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SECURITIES & EXCHANGE COMMISSION EDGAR FILING

BARFRESH FOOD GROUP INC.

Form: 10-Q

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2020

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 Number: **000-55131**

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

Delaware (State or other jurisdiction of incorporation or organization)	**27-1994406** (I.R.S. Employer Identification No.)
3600 Wilshire Blvd., Suite 1720, **Los Angeles, California** (Address of principal executive offices)	**90010** (Zip Code)

310-598-7113
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(g) of the Act:

Title of each class
common stock, $0.000001 par value

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for 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 [ ] 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 [ ] No

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

Large Accelerated Filer [ ]	Accelerated Filer [ ]	Non-Accelerated Filer (do not check if Smaller Reporting Company) [ ]
Smaller Reporting Company [X]	Emerging Growth Company [ ]	

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

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

[ ] Yes [X] No

As of July 30, 2020, there were 143,643,146 outstanding shares of common stock of the registrant.

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

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

Barfresh Food Group Inc.
Condensed Consolidated Balance Sheets

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Assets		
Current assets:		
Cash	$ 3,029,694	$ 999,989
Restricted cash	368,582	91,385
Accounts receivable, net	405,689	284,668
Inventory, net	809,196	634,746
Prepaid expenses and other current assets	24,215	17,606
Total current assets	4,637,376	2,028,394
Property, plant and equipment, net of depreciation	2,161,639	2,406,317
Operating lease right-of-use assets, net	176,325	203,287
Intangible assets, net of amortization	451,991	479,503
Deposits	8,304	8,304
Total Assets	$ 7,435,635	$ 5,125,805
Liabilities And Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 429,515	$ 625,068
Accrued expenses	296,993	250,125
Accrued payroll	124,395	215,601
Accrued vacation	112,534	95,851
Accrued interest	-	487,978
Lease liability	58,763	56,692
Convertible notes, net of discount	62,066	150,742
Derivative liabilities	6,774	-
Total current liabilities	1,091,040	1,882,057
Long term liabilities:		
Accrued interest	117,525	-
Lease liability	129,746	159,177
Note payable	568,131	-
Convertible note - related party, net of discount	193,399	1,181,942
Convertible note, net of discount	948,102	1,407,877
Derivative liabilities	34,143	211,028
Total liabilities	3,082,086	4,842,081
Commitments and contingencies (Note 6,7, 8 and 9)		
Stockholders' equity:		
Preferred stock, $0.000001 par value, 5,000,000 shares authorized, none issued or outstanding	-	-
Common stock, $0.000001 par value; 295,000,000 shares authorized; 143,543,146 and 130,341,737 shares issued and outstanding at June 30, 2020 and December 31, 2019, respectively	143	130
Additional paid in capital	53,023,114	47,030,716
Accumulated deficit	(48,669,708)	(46,747,122)
Total stockholders' equity	4,353,549	283,724
Total Liabilities and Stockholders' Equity	$ 7,435,635	$ 5,125,805

See the accompanying notes to the condensed consolidated financial statements

Barfresh Food Group Inc.
Condensed Consolidated Statements of Operations
For the three and six months ended June 30, 2020 and 2019
(Unaudited)

	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	2020	2019
Revenue	$ 506,276	$ 1,382,665	$ 1,240,156	$ 2,217,199
Cost of revenue	389,815	512,245	718,449	899,969
Depreciation of Manufacturing Equipment	1,155	19,374	9,602	31,480
Gross profit	115,306	851,046	512,105	1,285,750
Operating expenses:				
General and administrative	1,084,040	1,785,820	2,308,465	3,789,264
Depreciation and Amortization	153,500	155,074	303,648	357,051
Total operating expenses	1,237,540	1,940,894	2,612,113	4,146,315
Operating loss	(1,122,234)	(1,089,848)	(2,100,008)	(2,860,565)
Other (income)/expenses				
Gain from derivative liability	(6,197)	(798,746)	(157,099)	(392,734)
Gain from debt extinguishment	-	-	(379,200)	-
Warrant modification	-	-		307,460
Interest expense	63,483	282,814	358,877	645,887
Total other expense/(income)	57,286	(515,932)	(177,422)	560,613
Net (loss)	$ (1,179,520)	$ (573,916)	$ (1,922,586)	$ (3,421,178)
Per share information - basic and fully diluted:				
Weighted average shares outstanding	143,498,391	128,283,091	137,728,422	126,480,323
Net (loss) per share	$ (0.01)	$ 0.00	$ (0.01)	$ (0.03)

See the accompanying notes to the condensed consolidated financial statements

Barfresh Food Group Inc.
Condensed Consolidated Statements of Cash Flows
For the six months ended June 30, 2020 and 2019

	2020	2019
Net Cash (used for) Operating Activities	$ (1,930,045)	$ (2,354,225)
Investing Activities		
Purchase of property and equipment	(34,365)	(319,157)
Purchase of Intangibles	(4,293)	(182)
Net Cash (used for) Investing Activities	(38,658)	(319,339)
Financing Activities		
Cash received for Warrant Exercises	-	1,500,310
Cash received for Stock	3,825,000	2,400,000
Proceeds from notes payable	568,131	-
Repayment of convertible notes	(90,166)	-
Payments of operating leases	(27,360)	-
Net Cash from Financing Activities	4,275,605	3,900,310
Net Change in Cash and Restricted Cash	2,306,902	1,226,746
Cash and Restricted Cash, Beginning of Year	1,091,374	1,041,569
Cash and Restricted Cash, End of Year	$ 3,398,276	$ 2,268,315
Non-Cash Financing and Investing Activities		
Property and equipment included in accounts payable	-	12,661
Convertible note principal and interest settled through warrant exercise	-	384,563
Operating lease right of use asset	-	241,555
Executive Deferred Compensation settled through issuance of warrants	167,892	-
Net carrying value of convertible notes and accrued interest settled through issuance of stock (debt extinguishment)	1,770,963	-
Accrued interest settled through issuance of stock	379,350	-
Debt discount warrant and derivative liability	107,611	-
Offering and debt issuance costs included in accounts payable	39,208	-

See the accompanying notes to the condensed consolidated financial statements

Note 1. Summary of Significant Accounting Policies

Barfresh Food Group Inc., ("we," "us," "our," and the "Company") was incorporated on February 25, 2010 in the State of Delaware. We are engaged in the manufacturing and distribution of ready to blend beverages, particularly, smoothies, shakes and frappes.

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP").

Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and our wholly owned subsidiaries, Barfresh Inc. and Barfresh Corporation Inc. (formerly known as Smoothie, Inc.). All inter-company balances and transactions among the companies have been eliminated upon consolidation.

Use of Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities in the balance sheets and revenues and expenses during the years reported. Actual results may differ from these estimates.

Concentration of Credit Risk

The amount of cash on deposit with financial institutions can be in excess of the $250,000 federally insured limit. However, we believe that cash on deposit that exceeds $250,000 in the financial institutions is financially sound and the risk of loss is minimal.

Restricted Cash

The Company adopted FASB ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash ("ASU 2016-18"), which enhances and clarifies the guidance on the classification and presentation of restricted cash in the statement of cash flows and requires additional disclosures about restricted cash balances. At June 30, 2020 and December 31, 2019, the Company had $368,582 and $91,385, respectively, in restricted cash related to our co-packing agreement with Yarnell Operations, LLC.

Fair Value Measurement

Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 820, *Fair Value Measurements and Disclosures* ("ASC 820"), provides a comprehensive framework for measuring fair value and expands disclosures which are required about fair value measurements. Specifically, ASC 820 sets forth a definition of fair value and establishes a hierarchy prioritizing the inputs to valuation techniques, giving the highest priority to quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable value inputs. ASC 820 defines the hierarchy as follows:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reported date. The types of assets and liabilities included in Level 1 are highly liquid and actively traded instruments with quoted prices, such as equities listed on the New York Stock Exchange.

