Generation NEXT Franchise Brands, Inc.
Form 10-Q
February 14, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2017

OR

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

For the transition period from __________ to __________

Commission File No. 000-55164

GENERATION NEXT FRANCHISE BRANDS, INC.

(Exact Name of Registrant as Specified in Its Charter)

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

2620 Financial Court, Suite 100, San Diego, California 92117

(Address of Principal Executive Offices)

858-210-4200

(Registrant's Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes o No

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

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

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

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

Exchange Act.

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. Shares of Common Stock, par value $0.001, outstanding as of February 12, 2018: 44,677,335.

GENERATION NEXT FRANCHISE BRANDS, INC. AND SUBSIDIARIES

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GENERATION NEXT FRANCHISE BRANDS, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(Unaudited)

	December 31, 2017 (unaudited)	June 30, 2017 (audited)
Assets		
Current assets:		
Cash	$ 1,629,011	$ 1,751,022
Restricted cash	1,352,778	1,500
Accounts receivable, net	15,289,204	12,947,611
Deferred costs	208,415	196,317
Inventories, net	772,054	252,492
Prepaid expenses and other current assets	121,466	305,508
Total current assets	19,372,928	15,454,450
Property and equipment, at cost:		
Equipment	144,338	125,000
Computer hardware and software	148,693	148,693
Leasehold improvements	59,987	22,846
Furniture and fixtures	44,065	44,065
Intangible intellectual property	2,440,000	2,440,000
Less accumulated depreciation and amortization	(581,475)	(364,791)
	2,255,608	2,415,813
Deposits	32,904	32,904
Total assets	$ 21,661,440	$ 17,903,167
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable and accrued liabilities	$ 3,121,040	$ 2,727,873
Customer advances and deferred revenues	32,758,392	25,042,850
Provision for franchisee rescissions and refunds	2,506,230	2,692,618
Accrued personnel expenses	415,298	391,072
Notes payable, net of discount of $41,428	1,351,922	1,710,291
Derivative liability	-	560,007
Due to related party	627,951	649,966

Deferred rent		33,447		19,375
Total current liabilities		40,814,280		33,794,052
Notes payable - long term, net of discount of $82,856		955,111		1,333,333
Commitments and contingencies (Notes 5 and 7)				
Stockholders' deficit:				
Preferred stock; $0.001 par value; 25 million shares authorized; no shares issued and outstanding		-		-
Common stock; $0.001 par value; 100 million shares authorized; 42,645,148 outstanding (34,826,646 at June 30, 2017)		42,579		34,825
Additional paid-in capital		11,606,247		6,722,850
Accumulated deficit		(31,756,777)		(23,981,893)
Total stockholders' deficit		(20,107,951)		(17,224,218)
Total liabilities and stockholders' deficit	$	21,661,440	$	17,903,167

See accompanying notes to the unaudited condensed consolidated financial statements.

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GENERATION NEXT FRANCHISE BRANDS, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations

(Unaudited)

	For the three months ended December 31, 2017	2016	For the six months ended December 31, 2017	2016
Revenues:				
Vending machine sales, net	$ 35,457	$ 988,921	$ 94,539	$ 2,552,922
Franchise fees	1,150	88,690	7,295	245,575
Company owned machine sales	34,274	23,613	96,000	23,613
Agency sales, net	16,298	23,181	32,338	45,182
Other	80,455	98,546	156,040	178,706
Total revenue, net	167,634	1,222,951	386,212	3,045,998
Cost of revenues	60,616	584,323	163,606	1,457,362
Gross margin	107,018	638,628	222,606	1,588,636
Operating expenses:				
Selling, general and administrative	3,782,810	3,150,549	7,510,785	6,274,127
Loss from operations	(3,675,792)	(2,511,921)	(7,288,179)	(4,685,491)
Other expenses:				
Interest expense	(111,763)	(48,031)	(266,702)	(97,885)
Accretion of discount on notes payable	-	(75,000)	-	(150,000)
Derivative liability expense	-	(388,558)	(220,003)	(197,028)
Loss before provision for income taxes	(3,787,555)	(3,023,510)	(7,774,884)	(5,130,404)
Provision for income taxes	-	-	-	-
Net loss	$ (3,787,555)	$ (3,023,510)	$ (7,774,884)	$ (5,130,404)
Net loss per share - basic and diluted	(0.09)	$ (0.11)	(0.21)	$ (0.18)
Weighted average shares used in computing net loss per share - basic and diluted	40,565,591	27,978,580	37,748,979	27,978,580

See accompanying notes to the unaudited condensed consolidated financial statements.

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GENERATION NEXT FRANCHISE BRANDS, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	For the six months ended December 31, 2017	2016
Cash flows from operating activities:		
Net loss	$ (7,774,884)	$ (5,130,404)
Adjustments to reconcile net loss to net cash flows provided by (used in) operating activities:		
Depreciation and amortization	216,684	20,990
Interest accretion on notes payable	45,258	150,000
Loss on derivative liability	220,003	197,028
Stock-based compensation	280,329	134,127
Deferred rent	14,072	4,151
Bad debt expense	(24,699)	295
Changes in operating assets and liabilities:		
Accounts receivable	(2,316,894)	(7,219,724)
Deferred costs	(12,098)	(19,752)
Inventories	(519,562)	76,625
Prepaid expenses and other assets	184,042	401,222
Accounts payable and accrued liabilities	393,167	1,390,085
Customer advances and deferred revenues	7,715,542	10,471,357
Provision for franchisee rescissions and refunds	24,226	278,111
Accrued personnel expenses	(186,388)	44,851
Cash flows provided by (used in) operating activities	(1,741,202)	798,962
Cash flows from investing activities:		
Purchases of property and equipment	(56,479)	(566,028)
Cash flows used in investing activities	(56,479)	(566,028)
Cash flows from financing activities:		
Proceeds from issuance of common stock for cash	3,830,812	-
Payments of notes payable to related party	(803,864)	(284,130)
Cash flows provided by (used in) financing activities	3,026,948	(284,130)
Change in cash and restricted cash	1,229,267	(51,196)
Cash and restricted cash, beginning of period	1,752,522	618,473

Cash and restricted cash, end of period	$	2,981,789	$	567,277
Supplemental disclosure of cash flow information:				
Cash paid for:				
Interest expense	$	121,924	$	50,303
Income taxes	$	-	$	31,608
Supplemental disclosure of non-cash investing and financing activities:				
Note payable issued for purchase of intangible asset	$	-	$	2,000,000

See accompanying notes to the unaudited condensed consolidated financial statements.

