ 411,367

At June 30, 2016, 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, 2016 was $.171 per share.

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Stock Options	**Shares**		**Weighted Average Grant-Date Fair Value**
Nonvested shares at June 30, 2014	375,000	$	1.27
Granted	735,000		0.30
Vested/Issued	(166,666)		1.27
Forfeited	(45,000)		0.33
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

During the year ended June 30, 2016, no warrants were granted. As of June 30, 2016, there were 2,000,000 warrants outstanding with an exercise price of $.75 per share and a remaining contractual life of 3 years.

During the year ended June 30, 2015, the Company issued 2,000,000 warrants with an exercise price of $.75 per share and 300,000 warrants with an exercise price per share of $.30.

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 $14,625. Future minimum lease payments under the Company’s Facility Lease is as follows:

2017: $180,168; 2018: $185,419; 2019: $190,855; 2020: $196,481; 2021: $202,304: Thereafter: $225,733 Rent expense totaled $200,944 and $136,905 for the years ended June 30 2016 and 2015, respectively.

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10. 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, 2016 and 2015, 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:

		2016		2015
Current tax provision (benefit):				
Federal	$	-	$	-
State		4,800		3,200
		4,800		3,200
Deferred tax provision (benefit):				
Federal		-		-
State		-		-
		-		-
Total provision for income taxes	$	4,800	$	3,200

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, 2016 and 2015:

	2016		2015
Expected tax at 34%	(1,728,509)	$	(718,717)
State income tax, net of federal tax	(200,963)		(117,346)
Change in valuation allowance	1,537,285		790,150
Non-deductible expenses	175,953		16,343
Other	221,034		32,770
Provision for income taxes	4,800	$	3,200

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

	2016	2015
Deferred tax assets: (liabilities)		
Net operating loss	$ 3,681,820	$ 2,575,240
Accruals	152,242	31,317
Compensation	180,373	114,618
Inventory	19,917	-
State tax	2,467	1,088
Bad debt reserve	63,993	40,110
Revenue	63,932	-
Contributions	7,681	1,304
Total gross deferred tax assets	4,172,425	2,763,677
Valuation allowance	(4,101,075)	(2,672,770)
Net deferred tax assets	71,350	90,907
Total deferred tax liabilities:		
Property and equipment	(10,120)	(31,101)
Other	(61,230)	(59,806)
Totals	$ -	$ -

During the years ended June 30, 2016 and 2015, the valuation allowance increased $1,428,305 and $762,178, respectively. At June 30, 2016, the Company has federal and state net operating loss carryforwards of approximately $9,300,000. The federal and state loss carryforwards begin to expire in 2031 unless previously utilized. Our tax returns for the years 2012 - 2015 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 that 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 50 percentage points of the outstanding stock of a company by certain stockholders.

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11. Subsequent events

Options grants

On July 26, 2016, the Company’s Board of Directors granted 350,000 options to employees and a consultant to the Company at an exercise price of $0.31 per share.

FHV LLC Franchising

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.

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