Level 2 – Pricing inputs are other than quoted prices in active markets but are either directly or indirectly observable as of the reported date. The types of assets and liabilities in Level 2 are typically either comparable to actively traded securities or contracts or priced with models using highly observable inputs.

Level 3 – Significant inputs to pricing that are unobservable as of the reporting date. The types of assets and liabilities included in Level 3 are those with inputs requiring significant management judgment or estimation, such as complex and subjective models and forecasts used to determine the fair value.

Our financial instruments consist of cash, accounts receivable, accounts payable, derivative liabilities, and convertible notes. The carrying value of our financial instruments approximates their fair value, except for the derivative liability in which carrying value is fair value.

Accounts Receivable

Accounts receivable are typically unsecured. Our credit policy calls for payment generally within 30 days. The credit worthiness of a customer is evaluated prior to a sale. As of June 30, 2020 and December 31, 2019, the Company's allowance for doubtful accounts was $141,788 and $141,788, respectively. The allowance was estimated based on evaluation of collectability of outstanding accounts receivable.

Inventory

Inventory consists of raw materials and finished goods and is carried at the lower of cost or net realizable value on a first in first out basis. The Company monitors the remaining useful life of its inventory and establishes a reserve of obsolescence where appropriate. As of June 30, 2020 and December 31, 2019, the Company's inventory reserve was $31,476 and $100,651, respectively.

Intangible Assets

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

In accordance with ASC 350 legal costs related to trademarks have been capitalized. We have determined that trademarks have an indeterminable life and therefore are not being amortized.

Long-Lived Assets and Other Acquired Intangible Assets

We evaluate the recoverability of property and equipment and finite-lived intangible assets for possible impairment whenever events or circumstances indicate that the carrying amount of such assets may not be recoverable. The evaluation is performed at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. Recoverability of these assets is measured by a comparison of the carrying amounts to the future undiscounted cash flows the assets are expected to generate. If such review indicates that the carrying amount of property and equipment and intangible assets is not recoverable, the carrying amount of such assets is reduced to fair value. We have not recorded any impairment charges during the periods presented.

Property, Plant, and Equipment

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

Furniture and fixtures: 5 years
Manufacturing equipment and customer equipment: 3 years to 7 years
Vehicles: 5 years

Leases:

We determine if an arrangement is a lease upon inception. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The right to control the use of an asset includes the right to obtain substantially all of the economic benefits of the underlying asset and the right to direct how and for what purpose the asset is used.

After adoption of ASU 2016-02 and related standards, operating lease right-of-use assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. Lease expense is recognized on a straight-line basis over the lease term. As a lessee, the Company leases office space.

Revenue Recognition

In accordance with ASC 606, Revenue from Contracts with Customers, revenue is recognized when a customer obtains ownership of promised goods. The Company adopted this standard at the beginning of fiscal year 2018, with no significant impact to its financial position or results of operations, using the modified retrospective method. The amount of revenue recognized reflects the consideration to which the Company expects to be entitled to receive in exchange for these goods. The Company applies the following five steps:

1) *Identify the contract with a customer*

   A contract with a customer exists when (i) the Company enters into an enforceable contract with a customer that defines each party's rights, (ii) the contract has commercial substance and, (iii) the Company determines that collection of substantially all consideration for goods or services that are transferred is probable. For the Company, the contract is the approved sales order, which may also be supplemented by other agreements that formalize various terms and conditions with customers.

2) *Identify the performance obligation in the contract*

Performance obligations promised in a contract are identified based on the goods or services that will be transferred to the customer. For the Company, this consists of the delivery of frozen beverages, which provide immediate benefit to the customer.

3) *Determine the transaction price*

The transaction price is determined based on the consideration to which the Company will be entitled in exchange for transferring goods and is generally stated on the approved sales order. Variable consideration, which typically includes volume-based rebates or discounts, are estimated utilizing the most likely amount method.

4) *Allocate the transaction price to performance obligations in the contract*

Since our contracts contain a single performance obligation, delivery of frozen beverages, the transaction price is allocated to that single performance obligation.

5) *Recognize Revenue when or as the Company satisfies a performance obligation*

The Company recognizes revenue from the sale of frozen beverages when title and risk of loss passes and the customer accepts the goods, which generally occurs at the time of delivery to a customer warehouse. Customer sales incentives such as volume-based rebates or discounts are treated as a reduction of sales at the time the sale is recognized. Shipping and storage costs are treated as fulfillment costs and presented in distribution, selling and administrative costs.

The Company evaluated the requirement to disaggregate revenue and concluded that substantially all of its revenue comes from a single product, frozen beverages.

Research and Development

Expenditures for research activities relating to product development and improvement are charged to general and administrative and are expensed as incurred. We incurred $93,730 and $116,786, in research and development expenses for the three-months ended June 30, 2020 and 2019, respectively. For the six-month periods ended June 30, 2020 and 2019, research and development costs totaled $179,154 and $272,985, respectively.

Shipping and Storage Costs

Shipping and storage costs are included in general and administrative expenses. For the three-month periods ended June 30, 2020 and 2019, shipping and storage costs totaled $96,425 and $192,628, respectively. For the six-month periods ended June 30, 2020 and 2019, shipping and storage costs totaled $229,533 and $342,274, respectively.

Income Taxes

The provision for income taxes is determined in accordance with the provisions of ASC Topic 740, *Accounting for Income Taxes* (“ASC 740”). Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Any effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

ASC 740 prescribes a comprehensive model for how companies should recognize, measure, present, and disclose in their financial statements, uncertain tax positions taken or expected to be taken on a tax return. Under ASC 740, tax positions must initially be recognized in the financial statements when it is more likely than not the position will be sustained upon examination by the tax authorities. Such tax positions must initially and subsequently be measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the tax authority assuming full knowledge of the position and relevant facts.

ASC 740 requires a valuation allowance to reduce the deferred tax assets reported if, based on the weight of evidence, it is more than likely than not that some portion or all of the deferred tax assets will not be recognized.

For the three and six-months ended June 30, 2020 and 2019, we did not have any interest and penalties or any unrecognized uncertain tax positions.

Derivative Liability

The Company evaluates its convertible instruments, options, warrants or other contracts to determine if those contracts or embedded components of those contracts qualify as derivatives to be separately accounted for under ASC Topic 815, “Derivatives and Hedging.” The result of this accounting treatment is that the fair value of any derivative is marked-to-market each balance sheet date and recorded as a liability. In the event that the fair value is recorded as a liability, the change in fair value is recorded in the statement of operations as gain/loss from derivative liability. Upon conversion or exercise of a derivative instrument, the instrument is marked to fair value at the conversion date and then that fair value is reclassified to equity. We analyzed the derivative financial instruments in accordance with ASC 815. The objective is to provide guidance for determining whether an equity-linked financial instrument is indexed to an entity’s own stock. This determination is needed for a scope exception which would enable a derivative instrument to be accounted for under the accrual method. The classification of a non-derivative instrument that falls within the scope of ASC 815-40-05 “Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company’s Own Stock” also hinges on whether the instrument is indexed to an entity’s own stock. A non-derivative instrument that is not indexed to an entity’s own stock cannot be classified as equity and must be accounted for as a liability. There is a two-step approach in determining whether an instrument or embedded feature is indexed to an entity’s own stock. First, the instrument’s contingent exercise provisions, if any, must be evaluated, followed by an evaluation of the instrument’s settlement provisions. The Company utilized the fair value standard set forth by the Financial Accounting Standards Board, defined as the amount at which the asset (or liability) could be bought (or incurred) or sold (or settled) in a current transaction between willing parties, that is, other than in a forced or liquidation sale.