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Generation NEXT Franchise Brands, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. 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”), Reis & Irvy’s, Inc. (“R&I”), 19 Degrees, Inc. and Generation Next Vending Robots, Inc. as a franchisor, direct seller, and owner and operator of frozen yogurt Robots, healthy drink and snack vending machines, and micro markets that feature cashless payment devices and remote monitoring and telemetry software. The Company uses in-house location specialists that are responsible for securing contractual sites for its franchisees; additionally, the Company has negotiated discounts with a national product distribution chain. The Company also operates its own frozen yogurt equipment. Effective May 2016, the Company ceased new franchise sales of its healthy drink and snack vending machines and micro markets. We will no longer market our vending machines and micro markets to new franchisees. We will however, continue to service and support our current FHV LLC franchisees.

During fiscal year 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 December 31, 2017, we have received approval to sell franchises in a number of U.S. states and Canada and have booked a net 943 units aggregating approximately $36.9 million in deferred revenues, prior to certain offset adjustments, which is included in deferred revenue. As of December 31, 2017, and through the date of this report, the Company has not yet delivered any frozen yogurt vending machines. We expect to deliver our first robots during the quarter ended June 30, 2018. The Company is in the production phase of the next generation frozen yogurt robot and has spent an aggregate of $3.6 million in research and development expenses through December 31, 2017. The Company will continue to incur additional research and development expenses for the foreseeable future.

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

2. Summary of Significant Accounting Policies

Basis of accounting

The included (a) condensed consolidated balance sheet as of June 30, 2017, which has been derived from audited consolidated financial statements and (b) the unaudited condensed consolidated statements as of December 31, 2017 and 2016, have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and with the rules and regulations of the Securities and Exchange Commission ("SEC") for reporting on Form 10-Q.

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Generation NEXT Franchise Brands, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Accordingly, these unaudited condensed consolidated statements do not include all of the information and disclosures required by GAAP or SEC rules and regulations for complete consolidated financial statements. In the opinion of management, these unaudited condensed consolidated financial statements reflect all adjustments (consisting solely of normal recurring nature) considered necessary for a fair presentation of the results for the interim periods presented. The results of operations for any interim period are not necessarily indicative of results for the full year.

These unaudited condensed consolidated financial statements should be read in conjunction with the Company's filings with the SEC, including its most recent annual report on Form 10-K for the fiscal year ended June 30, 2017 filed on October 2, 2017.

Liquidity and capital resources

For the six months ended December 31, 2017 we had a net loss totaling $7,774,884 with negative cash flows from operations totaling $1,741,202. Our cash balance at December 31, 2017 was $1,629,011. Since the date of the closing of the FHV Acquisition, our sales were less than anticipated and the resulting cash flows from franchise sales were not sufficient to cover expenditures associated with our daily operations resulting in a substantial decrease in our cash balances and an increase in our outstanding debt. Also, we used cash on hand to retire liabilities associated with the franchise rescissions and for research and development expenditures related to our frozen yogurt robots. As of the filing date of the Form 10-Q, our Company has consumed the vast majority of its available cash, including the cash proceeds from the sale of our common stock received in July of 2013 and commencing in March 2017 and beyond 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 research and development expenditures for the production of the next generation robot, payments required for the purchase of the Robofusion intellectual property (previous owner of the frozen yogurt robot intellectual property) capital expenditures for the purchase of corporate-owned and operated frozen yogurt robots as well as 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 production and purchase of frozen yogurt robots.

Research and Development Costs

Research and development costs are expensed as incurred. The Company recorded $1,927,630 and $313,299 of costs for the six months ended December 31, 2017 and 2016, respectively.

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., Reis & Irvy's, Inc., 19 Degrees, Inc., and Generation Next Vending Robots, Inc. All significant intercompany accounts and transactions are eliminated.

Concentration of credit risk

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

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Generation NEXT Franchise Brands, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

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 consolidated financial statements and the reported amounts of revenues, costs and expenses during the reporting period. Actual results could differ significantly from those estimates. Significant estimates include our provisions for bad debts, franchisee rescissions and refunds, legal estimates and the valuation allowance on deferred income tax assets. It is at least reasonably possible that a change in the estimates will occur in the near term.

Related Parties

The Company has been involved in transactions with related parties. A party is considered to be related to the Company if the party directly or indirectly or through one or more intermediaries, controls, is controlled by, or is under common control with the Company. Related parties also include principal owners of the Company, its management, members of the immediate families of principal owners of the Company and its management, and other parties with which the Company may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests. A party which can significantly influence the management or operating policies of the transacting parties or if it has an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests is also a related party.

Purchase Commitments

In connection with the sale of robots, the Company has made non-cancellable purchase commitments for certain parts aggregating $7.7 million.

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 fee. We receive ongoing fees of either franchisees' gross revenues or gross margins on vending machine and micro market sales as well as commissions on franchisee purchases from our national food distributor. We have not yet recognized any revenues from the Reis & Irvy's franchises as of December 31, 2017.

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. Currently, all franchisees may 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.

For non-cancellable franchise contract agreements, the Company recognizes revenue under the provisions of Accounting Standards Codification (ASC) 606-10-25, Revenue Recognition – Revenue from Contracts with Customers. The Company has opted to early adopt ASC 606.

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 December 31, 2017, we had three company-owned frozen yogurt vending robots in operation.

It is not our policy to allow for returns, discounts or warranties to our FHV LLC franchisees. Under certain circumstances, including as the result of regulatory actions, our Company may become obligated to offer our franchisees amounts in rescission to reacquire their existing franchises, including machines. Additionally, if our Company is unable to fulfill its obligations under a franchise agreement, we may, at our sole discretion, agree to refund or reduce part or all of a franchisee's payments or commitments to pay. As of December 31, 2017 and June 30, 2017, the Company's provision for franchisee rescissions and refunds totaled $2,506,230 and $2,692,618, respectively.

There are warranties extended by the FHV LLC machine manufacturer and franchisees are responsible for making any required machine repairs. To the extent the machines remain under warranty, our FHV LLC franchisees transact directly with the manufacturer or its distributor. Our R&I franchisees are generally provided with a one year warranty on parts and are serviced through our third-party contracted provider, and in some instances, our R&I franchisees are provided with a five-year parts warranty and a two-year labor warranty on certain non-wearable refrigeration component parts that is passed on from our manufacturer

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Generation NEXT Franchise Brands, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Vending Franchise contracts

We invoice franchisees in full at the time that we enter into contractual arrangements with them. Payment terms vary but usually a significant portion of the contract's cash consideration (typically 40% of amounts due for vending machines plus 100% of the initial franchise fees) is due at the time of signing, while remaining amounts outlined under the contract are generally due upon our locating 50% of the sites for the vending machines and micro markets. Certain states require that amounts are not due until the franchisee is ready to commence operations and the Company has met its obligations.

- A typical ten unit franchise contract would include the following:

- Franchise fee per machine: $1,250

- Cost per machine: $10,000

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

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

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

Frozen yogurt franchise contracts

We invoice franchisees in full at the time that we enter into contractual arrangements with them. Payment terms vary but usually a significant portion of the contract's cash consideration (typically 40% - 50% of amounts due for vending machines plus 50% - 100% of the initial franchise fees) is due at the time of signing, while remaining amounts outlined under the contract are generally due on a pro rata basis upon our locating the sites for the frozen yogurt robots.