Debt Extinguishment

The Company evaluates its convertible instruments in accordance with ASC 470-50, “Debt Modifications and Extinguishments.” For all extinguishments of debt, ASC 470-50 requires the difference between the reacquisition price (including any premium) and the net carrying amount of the debt being extinguished (including any deferred debt issuance costs) to be recognized as a gain or loss when the debt is extinguished. Accordingly, the Company recorded a net gain $0 and $379,200, respectively, non-cash gain on extinguishment of debt in its statements of operations for the three and six months ended June 30, 2020.

Earnings per Share

We calculate net loss per share in accordance with ASC Topic 260, *Earnings per Share*. Basic net loss per share is computed by dividing net loss by the weighted average number of shares of common stock outstanding for the period, and diluted earnings per share is computed by including common stock equivalents outstanding for the period in the denominator. At June 30, 2020 and 2019 any equivalents would have been anti-dilutive as we had losses for the three and six months then ended.

Stock Based Compensation

We calculate stock compensation in accordance with ASC Topic 718, *Compensation-Stock Based Compensation* (“ASC 718”). ASC 718 requires that the cost resulting from all share-based payment transactions be recognized in the financial statements and establishes fair value as the measurement objective in accounting for share-based payment arrangements and requires all entities to apply a fair-value-based measurement method in accounting for share-based payment transactions with employees except for equity instruments held by employee stock ownership plans.

Recent pronouncements

From time to time, new accounting pronouncements are issued that we adopt as of the specified effective date. We believe that the impact of recently issued standards that are not yet effective may have an impact on our results of operations and financial position.

On October 1, 2019, the FASB issued Accounting Standards Update No. 2017-04, Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment (ASU 2017-04) using the prospective approach, which eliminates step two from the goodwill impairment test. Under ASU 2017-04, an entity should recognize an impairment charge for the amount by which the carrying amount of a reporting unit exceeds its fair value up to the amount of goodwill allocated to that reporting unit. This guidance was effective beginning January 1, 2020, with early adoption permitted. The adoption of this new standard did not have a material impact on our consolidated financial statements.

Note 2. Inventory

Inventory consists of the following at June 30, 2020 and December 31, 2019:

	2020	2019
Raw materials	$ 349,965	$ 286,027
Finished goods, net of reserve	459,231	348,719
Inventory, net	$ 809,196	$ 634,746

The Company has recorded a reserve for slow moving and potentially obsolete inventory. The reserve at June 30, 2020 and December 31, 2019 was $31,476 and $100,651, respectively.

Note 3. Property Plant and Equipment

Major classes of property and equipment at June 30, 2020 and December 31, 2019:

	2020	2019
Furniture and fixtures	$ 1,524	$ 1,524
Manufacturing Equipment and customer equipment	3,549,303	3,521,636
Leasehold Improvements	4,886	4,886
Vehicles	29,696	29,696
	3,585,409	3,557,742
Less: accumulated depreciation	(2,066,200)	(1,787,967)
	1,519,209	1,769,775
Equipment not yet placed in service	642,430	636,542
Property and equipment, net of depreciation	$ 2,161,639	$ 2,406,317

We recorded depreciation expense related to these assets of $153,500 and $155,074 for the three-months ended June 30, 2020 and 2019, respectively and $303,648 and $357,051 for the six months ended June 30, 2020 and 2019, respectively. Depreciation expense in Cost of Goods Sold was $1,155 and $19,374 for three-months ended June 30, 2020 and 2019 respectively and $9,602 and $31,480 for the six months ended June 30, 2020 and 2019, respectively.

Note 4. Intangible Assets

As of June 30, 2020, intangible assets consist of patent costs of $764,891, trademarks of $112,926 and accumulated amortization of $425,826.

As of December 31, 2019, intangible assets consist of patent costs of $764,891, trademarks of $108,632 and accumulated amortization of $394,020.

The amounts carried on the balance sheet represent cost to acquire, legal fees and similar costs relating to the patents incurred by the Company. Amortization is calculated through the expiration date of the patents, which is December 2025. The amount charged to amortization was $15,902 and $15,902 for the three-months ended June 30, 2020 and 2019, respectively, and $31,805 and $31,805 for the six months ended June 30, 2020 and 2019, respectively.

Estimated future amortization expense related to patents as of June 30, 2020, is as follows:

	Total Amortization
Years ending December 31,	
2020 (six months remaining)	$ 31,805
2021	63,610
2022	63,610
2023	63,610
2024	63,610
Later years	52,820
	$ 339,065

Note 5. Related Parties

As disclosed below in Note 7, members of management and directors invested in the Company's convertible notes; and in Note 10, members of management and directors have received shares of stock and options in exchange for services.

Note 6. Paycheck Protection Program (PPP) loan

The Company was granted a $568,131 loan under the PPP administered by a Small Business Administration (SBA) approved partner. The loan, which matures in two years, is uncollateralized and is fully guaranteed by the Federal government. The Company is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. The Company has recorded a note payable and will record the forgiveness upon being legally released from the loan obligation by the SBA. No forgiveness income has been recorded for the quarter ended June 30, 2020. The Company will be required to repay any remaining balance, plus interest accrued at 1 percent, in monthly payments commencing upon notification that the loan will not be forgiven or only partially forgiven.

Note 7. Convertible Notes (Related and Unrelated Party)

On March 20, 2020, we completed a Private Placement offering of $3,825,000 of common stock. In connection with the transaction, the Company offered the Convertible Noteholders of Series CN Note 1 and 2 to participate in the equity offering. A total of $720,000 principal balance of Series CN 1 was converted into common stock [$630,000 from related parties]. The Series CN Note 1 Noteholders were offered bonus interest equivalent to 20% of their outstanding principal which was converted to common stock. For $1,071,000 of the remaining $1,186,167 Series CN Note 1 Noteholders that chose not to participate in the equity offering, the terms of the Series CN Note 1 were amended to increase the interest rate to 15% per annum and to extend the maturity of the outstanding principal balance by 24 months to March 20, 2022. The notes are convertible at any time prior to the maturity into our common stock at a conversion price of $0.50 per share. If the six month price is less than the $0.50 per share, the principal conversion price will be automatically reduced to the $0.50 per share, but in no event less than $0.35 per Share, in which case the Company shall issue to each purchaser, based on such purchaser's investment, (a) shares in a quantity that equals the difference between the number of Shares issued to such purchaser at closing and the number of Shares that would have been issued to such purchaser at closing at the $0.50 per share and (b) warrants in a quantity that equals fifty percent (50%) of the difference between the number of shares issued to such Purchaser at closing and the number of shares that would have been issued to such purchaser at closing at the $0.50 per share, with an exercise price that equals the sum of $0.10 per share and the 0.50 per share, but in no event less than $0.45 per share. The exercise price per share for the Convertible Note Warrants and the Bonus Warrant issued at closing will automatically adjust as well to the sum of $0.10 per share and the Six Month Price, but in no event less than $0.45 per share. There were 864,000 O warrants issued to the Series CN Note 1 Noteholders for participating in the common stock offering.

On March 20, 2020, 1,082,727 of the original L Warrants related to the Series CN Note 1 Noteholders had their terms modified, whereby the exercise price was reduced from $0.70 to $0.50 per share. In addition, the Series CN Note 1 Noteholders that chose to extend their notes for 24 months were granted 1,071,000 Series P warrants. The fair value of the warrants, ($92,266 in the aggregate which consists of the L and P Warrants), were calculated using the Black-Scholes option pricing model using the following assumptions:

Expected life (in years)	1 to 3
Volatility	76.74- 98.00%
Risk Free interest rate	.15 - .41%
Dividend yield (on common stock)	-

Based on the relative fair value, we recorded a debt discount of $75,184 related to the issue of P Warrants to CN 1 and CN 2 Noteholders. The modification of the L Warrants resulted in an incremental increase in fair value of $17,082, which was recorded as a debt discount.

The convertible notes consist of the following components as of June 30, 2020 and December 31, 2019:

	June 30, 2020	December 31, 2019
Convertible notes	$ 1,181,167	$ 2,704,800
Less: Debt discount (warrant value)	(92,266)	(325,747)
Less: Debt discount (derivative value) (Note 8)	-	(638,988)
Less: Debt discount (issuance costs paid)	(6,004)	(27,000)
Less: Note repayments/conversion	(110,166)	(803,634)
Add: Debt discount amortization	13,605	898,940
	$ 986,336	$ 1,808,371

On March 20, 2020, a total of $1,128,000 principal balance of Series CN Note 2 was converted into common stock [$560,000 from related parties]. The Noteholders were offered bonus interest equivalent to 20% of their outstanding principal and converted their accrued interest into common stock. For $168,000 of the remaining $235,200 Series CN Note 2 Noteholders that chose not to participate in the equity offering, the terms of the Series CN Note 2 were amended to extend the maturity of the outstanding principal balance by 12 months to November 30, 2021. The notes are convertible at any time prior to the maturity into our common stock at a conversion price of $0.60 per share. There were 1,501,012 O warrants issued to the Series CN Note 2 Noteholders for participating in the common stock offering.

The fair value of the modified L warrants, ($4,279 prior to modification, and $6,096 post modification), was calculated using the Black-Scholes option pricing model using the following assumptions:

Expected life (in years)	1.71
Volatility	88.02%
Risk Free interest rate	0.37%
Dividend yield (on common stock)	-

The incremental value of $1,817 was recorded as a debt discount related to the modification of existing L warrants.

The convertible notes consist of the following components as of June 30, 2020 and December 31, 2019:

	June 30, 2020	December 31, 2019
Convertible notes	$ 235,200	$ 1,363,200
Less: Debt discount (warrant value)	(1,817)	(212,763)
Less: Debt discount (derivative value) (Note 8)	(13,528)	(697,186)
Less: Debt discount (issuance costs paid)	(6,004)	(23,700)
Add: Debt discount amortization	3,380	508,639
	$ 217,231	$ 932,190

The total of the two tables above, net of discount, equals $1,203,567 which is presented on the balance sheet as $62,066 Convertible Note, Net of Discount, Current Liabilities, $193,399 Convertible Note, Related Party, Net of Discount, Long-Term Liabilities and $948,102 Convertible Note, Net of Discount, Long-term Liabilities. The total of $2,740,561 shown in the two tables above at December 31, 2019, are presented in the balance sheet as Long Term Liabilities: Convertible Note – related party net of discount, of $1,181,942, Convertible Note – net of Discount of $1,407,877, and Current Liabilities: Convertible Note – net of Discount $150,742.

Future maturity of convertible notes at face value before effect of all discount, are as follow:

	Total Convertible Notes
Years ending December 31,	
2020	$ 67,201
2021	168,000
2022	1,071,000
2023	-
2024	-
	$ 1,306,201

On March 20, 2020 the Company and the Holders of the Series CN Note 1 and Note 2 mutually agreed to amend its terms to change the maturity date to March 20, 2022 and November 30, 2021, respectively. The Company accounted for the modification in accordance with ASC 470-50, Modifications and Extinguishments, which states that for all extinguishments of debt, the difference between the reacquisition price (including any premium) and the net carrying amount of the debt being extinguished (including any deferred debt issuance costs) should be recognized as a gain or loss when the debt is extinguished. Accordingly, the Company recorded a net gain on extinguishment of debt of $379,200 which was comprised of a gain of $437,201, offset by a loss of $58,001. The gain of $437,201 related to the portion of Convertible Notes that were converted to common stock on March 20, 2020. The loss on extinguishment of debt of $58,001 related to the portion of Convertible Notes that were extended by either 24 months for Milestone I, or 12 months for Milestone II.

Note 8. Derivative Liabilities

As discussed in Note 7, Convertible Notes, the Company issued Series CN Note acceleration offer convertible notes payable that provide variable conversion provisions. The conversion terms of the convertible notes are variable based on certain factors, such as the future price of the Company's common stock. The number of shares of common stock to be issued is based on the future price of the Company's common stock, therefore the number of shares of common stock issuable upon conversion of the promissory note is indeterminate.

The Convertible Noteholders discussed in Note 7 were provided the option of extending their notes by 24 months or 12 months for the Milestone I March 14, 2020 and Milestone II November 30, 2020 Convertible Note maturities, respectively. Upon completion of the March 20, 2020 offering for common stock and debt restructuring, a balance of $110,167 of Series CN 1 and $168,000 in CN 2 was neither converted, nor extended under the terms of the amendments to both maturities. Consequently, the derivative liabilities referred to above survived outside of debt conversion and modified extension terms and were valued at $6,774 as of June 30, 2020.

The fair values of the Company's derivative liabilities are estimated at the issuance date and are revalued at each subsequent reporting date. The Company recognized a debt discount and related derivative liability of $13,528 at March 20, 2020 related to the Series CN 2 extension. The derivative liability was revalued at June 30, 2020 with a value of $34,143.

The fair value of the derivative liabilities for CN Convertible Note 2 of 2 was calculated using the Black-Scholes model using the following assumptions.

	30-June-20	31-Dec-19
Expected life	0.42 - 1.68	0.93
Volatility	100.44 -133.12%	104.89%
Risk Free interest rate	0.16 - 0.18%	1.58%
Dividend yield (on common stock)	-	-

Reconciliation of the derivative liabilities measured at fair value on a recurring basis with the use of significant unobservable inputs (level 3) from December 31, 2019 to June 30, 2020:

December 31, 2019	$ 211,028
Extinguishment change in derivative from conversion	(23,100)
Extinguishment change in derivative from extension	(3,440)
Initial derivative value – March 20, 2020	13,528
Net gain from change in value	(157,099)
For the period ended June 30, 2020	$ 40,917

The following table presents the Company's fair value hierarchy for applicable assets and liabilities measured at fair value as of December 31, 2019 and June 30, 2020:

	Level 1	Level 2	Level 3	Total
Derivative Liability December 31, 2019	$ -	-	211,028	$ 211,028

	Level 1	Level 2	Level 3	Total
Derivative Liability June 30, 2020	$ -	-	40,917	$ 40,917

Note 9. Commitments and Contingencies

We lease office space under non-cancelable operating lease which expires on June 30, 2023. Our periodic lease cost and operating cash flow was $19,782 and $13,612 for the three months ended June 30, 2020 and 2019, respectively. Our periodic lease cost and operating cash flow was $39,844 and $50,813 for the six months ended June 30, 2020 and 2019, respectively. As of June 30, 2020, our right of use asset and related liability was $176,325 and $188,509.

In determining the present value of our operating lease right-of-use asset and liability, we used a 10% discount rate (which approximates our borrowing rate). The remaining term on the lease is 3 years.

The following table presents the future operating lease payment as of June 30, 2020.

2020 (six months remaining)	$	38,152
2021		78,021
2022		80,361
2023		20,238
Total Lease payments		216,772
Less: imputed interest		(28,263)
Total lease liability	$	188,509

Note 10. Stockholders' Equity

During the six months ended June 30, 2020, we issued 850,000 options to purchase our common stock to employees and 96,899 options to a Board Member. The exercise price of the options was $0.37 per share, with both cliff and graded vesting over 3 years, and are exercisable for a period of 8 years.

The fair value of the options issued ($209,700, in the aggregate) was calculated using the Black-Sholes option pricing model, based on the criteria shown below.

Expected life (in years)	5.5 to 8
Volatility (based on a comparable company)	73.36%-75.82%
Risk Free interest rate	0.30%-1.61%
Dividend yield (on common stock)	-

The shares of our common stock were valued at the trading price on the date of grant, $0.38 per share

For the six months ended June 30, 2020, 625,423 options expired or were cancelled.