A typical three unit franchise contract would include the following:

- Franchise fee per machine: $5,000
- Location fee per machine: $2,500
- Cost per machine: $42,500
- Total franchise cost: $150,000 ($5,000 X 3 + $2,500 X 3 + 42,500 X 3)
- Initial payment upon signing contract: $69,000 (100% of franchise fees of $15,000 + 40% of location fees of $7,500 + 40% of machine cost of $127,500)
- Upon the signing of the contract, the Company records the initial payment of $69,000 to cash, with the remaining contract value of $81,000 to accounts receivable and records the total contract value of $150,000 to deferred revenue.

Amounts invoiced to franchisees for which we have not met the criteria for revenue recognition as discussed above, are deferred until such conditions are met. Therefore, these amounts are accounted for as accounts receivable, deferred costs, and customer advances and deferred revenues, respectively in the accompanying condensed consolidated financial statements. As of December 31, 2017, the Company had accounts receivable, deferred costs and customer advances and deferred revenues of $15,289,204, $208,415 and $32,758,392, respectively. As of June 30, 2017, the Company had accounts receivable, deferred costs and customer advances, and deferred revenues totaling $12,947,611, $196,317 and $25,042,850, respectively (see ASC 606 above).

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Generation NEXT Franchise Brands, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Deferred revenue consisted of the following as of December 31, 2017 and June 30, 2017:

	December 31 2017	June 30 2017
Vending machines	$ 805,219	$ 840,309
Franchise fees	3,326,066	2,674,261
Frozen yogurt robots	28,627,107	21,441,530
Other	-	86,750
	$ 32,758,392	$ 25,042,850

Cash and cash equivalents

We consider all investments with an original maturity of three months or less to be cash equivalents. We had no cash equivalents at December 31, 2017 and June 30, 2017. We may maintain our cash and cash equivalents in amounts that may, at times, exceed federally insured limits. At December 31, 2017, bank balances exceeding federally insured limits aggregated $1,453,193. We have not experienced any losses with respect to cash, and we believe our Company is not exposed to any significant credit risk with respect to our cash.

Certain states require the Company to maintain customer deposits in escrow accounts until the Company has substantially performed its obligations. Furthermore, certain franchisees have elected to pay their remaining balance due directly to an escrow account for the beneficiary of the Company's contract manufacturer and certain parts suppliers. At December 31, 2017 and June 30, 2017, the Company had $1,352,778 and $1,500, respectively, maintained in escrow accounts for this purpose.

Accounts receivable, net

Accounts receivable arise primarily from invoices for franchisee agreements, 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 $174,011 and $198,710 at December 31, 2017 and June 30, 2017, 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. Furthermore, inventories consist of inventory prepayments related to frozen yogurt robots.

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Generation NEXT Franchise Brands, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Property and equipment

Property and equipment consists primarily of patents and trademarks, computer and office equipment, and software used in our operations. Property and equipment is carried at cost and depreciated using the straight-line method over the estimated useful lives of the individual assets (generally five to seven years and the remaining useful lives of intangibles). Leasehold improvements are amortized over the lesser of the term of the related lease or the estimated useful life of the asset. Costs incurred for maintenance and repairs are expensed as incurred and expenditures for major replacements and improvements are capitalized and depreciated over their estimated remaining useful lives. Depreciation and amortization expense for the three months ended December 31, 2017 and 2016 totaled $110,575 and $11,825, respectively. Depreciation and amortization expense for the six months ended December 31, 2017 and 2016 totaled $216,684 and $20,990, respectively.

Impairment of long-lived assets

We record impairment losses on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amounts of the assets exceed the estimated fair value of the assets. There were no impairments of long-lived assets for the three and six months ended December 31, 2017 and 2016, respectively.

License fee

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

Intangible assets

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

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

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

Deferred rent

We entered into an operating lease for our corporate offices in San Diego, California that contains provisions for future rent increases, leasehold improvement allowances and rent abatements. We record monthly rent expense equal to the total of the payments due over the lease term, divided by the number of months of the lease term. The difference between the rent expense recorded and the amount paid is credited or charged to deferred rent, which is reflected as a separate line item in the accompanying consolidated balance sheet. Effective, August 1, 2015, the Company entered into a new seven year lease agreement for its corporate operations and warehouse facilities (see Note 8).

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Generation NEXT Franchise Brands, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

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 $662,538 and $432,704 for the three months ended December 31, 2017 and 2016, respectively. Marketing and advertising expense totaled $1,452,569 and $924,577 for the six months ended December 31, 2017 and 2016, respectively.

Freight costs and fees

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

Income taxes

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

Deferred tax assets are reduced by a valuation allowance when, in management's opinion, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The Company's valuation allowance is based on available evidence, including its current year operating loss, evaluation of positive and negative evidence with respect to certain specific deferred tax assets including evaluation sources of future taxable income to support the realization of the deferred tax assets. The Company has established a full valuation allowance on the deferred tax assets as of December 31, 2017 and June 30, 2017, respectively 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 December 31, 2017 and June 30, 2017, respectively and the Company has not recognized interest and/or penalties in the consolidated statements of operations for the three and six months ended December 31, 2017 and 2016.

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Valuation of options and warrants to purchase common stock

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

We account for our share-based compensation as required by the Financial Accounting Standards Board (“FASB”), under authoritative guidance ASC 718 on stock compensation, using the Black-Scholes quantitative valuation method. The resulting compensation expense is recognized in the condensed consolidated 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.

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Derivatives and Hedging

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

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

The Company evaluates all of its financial instruments to determine if such instruments are derivatives or contain features that qualify as embedded derivatives. For derivative financial instruments that are accounted for as liabilities, the derivative instruments are initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported in the consolidated statements of operations. For stock-based derivative financial instruments, the Company historically used the Black-Sholes option pricing model to value the derivative instruments at inception and on subsequent valuation dates. The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is evaluated at the end of each reporting period. Derivative instrument liabilities are classified in the balance sheet as current or non-current based on whether or not net-cash settlement of the derivative instrument could be required within twelve months of the balance sheet date. As of December 31, 2017 all derivative instruments have expired.

Net loss per share

Our Company calculates basic earnings per share (“EPS”) by dividing our net loss by the weighted average number of common shares outstanding for the period, without considering common stock equivalents. Diluted EPS is computed by dividing net income or net loss and comprehensive net loss applicable to common shareholders by the weighted average number of common shares outstanding for the period and the weighted average number of dilutive common stock equivalents, such as options and warrants. Options and warrants are only included in the calculation of diluted

EPS when their effect is dilutive. Total anti-dilutive stock options and warrants excluded from earnings per share totaled 12,769,449 and 6,409,448 at December 31, 2017 and 2016, respectively.

Litigation and franchise agreements

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

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

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Recent accounting standards

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

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* ("ASU 2016-18"). ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and restricted cash. Therefore, amounts generally described as restricted cash should be included with cash and cash equivalents when reconciling the beginning of period and end of period total amounts shown on the statement of cash flows, and transfers between cash and cash equivalents and restricted cash are no longer presented within the statement of cash flows. ASU 2016-18 is effective for annual periods beginning after December 15, 2017, including interim periods within those fiscal years. The Company elected to early adopt ASU 2016-18 for the reporting period ended December 31, 2017 and the standard was applied retrospectively for all periods presented which had no material impact on prior years. As a result of the adoption of ASU 2016-18, the Company no longer presents the change within restricted cash in the condensed consolidated statement of cash flows.

In March 2016, the Financial Accounting Standards Board (the "FASB") issued new guidance for employee share-based compensation which simplifies several aspects of accounting for share-based payment transactions, including excess tax benefits, forfeiture estimates, statutory tax withholding requirements, and classification in the statements of cash flows. This guidance was effective for the Company in fiscal year 2017. Under the new guidance any future excess tax benefits or deficiencies are recorded to the provision for income taxes in the consolidated statements of operations, instead of additional paid-in capital in the consolidated balance sheets. During the three months ended December 31, 2017 and June 30, 2016, no excess tax benefits were recorded to additional paid-in capital that would have been recorded as a reduction to the provision for income taxes.

In February 2016, the FASB issued new guidance for lease accounting, which replaces existing lease guidance. The new guidance aims to increase transparency and comparability among organizations by requiring lessees to recognize lease assets and lease liabilities on the balance sheet and requiring disclosure of key information about leasing arrangements. This guidance is effective for the Company in fiscal year 2019 with early adoption permitted, and modified retrospective application is required. The Company expects to adopt this new guidance in fiscal year 2019 and is currently evaluating the impact the adoption of this new guidance will have on the Company's consolidated financial statements and related disclosures. The Company expects that substantially all of its operating lease commitments (see Note 8) will be subject to the new guidance and will be recognized as operating lease liabilities and right-of-use assets upon adoption.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09"). ASU 2014-09 requires an entity to recognize the revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. ASU 2014-09 supersedes the revenue requirements in *Revenue Recognition (Topic 605)* and most industry-specific guidance throughout the Industry Topics of the Codification. ASU 2014-09 does not apply to lease contracts within the scope of *Leases (Topic 840).* ASU 2014-09 was to be effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, and is to be applied retrospectively, with early application not permitted. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date* ("ASU 2015-14"), which defers the effective date of ASU 2014-09 by one year. Early adoption is permitted but not before the original effective date. The Company elected to early adopt ASU 2015-14 for the reporting year ended June 30, 2017 and it was applicable to new frozen yogurt franchise contracts that were entered during the year ended June 30, 2017 and subsequent periods presented. The Company'sadoption of tASU 2014-09tchanged the timing of recognition of initial franchise fees.. ASU 2014-09 requires these fees to be recognized over the term of the related franchise license for the respective robot, which had a material impact to revenue recognized for initial franchise fees and renewal franchise fees. ASU 2014-09, allows for non-cancellable franchise contract agreements for the Company recognize revenue under the provisions of ASC 606-10-25, Revenue Recognition – Revenue from Contracts with Customers.

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Though the majority of the assessment phase is complete, the Company continues to evaluate the impact the adoption of this new guidance will have on these and other revenue transactions, in addition to the impact on accounting policies and related disclosures. Additionally, the Company is in the process of implementing new accounting systems, business processes, and internal controls related to revenue recognition to assist in the application of the new guidance.

Subsequent events

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

3. Notes payable

Convertible notes payable

Beginning April 2013 through June 19, 2013, we issued convertible notes payable to three entities or individuals in exchange for cash proceeds totaling $249,999. The notes were unsecured and bore interest at 12% per annum. The notes bore maturity dates ranging from June 30, 2013 to August 31, 2013, the earlier of their being outstanding for 60 days, or upon the transfer of 25% or more of our Company's share ownership or upon our merger with a public company (all as defined in the note agreements). Repayment of the notes was personally guaranteed by the beneficial shareholder of FHV Holdings Corp, a California corporation ("FHV CAL"), a director of our Company. On July 19, 2013, $210,000 of the outstanding balance of the notes was tendered in exchange for 552,418 shares of FHV International's common stock, $33,333 was repaid and $9,666 principal remained outstanding. As of December 31, 2017 and June 30, 2017, $6,666 of principal remained outstanding under the above notes.

Senior secured promissory notes

On February 25, 2014, we issued Senior Secured Promissory Notes (the "Initial Notes") to three investors in exchange for cash totaling $501,000. The Initial Notes were set to mature on February 24, 2015 and bear simple interest at a rate of 12% paid monthly over the term of the loan. The Initial Notes also provide that our Company can raise up to $1.5 million in proceeds from the issuance of additional notes (the "Additional Notes") which would have the same seniority and security rights. The Initial Notes are secured by substantially all assets of the Company. On September 23, 2014, the holders of the Company's Initial Notes extended the maturity date from February 24, 2015 to March 15, 2016, and on March 15, 2016, the Notes were further extended to September 30, 2016. The notes aggregating $334,000 have been further extended to December 31, 2018 and $167,000 of the notes, plus accrued interest, were converted to common stock at $.16 per share on January 20, 2017. The remaining outstanding notes, aggregating $334,000, have been granted conversion rights at $.16 per share, the fair market value at the date of the grant. The modification of the debt terms was not deemed substantive and therefore, was not accounted for as an extinguishment of debt with the recognition of a gain or loss.

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Financing and security agreement

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

- The Company may borrow up to $1.5 million in tranches of up to $150,000 each.
- The first tranche of $150,000 was issued at the closing of the transaction and was used to acquire and put into service Company-owned micro markets. An additional amount of $100,000 was issued during the quarter ended December 31, 2014.
- All subsequent tranches shall be in the amount of up to $150,000, shall be due and funded by the lender within seven days of notice, and shall be contingent upon the Company placing an additional 20 micro markets into service.
- The notes payable issued under the terms of the Financing Agreement are due in full 24 months from the funding of each tranche. The Company may, at its discretion, extend the due date for each tranche for an additional 12 months.
- Interest on the borrowings accrues at a rate of 10% per annum, and is payable quarterly. In the event the Company elects to extend the maturity date of a tranche, the interest rate will increase to 12% per annum on that tranche.
- The lender may at its discretion convert any outstanding principal under any of the tranches into shares of the Company’s common stock. The conversion price is 85% of the average closing prices for the 15 trading days prior to the notice of conversion, but in no event at a conversion price lower than $1.28 per share.
- On the due date, or the extended due date, the Company may at its discretion convert up to one-half of the outstanding principal into shares of common stock. The conversion price is 85% of the average closing prices for the 15 trading days prior to the due date or extended due date, whichever may be applicable.
- Borrowings are secured by the Company-owned micro markets.