During the first quarter of 2020, the Company settled certain Executive Deferred Compensation payments with the issuance of 1,573,988 warrants. The fair value of the warrants totaled $251,837. The total executive Deferred Compensation that was settled with the issuance of the warrants was $167,892. The difference between the fair value of the warrants and the Executive Deferred Compensation settled of $83,945 was recorded as stock-based compensation during the six months ended June 30, 2020.

The total amount of equity-based compensation included in additional paid in capital was $55,812 and $134,607 for the three-months ended June 30, 2020 and 2019, respectively. The total amount of equity-based compensation included in additional paid in capital was $194,524 and $271,548 for the six-months ended June 30, 2020 and 2019, respectively.

The following is a summary of outstanding stock options issued to employees and directors as of June 30, 2020:

	Number of Options	Exercise price per share $	Average remaining term in years	Aggregate intrinsic value at date of grant $
Outstanding January 1, 2020	7,197,024	.40 - .87	4.55	-
Issued	946,899	.37	7.77	-
Cancelled/Expired	(625,423)			
Outstanding June 30, 2020	7,575,256	.37 - .87	4.38	-
Exercisable, June 30, 2020	3,944,901	.40 - .87	3.32	-

The following is Changes in Stockholders' Equity as of June 30, 2019 and June 30, 2020:

	Common Stock						Additional paid in	Accumulated	
	Shares		Amount		Capital		(Deficit)	Total
Balance January 1, 2019	122,770,960	$	123	$	41,118,649	$	(41,153,820)	$ (35,048)
Exercise of warrants	3,141,454		3		1,884,869			1,884,872
Issuance of stock for services	173,406		-		181,039		-	181,040
Equity based compensation	-		-		271,548		-	271,548
Warrants issued to Management	-		-		758,754		-	758,754
Issuance of stock for capital raise	4,000,000		4		2,399,996		-	2,400,000
Warrant modification	-		-		307,460		-	307,460
Net (loss) for the year	-		-		-		(3,421,178)	(3,421,178)
Balance June 30, 2019	130,085,820	$	130	$	46,922,315	$	(44,574,998)	$ 2,347,447

	Common Stock		Additional paid in	Accumulated	
	Shares	Amount	Capital	(Deficit)	Total
Balance January 1, 2020	130,341,737	$ 130	$ 47,030,716	$ (46,747,122)	$ 283,724
Issuance of stock for capital raise, net of offering costs of $27,200	7,650,000	8	3,797,792	-	3,797,800
Conversion of debt	4,770,030	5	1,333,757	-	1,333,762
Interest paid in shares	632,251	-	379,350	-	379,350
Issuance of stock for services	27,601	-	25,000	-	25,000
Equity based compensation	-	-	194,524	-	194,524
Warrants issued to management	-	-	167,892	-	167,892
Warrant Modification	-	-	18,899	-	18,899
Warrant issued for note extension	-	-	75,184	-	75,184
Restricted stock issuance	121,527	-	-	-	-
Net (loss) for the year	-	-	-	(1,922,586)	(1,922,586)
Balance June 30, 2020	143,543,146	$ 143	$ 53,023,114	$ (48,669,708)	$ 4,353,549

On March 20, 2020, the Company completed additional funding, including a Private Placement Offering for common shares priced at $0.50 per share (subject to adjustment) in the amount of $3.825 million and the issuance of 7,650,000 shares. The $3.825 million was received and collected in April 2020. The investors of this Private Placement Offering will be granted O warrants to be eligible to purchase an additional 0.50 shares for every share issued to each purchaser, exercisable for a period of 3 years at an exercise price of $0.60 per share (subject to adjustment). If the volume-weighted average trading price for the 20 consecutive trading days that conclude upon 6 months after the initial closing (the “Six Month Price”) exceeds or equals $0.50 per share (the “Target Price”), the per share purchase price will not be adjusted. If the Six Month Price is less than the Target Price, the per share purchase price will be automatically reduced to the Six Month Price, but in no event less than $0.35 per share, in which case the Company shall issue to each investor, pro-rata based on such investor’s investment: (a) shares in a quantity that equals the difference between the number of shares issued to such purchaser at closing and the number of shares that would have been issued to such purchaser at closing at the Six Month Price; and (b) a warrant for a number of shares of common stock equal to 50% of the difference between the number of shares issued to such investor at closing and the number of shares that would have been issued to such investor at closing at the Six Month Price, with an exercise price equal to the sum of $0.10 per share and the Six Month Price, but in no eventless than $0.45 per share. The exercise price per share for each warrant will automatically adjust to the sum of $0.10 per share and the Six-Month Price, but in no event less than $0.45 per share

Note 11. Outstanding Warrants

The following is a summary of all outstanding warrants as of June 30, 2020:

	Number of warrants	price per share	remaining term in years	intrinsic value at date of grant
Warrants issued in connection with private placements of common stock	19,048,606	$ 0.53 - $1.00	1.71	$ -
Warrants issued in connection with private placement of notes	1,355,000	$ 1.00	.50	$ -
Warrants issued in connection with convertible note	3,006,501	$ 0.70	.61	$ -
Warrants issued in connection with settlement of deferred compensation	3,169,599	$ 0.27 - 0.70	4.25	$ -

Note 12. Income Taxes

The provision for income taxes is determined in accordance with the provisions of ASC Topic 740, Accounting for Income Taxes (“ASC 740”). Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. ASC 740 requires a valuation allowance to reduce the deferred tax assets reported if, based on the weight of evidence, it is more than likely than not that some portion or all of the deferred tax assets will not be recognized. Accordingly, at this time the Company has placed a valuation allowance on all tax assets. As of June 30, 2020, the estimated effective tax rate for the year will be zero.

There are open statutes of limitations for taxing authorities in federal and state jurisdictions to audit our tax returns from 2009 through the current period. Our policy is to account for income tax related interest and penalties in income tax expense in the statement of operations. There have been no income tax related interest or penalties assessed or recorded.

ASC 740 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This pronouncement also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

For the three and six-month periods ended June 30, 2020 and 2019, we did not have any interest and penalties associated with tax positions. As of June 30, 2020 and December 31, 2019, we did not have any significant unrecognized uncertain tax positions.

Note 13. Liquidity

During the six months ended June 30, 2020, we used cash for operations of $1,930,045 and purchased equipment for $34,365. We sold common stock in the amount of $3,825,000 and converted $2,394,763 of principal and interest from our Convertible Notes into equity. During the six months ended June 30, 2019, we used $2,354,225 of cash for operations and purchased equipment for $319,157. We raised cash of $2,400,000 from the issuance of common stock and we raised cash from the exercise of warrants in the amount of $1,500,310.

We have a history of operating losses and negative cash flow. As our operations grow, we expect to experience significant increases in our working capital requirements. Management has evaluated these conditions and concluded substantial doubt was mitigated due to the Company selling common stock as well as restructuring debt. However, the Company cannot predict, with certainty, the outcome of its actions to preserve liquidity, including the accuracy of its financial forecast, the ability to sustain the current trend of cost cutting, the ability to raise additional capital or to extend the maturity date of the debt that is maturing in March of 2022.

As of June 30, 2020, we had $3,398,276 of cash and restricted cash on the balance sheet. We have continued to significantly reduce core operating expenses, reducing total General and Administrative Expense in the first six months of 2020 by $1,480,799, or 39%, as compared with the first six months of 2019. The Company's forecast for the next twelve months reflects a continuation of the improvement in cash flow from operations as the Company continues to reduce operating expenses and increase contracts with school locations, and military bases, and anticipates the roll-out of a new product launch with the Twist & Go 8oz bottles. The Company has implemented cost reduction measures which will reduce cash expenses over the next twelve months, which includes reduced headcount.