At December 31, 2017, there was $250,000 outstanding under the Financing Agreement, of which $150,000 originally matured on September 23, 2016 and $100,000 originally matured on December 15, 2016. On September 23, 2016, the Company elected to extend the first tranche of $150,000 until September 23, 2017. On January 20, 2017, the Company extended both tranches until December 31, 2017 and on December 31, 2017, the tranches were further extended until December 31, 2018. As part of a previous extension, the holder was granted conversion rights at $.16 per share, the fair market value at the date of grant. The modification of the debt terms was not deemed substantive and therefore, was not accounted for as an extinguishment of debt with the recognition of a gain or loss.

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

Convertible promissory note

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

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

(i) 25% discount to the next round of financing prior to conversion in excess of $1 million; or

(ii) $.30 per share; or,

(iii) Commencing six months after issuance date, at the investor’s sole discretion, at a 20% discount to the lowest trading price ten business days prior to conversion.

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In connection with the issuance of the Promissory Note and warrant, the Company has recorded the fair value of the warrant of $78,707 as additional paid-in capital. Furthermore, the Company has recorded a discount on the Promissory Note of $480,100 and a derivative liability of $401,393 due to the lack of explicit limit on the number of shares that may be required to be issued upon future conversion. The discount is amortized as accretion of discount on notes payable over the term of the loan using the effective interest rate method. The derivative liability is revalued each period. During the three months ended September 30, 2017 and 2016, the Company has recorded a derivative loss of $220,003 and gain of $191,530 respectively. There was no derivative gain or loss during the three months ended December 31, 2017.

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.

On January 20, 2017, the note was extended through June 30, 2017 and the warrant price was reduced to $.30 per share, provided that the warrants must be exercised for cash. Furthermore, the warrant expiration date was amended to

June 20, 2018. The modification of the debt terms was not deemed substantive and therefore, was not accounted for as an extinguishment of debt with the recognition of a gain or loss.

The principal balance of $600,000 plus accrued interest was repaid during the first quarter of Fiscal year 2018. Furthermore, on August 21, 2017 the holder of $120,000 of the Promissory Note decided to convert the debt to equity. Consequently, the $120,000 was converted into 400,000 common shares of stock.

Robofusion note payable

On December 29, 2016, the Company entered into an Asset Purchase Agreement (the “Agreement”) with Robofusion, Inc. (“RFI”), whereby the Company acquired the intellectual property assets of RFI, a developer of robotic-kiosk vending technology, primarily frozen yogurt vending kiosks/cubes, using RFI’s trademarked name of Reis & Irvy’s (the “Acquisition”). Pursuant to the Agreement, the Company will provide RFI a cash payment of $440,000, payable in two equal installments, the first of which was paid at the Closing, and shall be reduced by the closing payments made by the Company to the third parties in the amounts as set forth in the Agreement and the second on the one (1) month anniversary of the Closing Date. The Company also issued to RFI a three-year, $2 million note and a five-year common stock purchase warrant for 1,520,000 shares with a strike price of $0.50 per share (see Note 10).

Bridge notes payable

On February 28, 2017, the Company executed two short-term bridge notes aggregating $345,000 ($300,000 net of discount). The notes bear interest at 0% per annum and mature on July 28, 2017. In connection with the note issuances, the Company also issued 75,000 shares of the Company’s common stock (Note 7). In connection with the stock issuance and original issue discount, the Company has recorded $102,000 as a debt discount. The discount is being amortized over the life of the loan. The loan was repaid during the six months ended December 31, 2017.

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	December 31, 2017	June 30, 2017
Senior Secured Promissory Notes, bearing interest at 12% per annum, payable monthly. The Senior Secured Notes mature on December 31, 2018 and have conversion rights at $.16 per share.	$ 334,000	$ 334,000
$600,000 convertible promissory note, bearing interest at 10% per annum. The note is convertible at $.30 per share and was due on June 30, 2017	-	300,000
Convertible secured debt, bearing interest at 10% per annum, payable quarterly. The convertible secured debt matures on December 31, 2018 and has conversion rights at $.16 per share.	250,000	250,000
$2,000,000 Promissory Note, bearing interest at 3.25% per annum. Principal and interest is due quarterly, over a 3 year period, net of discount of $124,284.	1,716,367	1,850,858
$345,000 promissory note, with 0% interest, payable quarterly. The promissory note matured on July 28, 2017	-	302,100
Other	6,666	6,666
	2,307,033	3,043,624
Less current maturities	(1,351,922)	(1,710,291)
	$ 955,111	$ 1,333,333
Maturities of notes payable, net of discounts, are as follows:		
June 30, 2018	$ 485,858	$ 1,357,666
June 30, 2019	$ 1,257,100	$ -
June 30, 2020	$ 564,075	$ -
	$ 2,307,033	$ 1,357,666

4. Concentrations

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

Our FHV LLC vending food products are primarily supplied by one national distributor. Although there are a limited number of product suppliers with the product selection and distribution capabilities required by our franchise network, we believe that other distributors could provide similar products on comparable terms. The Company, and its franchisees, also use supplemental suppliers for their product selections, in addition to the national distributor. A change in suppliers, however, could cause a delay in deliveries and a possible loss of revenue from both current and prospective franchisees, which could adversely affect our operating results. We anticipate that our frozen yogurt consumables will be supplied by several distributors, based on geographical location. However, there may be only one supplier in each geographic location. A change in suppliers, however, could cause a delay in deliveries and a possible loss of revenue from both current and prospective franchisees, which could adversely affect our operating results.

5. 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 three and six months ended December 31 2017, the Company granted stock options under its 2013 Equity Incentive Plan. Stock-based compensation related to these awards is recognized on a straight-line basis over the applicable vesting period and is included in selling, general and administrative expenses in the accompanying condensed consolidated statements of operations for the three and six months ended December 31, 2017 and 2016. During the three months ended December 31, 2017, options issued were valued using the Black Scholes method assuming the following:

	2017
Expected volatility	131.00%
Dividend yield	0%
Risk-free interest rate	1.98%
Expected life in years	3.5

The expected volatility was estimated based on the volatility of the Company's stock. 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 $144,238 and $48,703 during the three months ended December 31, 2017 and 2016, respectively. Furthermore, we recorded stock-based compensation expense of $280,328 and $134,127 during the six months ended December 31, 2017 and 2016, respectively.

The following table summarizes the stock option activity under the 2013 Plan through December 31, 2017:

	Options	**Weighted Average Exercise Price**	
Outstanding at June 30, 2017	4,120,074	$	0.253
Granted	97,500	$	0.947
Exercised	(150,625)	$	0.183
Forfeited	(466,250)	$	0.284
Outstanding at December 31, 2017	3,600,699	$	0.271

Of the 97,500 options granted during the six months ended December 31, 2017, all were granted to employees and consultants of the Company. Options are granted at the fair market value on the date of grant.

At December 31, 2017, the outstanding options had an average remaining expected life of 4.88 years. Furthermore, at December 31, 2017, 2,561,324 options were exercisable at a weighted average exercise price of $.230.

On January 20, 2017, the Company granted non-qualified stock options (outside of the 2013 Plan) aggregating 5,000,000 and 500,000, respectively to its Chairman and CEO. The options vest 50% upon the delivery of 400 frozen yogurt robots or achieving cumulative revenue of $15 million and 50% upon the delivery of 800 frozen yogurt robots or achieving cumulative revenue of $30 million.

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6. Contingencies

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

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

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

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

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

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

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

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7. Stockholders' deficit

During the quarter ended March 31, 2017, a note holder converted principal of $167,000 plus accrued interest into 1,325,821 shares of common stock at $.16 per share.

In connection with the issuance of bridge notes payable during fiscal 2017 (Note 3), the Company also issued 75,000 common shares to the note holders.

We issued 7,747,741 shares of common stock during the six months ended December 31, 2017 for proceeds aggregating $3,830,812.

8. Leases

On August 1, 2015, the Company moved its corporate and warehouse facilities to a single location aggregating 8,654 feet at 2620 Financial Court, Suite 100, San Diego California 92117. The new lease is for a term of 84 months. The current monthly rental payment, net of utilities for the facility, is $15,995. Future minimum lease payments under the Company's Facility Lease is as follows:

2018: $105,013; 2019: $196,928; 2020: $202,554; 2021: $208,377; 2022: $214,403: Thereafter: $17,909. Rent expense totaled $47,544 and $44,733 for the three months ended December 31, 2017 and 2016, respectively. Furthermore, during the six months ended December 31, 2017 and 2016, rent expense totaled $111,179 and $106,039, respectively.

9. 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.

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Generation NEXT Franchise Brands, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

On January 20, 2017, Socially Responsible Brands agreed to extend the maturity date on their notes until December 31, 2017. In connection with the loan extension, the holder may convert their notes into shares of the Company's stock at $.16 per share. Furthermore, on September 22, 2017, the Company agreed to modify the interest rate on the Notes to 20% per annum. Additionally, on December 31, 2017, Socially Responsible Brands agreed to further extend the maturity date on their notes until December 31, 2018.

On January 13, 2015, the Company's Chairman, Nicholas Yates, agreed to loan the Company up to $200,000 (the "Loan"), each incremental borrowing under the Loan to be evidenced by a promissory note. Mr. Yates further agreed to loan the Company up to $550,000. Amounts borrowed under the Loan bear interest at 10% per annum and are due on December 31, 2016. The Loan also provides for conversion to common stock, at the option of the holder, at a price equal to the Company's next round of funding. In connection with the beneficial conversion option, the Company has recorded $300,000 as a discount on the Loan and charged $0 and $150,000, respectively to operations during the six months ended December 31, 2017 and 2016. As of December 31, 2017 and June 30, 2017, $331,172 and $353,187, respectively were outstanding under the Loan.

On January 20, 2017, Mr. Yates agreed to extend his loans until December 31, 2017. In exchange for extending the loans, Mr. Yates was granted an option to convert the loan to common stock at $.16 per share. Furthermore, on December 31, 2017, Mr. Yates agreed to extend his loans until December 31, 2018.

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

10. Intangible intellectual property acquisition

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

1,520,000 shares with a strike price of $.50 per share. Furthermore, certain RFI Officers, Directors and Shareholders will be subject to a five-year, non-compete agreement. Also, the Agreement provides for indemnification and set off of up to $1 million, under certain circumstances.

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

11. Subsequent events

On various dates from January 1, 2018 through February 14, 2018 the Company issued an additional 2,032,187 shares of common stock for aggregate proceeds of $1,016,094.

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

Special Note Regarding Forward Looking Statements

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. In addition, we may make other written and oral communications from time to time that contain such statements. Forward-looking statements include statements as to industry trends, our future expectations and other matters that do not relate strictly to historical facts and are based on certain assumptions of our management (such assumptions may be identified by "we," "our" or "us"). These statements are often identified by the use of words such as "may," "strive," "will," "expect," "believe," "anticipate," "intend," "could," "estimate," or "continue, expressions or variations. Further, these statements are based on the beliefs and assumptions of our management based on information currently available. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from future results expressed or implied by such forward-looking statements. Important factors that could cause actual results to differ materially from the forward-looking statements include, without limitation, the risks described in the section entitled "Risk Factors" under Item 1A in our Annual Report on Form 10-K for the year ended June 30, 2017.

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

Overview and Description of Business

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

We are a public company listed under the symbol "VEND".

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Business

We are a Franchise Development Company and operator of Company-owned vending machines and micro markets that makes healthy eating more convenient through access to high quality healthy foods at high foot traffic destinations. We and our franchisees have over 3,000 vending machines and micro markets primarily offering natural, organic and healthy food and beverage products throughout North America, the Bahamas and Puerto Rico. Our obligations to each franchisee include securing locations for the healthy vending machines they purchase. We offer thousands of healthy food and beverage products through a national distributor and we train each franchisee at our San Diego headquarters. We provide dedicated account management and ongoing customer service to our franchisees. As of March 2016, we have ceased marketing our healthy vending franchises, although we continue to support our ongoing franchisees. Furthermore, we have sold our corporate route and no longer operate our own healthy vending machines.

During fiscal year 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 December 31, 2017, we have received approval to sell franchises in a number of U.S. states and Canada and have booked a net 943 units aggregating $36.9 million, prior to certain offset adjustments, which is included in deferred revenues. As of December 31, 2017, and through the date of this report, the Company has not yet delivered any frozen yogurt vending machines. we expect to deliver our first robots during the quarter ended June 30, 2018 The Company is in the production phase of the next generation frozen yogurt robot and has spent an aggregate of $3.6 million in research and development expenses through December 31, 2017. The Company will continue to incur additional research and development expenses until at least March 31, 2018 and beyond.

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

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

Frozen Yogurt Robots

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") certified, 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 compliance with local and national laws and regulations.

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. 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.

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Vending Technology

We have developed a cash and cashless vending platform to readily monitor the sales of our franchisees. We help our franchisees to grow their business with onsite and virtual management tools, including as an example, wireless remote monitoring telemetry software. As mentioned above, our vending standards are UL recognized. All transactions are managed by third parties to facilitate financial compliance with local and national laws and regulations.

Micro Market Technology

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

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 environment.

Frozen Yogurt Products

For our Frozen Yogurt Robots, we primarily provide access to Dannon's YoCream products. These products include options of non-dairy, sorbet, tart, no-sugar added, nonfat, and low-fat frozen desserts. YoCream products are available in a wide variety of more than 70 flavors including standard flavors such as more than 5 vanillas and 4 chocolates and trendy flavors such as tarts, fruity sorbets, and seasonal favorites. Dannon YoCream is available to Franchisees across the country and internationally, the product has a 21-day thawed shelf life for minimal waste.