Note 14. Subsequent Events

The impact of COVID-19 on the Company is evolving rapidly with events unfolding on a daily and weekly basis. The direct impact to our operations took affect at the close of the first quarter ended March 31, 2020. Specifically, our business has been impacted by dining bans targeted at restaurants to reduce the size of public gatherings. Restaurant chains have closed operations and furloughed employees which precludes our single serve products from being served at those establishments. Many school districts closed regular attendance during the 2019-2020 school year and are now debating whether to resume in person instruction for the 2020-2021 school year. This directly impacts the sales of our Bulk Product into that sales channel. Our headquarters is located in Los Angeles, California, one of the hardest affected states. We have not experienced a disruption in the supply chain for the manufacturing of our products. The Company applied for and obtained a Small Business Administration loan under the Paycheck Protection Program [PPP] of the CARES Act for approximately $568,000. On June 5, 2020, the President signed a bill which extended the period of loan forgiveness for PPP loans from 8 to 24 weeks, which we believe will enable the loan to be completely forgiven. While many states have commenced the process of reopening various types of businesses, the path to recovering normal activity volumes is uncertain. Three of the largest states [California, Florida and Texas] have experienced a resurgence of both new cases and fatalities. Consequently, the developments surrounding COVID-19 remain fluid and will require the Company to continue to monitor news headlines from government and health officials, as well as, the business community.

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

The following discussion should be read in conjunction with the financial information included elsewhere in this Quarterly Report on Form 10-Q (this "Report"), including our unaudited condensed consolidated financial statements and the related notes. References in this Management's Discussion and Analysis of Financial Condition and Results of Operations section to "us", "we", "our" and similar terms refer to Barfresh Food Group Inc. This discussion includes forward-looking statements, as that term is defined in the federal securities laws, based upon current expectations that involve risks and uncertainties, such as plans, objectives, expectations and intentions. Actual results and the timing of events could differ materially from those anticipated in these forward-looking statements as a result of a number of factors. Words such as "anticipate", "estimate", "plan", "continuing", "ongoing", "expect", "believe", "intend", "may", "will", "should", "could" and similar expressions are used to identify forward-looking statements.

We caution you that these statements are not guarantees of future performance or events and are subject to a number of uncertainties, risks and other influences, many of which are beyond our control, which may influence the accuracy of the statements and the projections upon which the statements are based. Any one or more of these uncertainties, risks and other influences could materially affect our results of operations and whether forward-looking statements made by us ultimately prove to be accurate. Our actual results, performance and achievements could differ materially from those expressed or implied in these forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements, whether from new information, future events or otherwise.

Barfresh is a leader in the creation, manufacturing and distribution of ready to blend frozen beverages. The current portfolio of products includes smoothies, shakes and frappes. Products are packaged in two distinct formats. The Company's original single serve format features portion controlled and ready to blend beverage ingredient packs or "beverage packs". The beverage packs contain all of the solid ingredients necessary to make the beverage, including the base (either sorbet, frozen yogurt or ice cream), real fruit pieces, juices and ice – five ounces of water are added before blending.

The Company's bulk "Easy Pour" format also contains all of the solid ingredients necessary to make the beverage, packaged in gallon containers in a concentrated formula that is mixed "one to one" with water. The Company has recently launched a "no sugar added" version of the bulk "Easy Pour" format that is specifically targeted for the USDA national school meal program, including the School Breakfast Program, the National School Lunch Program, and Smart Snacks in Schools Program. The Company currently provides its products to over 400 school locations. In addition, the Company recently received approval from the United States Defense Logistics Agency ("DLA") to sell its smoothie products into all branches of the U.S. Armed Forces, and has begun to sell its bulk Easy Pour product into a number of military bases in the United States. The Company currently provides its products to over 150 military base locations.

Domestic and international patents and patents pending are owned by Barfresh, as well as related trademarks for all of the single serve products. Patent rights have been granted in 13 jurisdictions including the United States. In addition, the Company has purchased all of the trademarks related to the patented products.

The Company conducts sales through several channels, including National Accounts, Regional Accounts, and Broadline Distributors. Barfresh's primary broadline distribution arrangement is through an exclusive nationwide agreement with Sysco Corporation ("Sysco"), the U.S.'s largest broadline distributor, which was entered into during July 2014, and the exclusivity provisions of the contract were renewed for an additional two year term on October 2, 2017. On October 2, 2019, the exclusive distribution agreement with Sysco expired, opening the possibility to expand distribution with other distributors outside of the Sysco system.

During 2016 and 2017 the Company announced that it had signed supply agreements with several of the major global on-site foodservice operators. On March 8, 2018, the Company announced that it had signed a new supply agreement with one of the largest of these foodservice operators, for exclusive distribution of four of Barfresh's single serve SKUs. On November 14, 2018, the Company announced that it had received approval for multiple products to be rolled out to a national restaurant chain with over 2,500 locations.

The Company also sells to broadline distributors that supply products to the food services marketplace. Effective July 2, 2014, the Company entered into an exclusive agreement with Sysco Merchandising and Supply Chain Services, Inc. for resale by the Sysco Corporation ("Sysco") to the foodservice industry of the Company's ready-to-blend smoothies, shakes and frappes. Pursuant to that agreement, all Barfresh products are included in Sysco's national core selection of beverage items, making Barfresh its exclusive single-serve, pre-portioned beverage provider. The agreement is mutually exclusive; however, Barfresh may also sell the products to other foodservice distributors, but only to the extent required for such foodservice distributors to service multi-unit chain operators with at least 20 units and where Sysco is not such multi- unit chain operator's nominated distributor for our products. On October 2, 2017, the exclusivity provisions of the Sysco agreement were extended for an additional two-year period, and expanded to cover bulk easy pour products, on a non-exclusive basis. On October 2, 2019, the exclusive distribution agreement with Sysco expired, opening the possibility to expand distribution with other distributors outside of the Sysco system.

On October 26, 2015, Barfresh signed a five year agreement with PepsiCo North America Beverages, a division of PepsiCo, to become its exclusive sales representative within the food service channel to present Barfresh's line of ready-to-blend smoothies and frozen beverages throughout the United States and Canada. Through this agreement, Barfresh' products are included as part of PepsiCo's offerings to its significant customer base. The agreement facilitates access to potential National customer accounts, through introductions provided by PepsiCo's one thousand plus person foodservice sales team. Barfresh products have become part of PepsiCo's customer presentations at national trade shows and similar venues. On May 30, 2019, the Company amended its agreement with Pepsi which included a reduction in the commission fee and a clause which allows either party the right to terminate the agreement upon 90 days written notice.

Barfresh utilizes contract manufacturers to manufacture all of the products in the United States. Production lines are currently operational at three locations. The first location is in Salt Lake City, which currently produces bulk easy pour products. The second location is with Turkey Hill Dairy, Inc. located in Arkansas. The Turkey Hill agreement, which was signed during June 2020, secures the capacity to ramp up to an incremental production capacity of 100 million units. Turkey Hill's location enhances the Company's ability to efficiently move product throughout the supply chain to destinations in the eastern United States, home to many of the country's large foodservice outlets. The third location is with Schreiber Foods, Inc. and is located in Shippensburg, Pennsylvania, where our 8oz Twist & Go products are manufactured.

During November 2016, the Company received an equity investment from Unibel, the majority shareholder of the Bel Group ("Unibel"). The Bel Group is headquartered in Paris, France, with global operations in 33 countries, 30 production sites on 4 continents and nearly 12,000 employees. Its many branded products, including The Laughing Cow®, Mini Babybel® and Boursin®, are sold in over 130 countries around the world. Pursuant to the securities purchase agreement, Unibel purchased 15,625,000 shares of common stock at $0.64 per share ("Shares") and warrants to purchase 7,812,500 shares of common stock ("Warrants") for aggregate gross proceeds to Barfresh of $10 million. The Warrants are exercisable for a term of five years at a per share price of $.88 for cash. Pursuant to the Investor Rights agreement, Barfresh has registered the Shares and the Warrants, and Unibel was granted a seat on the Barfresh Board. This strategic investment provided Barfresh with necessary capital while leveraging Unibel's more than 150 years of industrial expertise, innovative capabilities, world-class marketing and branding expertise to accelerate our growth in new and existing markets and product channels.