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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, and those locations with high transient foot traffic for our frozen yogurt robots, including hospitals, amusement parks, and other entertainment venues. Federal guidelines have been established that aim to counter youth obesity while improving student nutrition, such rules work to discourage our competitors' fare to be marketed to schools. According to Ned Monroe, senior vice-president for government affairs for the National Automatic Merchandising Association, "There were fewer and fewer operators handling school accounts because it was a tough process to find products that met the patchwork of school guidelines." In fact, "the trade group estimates that just 10 percent of its vending operator members sell in schools now, down from about 25 percent a decade ago.
- We outsource non-core functions to third-party vendors. Outsourced services include: machine manufacturing, transport, location set-up, maintenance, inventory, food management and ordering, payment processing, and cash management. This has historically allowed us to focus more of our financial resources to investing in new services.

Our Principal Suppliers

The Company currently purchases substantially all of its vending machines as needed from a sole supplier, Automated Merchandising Systems Inc. ("AMS"), or its designated distributor. The Company currently purchases all of its frozen yogurt vending kiosks from a sole supplier, Flex, Ltd. ("Flex"). We believe that our relationship with each of AMS and Flex is excellent, and likely to continue. In our view, the loss of our relationship with either AMS or Flex, 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 and two other suppliers with comparable abilities to manufacture frozen yogurt vending kiosks. The Company also purchases its micro markets from a single manufacturer and believes the loss of its supplier may result in short term disruptions not likely to be material.

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

Governmental Regulation

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

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Our Employees

We had approximately 44 full-time employees as of December 31, 2017.

Seasonality

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

Three months ended December 31, 2017 compared to three months December 31, 2016

Revenues

We had revenues of $167,634 for the three months ended December 31, 2017, compared to revenues of $1,222,951 for the three months ended December 31, 2016. This represented a decrease of $1,055,317 or 86.3%. Our revenues decreased largely due to a decrease in the number of machines that were installed. The decrease in machines installed was largely due to the discontinuation of Fresh Healthy Vending franchise sales. As of May 2016, the Company has discontinued sales of FHV LLC franchises and has instead focused its sales and marketing efforts on Reis & Irvy's, its new frozen yogurt franchise. We will continue however, to support our existing FHV LLC franchises.

Cost of revenues

Cost of revenues was $60,616 during the three months ended December 31, 2017, compared to $584,323 during the three months ended December 31, 2016. This represents a decrease of $523,707 or 89.6%. The decrease is consistent with and primarily due to the decrease in machines installed for the quarter.

Gross margin

Gross margin for the three months ended December 31, 2017 was $107,018 compared to $638,628 for the corresponding period ending December 31, 2016, representing a decrease of $531,610 or 83.2%.

Selling, general and administrative expenses

Selling, general and administrative expenses for the three months ended December 31, 2017 of $3,782,810 represents an increase of $632,261 from the $3,150,549 in the three months ended December 31, 2016. The major components of selling, general and administrative expenses were as follows:

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Personnel expenses of $1,154,456 for the three months ended December 31, 2017 represent an increase of $184,974 or 19.1% from the $969,482 in the three months ended December 31, 2016. The increase was primarily attributable to an increase in personnel and commissions during the period.

Marketing and advertising expenses increased $229,834 to $662,538 for the three months ended December 31, 2017 compared to $432,704 for the three months ended December 31, 2016. The increase of 53.1%, was primarily attributable to an increase in national radio advertising and Internet marketing for the Reis & Irvy's franchise.

Research and development expenses increased $777,250 from $248,973 in the prior period. The increase was directly related to research and development expenses associated with the next generation frozen yogurt robot.

Depreciation and amortization expense increased $98,750 to $110,575 during the three months ended December 31, 2017 from $11,825 during the three months ended December 31, 2016. The increase was primarily attributable to the acquisition of intangible intellectual property from Robofusion.

Professional fees expense decreased 542,448 to $68,453 during the three months ended December 31, 2017 from $610,901 during the three months ended December 31, 2016. The decrease was primarily attributable to the decrease in legal fees during the period.

Stock compensation expense increased $95,535 to $144,238 during the three months ended December 31, 2017 from $48,703 during the three months ended December 31, 2016. The increase was primarily attributable to additional grants of stock options and additional compensation expense related to a higher stock price.

Provision for legal settlement increased 206,498 from 8,802 during the three months ended December 31, 2016 to $215,300 during the three months ended December 31, 2017. The increase was primarily attributable to an increase in legal matters.

Provision for income taxes

During the three months ended December 31, 2017 and 2016, we incurred a net loss and operated as a C-corp for federal and state income tax purposes. A valuation allowance has been recorded to eliminate the tax benefit arising from our net operating loss due to the substantial uncertainty about whether such benefit will ever be realized.

Net loss

Net loss was $3,787,555 during the three months ended December 31, 2017 compared to a net loss of $3,023,511 for the three months ended December 31, 2016. The increase in net loss resulted from decreased revenues, increased selling, general and administrative expenses offset by a decrease in accretion of discount and derivative liability expense..

Basic net loss per share during the three months ended December 31, 2017 and 2016 was $.09 and $0.11 per share, respectively.

Six months ended December 31, 2017 compared to six months December 31, 2016

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Revenues

We had revenues of $386,212 for the six months ended December 31, 2017, compared to revenues of $3,045,998 for the six months ended December 31, 2016. This represented a decrease of $2,659,786. Our revenues decreased primarily due to a decrease in the number of machines that were installed. The decrease in machines installed was largely due to the discontinuation of Fresh Healthy Vending franchise sales. As of May 2016, the Company has discontinued sales of FHV LLC franchises and has instead focused its sales and marketing efforts on Reis & Irvy's, its new frozen yogurt franchise. We will continue however, to support our existing FHV LLC franchises.

Cost of revenues

Cost of revenues was $163,606 during the six months ended December 31, 2017, compared to $1,457,362 during the six months ended December 31, 2016. This represents a decrease of $1,293,756. The decrease is consistent with and primarily due to the decrease in machines installed for the quarter.

Gross margin

Gross margin for the six months ended December 31, 2017 was $222,606 compared to $1,588,636 for the corresponding period ending December 31, 2016, representing a decrease of $1,366,030.

Selling, general and administrative expenses

Selling, general and administrative expenses for the six months ended December 31, 2017 of $7,510,785 represents an increase of $1,236,658 from the $6,274,127 in the six months ended December 31, 2016. The major components of selling, general and administrative expenses were as follows:

Personnel expenses of $2,308,240 for the six months ended December 31, 2017 represent an increase of $285,131 or 14.1% from the $2,023,109 in the six months ended December 31, 2016. The increase was primarily attributable to an increase in personnel and commissions during the period.