On March 20, 2020, the Company completed additional funding, including a Private Placement Offering for common shares priced at $0.50 per share (subject to adjustment) in the amount of $3.825 million and the issuance of 7,650,000 shares. The investors of this Private Placement Offering were granted O warrants to be eligible to purchase an additional 0.50 shares for every share issued to each purchaser, exercisable for a period of 3 years at an exercise price of $0.60 per share (subject to adjustment). If the volume-weighted average trading price for the 20 consecutive trading days that conclude upon 6 months after the initial closing (the "Six Month Price") exceeds or equals $0.50 per share (the "Target Price"), the per share purchase price will not be adjusted. If the Six Month Price is less than the Target Price, the per share purchase price will be automatically reduced to the Six Month Price, but in no event less than $0.35 per share, in which case the Company shall issue to each investor, pro-rata based on such investor's investment: (a) shares in a quantity that equals the difference between the number of shares issued to such purchaser at closing and the number of shares that would have been issued to such purchaser at closing at the Six Month Price; and (b) a warrant for a number of shares of common stock equal to 50% of the difference between the number of shares issued to such investor at closing and the number of shares that would have been issued to such investor at closing at the Six Month Price, with an exercise price equal to the sum of $0.10 per share and the Six Month Price, but in no eventless than $0.45 per share. The exercise price per share for each warrant will automatically adjust to the sum of $0.10 per share and the Six-Month Price, but in no event less than $0.45 per share.

In addition, the Company obtained a 24-month extension on $1,071,000 in principal, and conversion of $720,000 of principal of the Milestone I Convertible Notes at a conversion price of $0.50 per share. The remaining $110,166 was extended for thirty days. The interest rate on the principal balance of the extended Milestone I Convertible Notes was amended to 15%. Furthermore, the Company obtained a 12-month extension on $168,000 in principal, and conversion of $1,128,000 in principal of the Milestone II Convertible Notes. The remaining $67,200 was extended for thirty days. The Convertible Noteholders of the Milestone I and II Convertible Notes were granted additional interest depending upon their election to convert or extend their Convertible Notes. The Noteholders of Milestone I that chose to extend their notes for 24 months were granted 1,071,000 P warrants with similar terms to the O Warrants mentioned above.

The convertible notes are unsecured and have (i) a 24 month term and a 20 month term, (ii) a 15% and 10% annual coupon to be paid in cash or stock at the Company's discretion at a conversion price equal to 85% of the average closing bid prices of the Common Stock over the twenty (20) consecutive trading day period immediately preceding the payment date, but in no event lower than sixty cents ($0.60) per share of Common Stock. The investor's may elect to convert their principal into common stock at a conversion price equal to the lower of: (i) $0.88 per share of Common Stock, or (ii) 85% of the average closing bid prices of the Common Stock over the twenty (20) consecutive trading day period immediately preceding the date of investor's election to convert; but in no event lower than $0.60 per share of Common Stock. Investors also received warrant coverage of 25% of the number of shares that would be issuable upon a full conversion of the principal amount at an average of the twenty consecutive trading day period immediately preceding the applicable closing date. The warrants are exercisable for a period of three years for cash at the greater of 120% of the closing price or $0.70 per share of common stock.

Currently, we have 17 employees and 2 consultants. There are currently 10 employees selling our products.

Critical Accounting Policies

Our financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP").

Revenue Recognition

In accordance with ASC 606, Revenue from Contracts with Customers, revenue is recognized when a customer obtains ownership of promised goods. The Company adopted this standard at the beginning of fiscal year 2018, with no significant impact to its financial position or results of operations, using the modified retrospective method. The amount of revenue recognized reflects the consideration to which the Company expects to be entitled to receive in exchange for these goods. The Company applies the following five steps:

1) *Identify the contract with a customer*

   A contract with a customer exists when (i) the Company enters into an enforceable contract with a customer that defines each party's rights, (ii) the contract has commercial substance and, (iii) the Company determines that collection of substantially all consideration for goods or services that are transferred is probable. For the Company, the contract is the approved sales order, which may also be supplemented by other agreements that formalize various terms and conditions with customers.

2) *Identify the performance obligation in the contract*

   Performance obligations promised in a contract are identified based on the goods or that will be transferred to the customer. For the Company, this consists of the delivery of frozen beverages, which provide immediate benefit to the customer.

3) *Determine the transaction price*

   The transaction price is determined based on the consideration to which the Company will be entitled in exchange for transferring goods, and is generally stated on the approved sales order. Variable consideration, which typically includes volume-based rebates or discounts, are estimated utilizing the most likely amount method.

4) *Allocate the transaction price to performance obligations in the contract*

   Since our contracts contain a single performance obligation, delivery of frozen beverages, the transaction price is allocated to that single performance obligation.

5) *Recognize Revenue when or as the Company satisfies a performance obligation*

   The Company recognizes revenue from the sale of frozen beverages when title and risk of loss passes, and the customer accepts the goods, which generally occurs at the time of delivery to a customer warehouse. Customer sales incentives such as volume-based rebates or discounts are treated as a reduction of sales at the time the sale is recognized. Shipping and handling costs are treated as fulfillment costs and presented in distribution, selling and administrative costs.

   The Company evaluated the requirement to disaggregate revenue and concluded that substantially all of its revenue comes from a single product, frozen beverages.

Impairments

We periodically evaluate whether the carrying value of long-lived assets has been impaired when circumstances indicate the carrying value of those assets may not be recoverable. The carrying amount is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. If the carrying value is not recoverable, the impairment loss is measured as the excess of the asset's carrying value over its fair value.

Share-based Compensation

We account for share-based employee compensation plans under the fair value recognition and measurement provisions in accordance with applicable accounting standards, which require all share-based payments to employees, including grants of stock options and restricted stock units (RSUs), to be measured based on the grant date fair value of the awards, with the resulting expense generally recognized on a straight-line basis over the period during which the employee is required to perform service in exchange for the award.

Derivative Liability

The Company evaluates its convertible instruments, options, warrants or other contracts to determine if those contracts or embedded components of those contracts qualify as derivatives to be separately accounted for under ASC Topic 815, “Derivatives and Hedging.” The result of this accounting treatment is that the fair value of any derivative is marked-to-market each balance sheet date and recorded as a liability. In the event the fair value is recorded as a liability, the change in fair value is recorded in the statement of operations as gain/loss from derivative liability. Upon conversion or exercise of a derivative instrument, the instrument is marked to fair value at the conversion date and then that fair value is reclassified to equity. We analyzed the derivative financial instruments in accordance with ASC 815. The objective is to provide guidance for determining whether an equity-linked financial instrument is indexed to an entity’s own stock. This determination is needed for a scope exception which would enable a derivative instrument to be accounted for under the accrual method. The classification of a non-derivative instrument that falls within the scope of ASC 815-40-05 “Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company’s Own Stock” also hinges on whether the instrument is indexed to an entity’s own stock. A non-derivative instrument that is not indexed to an entity’s own stock cannot be classified as equity and must be accounted for as a liability. There is a two-step approach in determining whether an instrument or embedded feature is indexed to an entity’s own stock. First, the instrument’s contingent exercise provisions, if any, must be evaluated, followed by an evaluation of the instrument’s settlement provisions. The Company utilized the fair value standard set forth by the Financial Accounting Standards Board, defined as the amount at which the assets (or liability) could be bought (or incurred) or sold (or settled) in a current transaction between willing parties, that is, other than in a forced or liquidation sale.

Results of Operations

Results of Operation for Three Months Ended June 30, 2020 as Compared to the Three Months Ended June 30, 2019

Revenue and cost of revenue

Revenue decreased $876,389 (63%) from $1,382,665 in 2019 to $506,276 in 2020. The overall revenue of the second quarter 2020 was lower due to decreased sales of both single serve and bulk product which was directly impacted by COVID-19. Our product continues to be distributed through all 72 of Sysco’s U.S. mainland distribution centers, as well as through new customers beyond the Sysco distribution network.