Marketing and advertising expenses increased $527,992 to $1,452,569 for the six months ended December 31, 2017 compared to $924,577 for the six months ended December 31, 2016. The increase of 57.1%, was primarily attributable to an increase in national radio advertising and Internet marketing for the Reis & Irvy's franchise.

Research and development expenses increased $1,614,331 from $313,299 in the prior period. The increase was directly related to research and development expenses associated with the next generation frozen yogurt robot.

Depreciation and amortization expense increased $195,694 to $216,684 during the six months ended December 31, 2017 from $20,990 during the six months ended December 31, 2016. The increase was primarily attributable to the acquisition of intangible intellectual property from Robofusion.

Professional fees expense decreased 581,241 to $243,233 during the six months ended December 31, 2017 from $824,474 during the six months ended December 31, 2016. The decrease was primarily attributable to the decrease in legal fees during the period.

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Stock compensation expense increased $146,201 to $280,328 during the six months ended December 31, 2017 from $134,127 during the six months ended December 31, 2016. The increase was primarily attributable to additional grants of stock options and additional compensation expense related to a higher stock price.

Provision for legal settlement decreased 567,546 from 882,506 during the six months ended December 31, 2016 to $314,960 during the six months ended December 31, 2017. The decrease was primarily attributable to a decrease in legal matters.

Provision for income taxes

During the six months ended December 31, 2017 and 2016, we incurred a net loss and operated as a C-corp for federal and state income tax purposes. A valuation allowance has been recorded to eliminate the tax benefit arising from our net operating loss due to the substantial uncertainty about whether such benefit will ever be realized.

Net loss

Net loss was $7,774,884 during the six months ended December 31, 2017 compared to a net loss of $5,130,404 for the six months ended December 31, 2016. The increase in net loss resulted from decreased revenues and increased selling, general and administrative expenses.

Basic net loss per share during the six months ended December 31, 2017 and 2016 was $.21 and $0.18 per share, respectively.

Liquidity and Capital Resources

For the six months ended December 31, 2017 we had a net loss totaling $7,774,884 with negative cash flows from operations totaling $1,741,202. Our cash balance at December 31, 2017 was $1,629,011. Since the date of the closing of the FHV Acquisition, our sales were less than anticipated and the resulting cash flows from franchise sales were not sufficient to cover expenditures associated with our daily operations resulting in a substantial decrease in our cash balances and an increase in our outstanding debt. Also, we used cash on hand to retire liabilities associated with the franchise rescissions and for research and development expenditures related to our frozen yogurt robots. As of the filing date of the Form 10-Q, our Company has consumed the vast majority of its available cash, including the cash proceeds from the sale of our common stock received in July of 2013 and March 2017 and beyond 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 research and development expenditures for the production of the next generation robot, payments required for the purchase of the Robofusion intellectual property (previous owner of the frozen yogurt robot intellectual property) capital expenditures for the purchase of corporate-owned and operated frozen yogurt robots as well as 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 production and purchase of frozen yogurt robots.

As of December 31, 2017, the Company had $334,000 outstanding under the Initial Notes, $250,000 outstanding under the Financing Agreement, approximately $331,000 outstanding under a loan agreement with its Chairman, approximately $297,000 under two Secured Promissory Notes and approximately $1.84 million under a loan related to the Robofusion acquisition.

Furthermore, in connection with the sale of robots, the Company has made non-cancellable purchase commitments for certain parts aggregating $7.7 million.

Off Balance Sheet Arrangements

We had no material off balance sheet arrangements at December 31, 2017.

Critical Accounting Policies

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

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

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. 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.

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 December 31, 2017 and June 30, 2017, the Company’s provision for franchisee rescissions and refunds totaled $2,506,230 and $2,692,618, respectively. There are warranties extended by the FHV LLC 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 FHV LLC franchisees transact directly with the manufacturer or its distributor. Our R&I franchisees are generally provided with a one year warranty on parts, and additional warranties extended by our parts manufacturers and are serviced through our third-party contracted provider.

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.

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Reis & Irvy's Franchise contracts — We invoice franchisees in full at the time that we enter into contractual arrangements with them. Payment terms vary but usually a significant portion of the contract's cash consideration (typically 40% - 50% of machines plus 50% - 100% of the franchise fees) is due at the time of signing, while remaining amounts outlined under the contract are generally due upon the securing of locations and/or prior to shipment of the machines.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our management, including our chief executive and chief financial officer, as appropriate, to allow for timely decisions regarding required disclosure. Disclosure controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Management has designed our disclosure controls and procedures to provide reasonable assurance of achieving the desired control objectives.

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 December 31, 2017.

Based upon an evaluation of the effectiveness of disclosure controls and procedures, our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") has concluded that as of the end of the period covered by this Quarterly Report on Form 10-Q, our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the

Exchange Act) were not deemed effective in order to provide reasonable assurance that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified by the rules and forms of the SEC and is accumulated and communicated to management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure (see below for further discussion).

Management's Report on Internal Control Over Financial Reporting

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

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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 December 31, 2017. Since the Company is not listed on a national exchange or on an automated interdealer quotation system, it is not required to have an audit committee or independent directors, and thus does not have a controlling independent board or audit committee. We consider this to be a material weakness as an independent board and audit committee provide important oversight. The Company is in the process of addressing this issue by establishing an audit committee and appointing independent directors, with at least one having financial expertise.

Changes in Internal Control Over Financial Reporting

There were no material changes in our internal control over financial reporting (as defined in Rule 13a- 15(f) under the Exchange Act) that occurred as of December 31 2017, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2017. Our management's evaluation of our internal control was based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO Framework - 1992"). The Company is in the process of integrating the updated, 2013 version of the 1992 COSO framework. Based on its evaluation under the *Internal Control - Evaluation Framework,* due to the material weakness described above, management concluded that our internal control over financial reporting was not effective as of December 31, 2017. A material weakness is a control deficiency, or combination of control deficiencies, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected on a timely basis by the Board in the normal course of their duties.

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PART II – OTHER INFORMATION

Item 1. Legal Proceedings

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

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

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

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

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

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

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

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Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1, “Risk Factors” in our Current Report on Form 10-K filed on October 2, 2017, which could materially affect our business, financial condition or operating results.

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The risks described in our Annual Report on Form 10-K and above are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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

During the quarter ended December 31, 2017, the Company issued 3,627,224 shares aggregating $1,813,612. During the six months ended December 31, 2017, the Company issued 7,747,741 shares aggregating $3,830,812. Subsequent to December 31, 2017 and through February 9, 2018, the Company issued an additional 1,822,000 shares aggregating $911,000.

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

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

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None.

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Item 6. Exhibits

A. Exhibits

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

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GENERATION NEXT FRANCHISE BRANDS, INC.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GENERATION NEXT FRANCHISE BRANDS, INC.

Dated: February 14, 2018

By: */s/ Arthur S. Budman*
Arthur S. Budman