Cost of revenue for 2020 was $389,815 as compared to $512,245 in 2019. Our gross profit was $115,306 (22.8%) and $851,046 (61.6%) for 2020 and 2019, respectively. Gross margins were lower in the second quarter due to product mix and the launch of the new 8oz bottle. We anticipate that our gross profit percentage for the remainder of 2020 will be 40%.

Operating expenses

Our operations were primarily directed towards increasing sales and expanding our distribution network.

Our general and administrative expenses decreased $701,780 (39%) from $1,785,820 in 2019 to $1,084,040 in 2020, with the improvement primarily driven by personnel and marketing and selling expenses resulting from lower headcount and the renegotiation of certain sales commission agreements. The following is a breakdown of our general and administrative expenses for the three months ended June 30, 2020 and 2019:

	three months ended June 30, 2020	three months ended June 30, 2019	Difference
Personnel costs	$ 427,500	$ 687,994	$ (260,494)
Stock based compensation/options	55,812	134,607	(78,795)
Legal and professional fees	151,035	134,751	16,284
Travel	12,917	99,108	(86,191)
Rent	19,782	13,612	6,170
Marketing and selling	57,837	146,106	(88,269)
Consulting fees	34,621	28,083	6,538
Director fees	50,000	67,837	(17,837)
Research and development	93,730	116,786	(23,056)
Shipping and Storage	96,425	192,628	(96,203)
Other expenses	84,381	164,308	(79,927)
	$ 1,084,040	$ 1,785,820	$ (701,780)

Personnel cost represents the cost of employees including salaries, bonuses, employee benefits and employment taxes and continues to be our largest cost. Personnel cost decreased $260,494 (38%) from $687,994 to $427,500. Personnel costs in 2019 included $190,746 of expense related to the settlement of Deferred Executive Compensation. We had 24 full time employees at the end of the second quarter of 2019, and we currently have 17 full time employees.

Stock based compensation is used as an incentive to attract new employees and to compensate existing employees. Stock based compensation includes stock issued and options granted to employees and non-employees. Stock based compensation for the current quarter was $55,812, a decrease of $78,795, or 59%, from the year ago quarter expense of $134,607. The Company issues additional stock options to its employees from time to time under its Equity Compensation Plan.

Legal and professional fees increased $16,284 (12%) from $134,751 in 2019 to $151,035 in 2020. The increase was primarily due to higher legal services related to negotiating terms with a contract manufacturer. We anticipate legal fees related to our business and financing activities to decrease as we have renegotiated arrangements with existing service providers.

Travel expenses decreased $86,191 (87%) from $99,108 in 2019 to $12,917 in 2020. The decrease is primarily due to reduction in travel costs associated with terminated employees, tighter controls over sales territories, and reduced travel due to COVID-19. We anticipate that travel expenses for the remainder of this year will be comparable to the current quarter.

Rent expense increased 45%, from $13,612 in the three months ended June 30, 2019, to $19,782 in the three months ended June 30, 2020. Rent expense is primarily for our location in Los Angeles, California. Rent expense for the Los Angeles office is approximately $6,500 per month. We lease office space at 3600 Wilshire Boulevard, Los Angeles, California pursuant to a new lease that commenced on April 1, 2019 and expires June 30, 2023.

Marketing and selling expenses decreased $88,269 (60%) from $146,106 in 2019 to $57,837 in 2020. Lower marketing and selling expenses were primarily due to changes that were made to certain sales commission agreements.

Consulting fees were $34,621 in 2020, as compared with $28,083 in 2019. Our consulting fees vary based on needs. We engaged consultants in the areas of finance during the quarter due to reduced headcount. The need for future consulting services will be variable.

Director fees decreased $17,837 from $67,837 in 2019 to $50,000 in 2020 due to the resignation of one director in the first quarter of 2019. Annual director fees are anticipated at $50,000 per non-employee director.

Research and development expenses decreased $23,056 (20%) from $116,786 in 2019 to $93,730 in 2020. These expenses relate to the services performed by our Director of Manufacturing and Product Development, and consultants supporting that employee. The decrease in research and development expense was primarily driven by the reduction in labor hours.

Shipping and storage expense decreased $96,203 (50%) from $192,628 in 2019 to $96,425 in 2020. We anticipate that shipping and storage expense as a percentage of sales will reduce slightly during the balance of the year, as the Company is able to take advantage of more efficient distribution arrangements.

Other expenses decreased $79,927 from $164,308 in 2019 to $84,381 in 2020 which due to lower expenses related to insurance, moving expense and information technology. Other expenses consist of ordinary operating expenses such as investor relations, office, telephone, insurance, and stock related costs. We anticipate these expenses to be comparable for the balance of the year.

We had operating losses of $1,122,234 and $1,089,848 for the three-month periods ended June 30, 2020 and 2019, respectively. The increase of $32,386 or 3%, was primarily due to lower revenues, offset by lower General and Administrative expenses.

The change in fair value of the derivative liability was a gain of $6,197 for the three months ended June 30, 2020, as compared to a gain of $798,746 for the three months ended of June 30, 2019. The decrease in the gain was due to the exercise of Convertible Notes and the change in the Company's stock price.

Interest expense for the three months ended June 30, 2020 was $63,483, as compared with $282,814 for the three months ended June 30, 2019. Interest relates to the unconverted portion of convertible debt in the amount of $1,071,000 that was issued on March 14, 2018, and in the unconverted portion of convertible debt in the amount of $235,200 that was issued on November 30, 2018. The interest rate of 10% remains unchanged on the convertible notes issued on November 30, 2018, however the interest rate on the convertible notes issued on March 14, 2018 has been modified to 15%. Interest expense includes amortization of $15,336 of the value of warrants issued with the convertible debt.

We had net losses of $1,179,520 and $573,916 in the three-month periods ended June 30, 2020 and 2019.

Results of Operation for Six Months Ended June 30, 2020 as Compared to the Six Months Ended June 30, 2019

Revenue and cost of revenue

Revenue decreased $977,043 (44%) from $2,217,199 in 2019 to $1,240,156 in 2020. The decrease in revenue is primarily driven by the impact of COVID-19 on both bulk product served in the school channels and single serve product offered in restaurants, offset by revenues of our new 8oz Twist & Go product.

Cost of revenue for 2019 was $899,969 as compared to $718,449 in 2020. Our gross profit was $512,105 (41%) and $1,285,750 (58%) for 2020 and 2019, respectively. Our gross profit was lower for the six months ended June 30, 2020 due to product mix and lower margins on our new 8oz bottle. We anticipate that our gross profit percentage for the remainder of 2020 will be approximately 40%.

Operating expenses

Our operations were primarily directed towards increasing sales and expanding our distribution network.

Our general and administrative expenses decreased $1,480,799 (39%) from $3,789,264 in the first half of 2019 to $2,308,465 in the first half of 2020, with the improvement primarily driven by lower personnel expenses resulting from the realignment of our sales force. The following is a breakdown of our general and administrative expenses for the six months ended June 30, 2020 and 2019:

	six months ended June 30, 2020	six months ended June 30, 2019	Difference
Personnel costs	$ 847,680	$ 1,646,860	$ (799,180)
Stock based compensation/options	194,524	271,548	(77,024)
Legal and professional fees	243,497	193,748	49,749
Travel	51,836	210,867	(159,031)
Rent	39,844	50,813	(10,969)
Marketing and selling	136,812	305,535	(168,723)
Consulting fees	60,188	33,499	26,689
Director fees	100,000	130,337	(30,337)
Research and development	179,154	272,985	(93,831)
Shipping and Storage	229,533	342,274	(112,741)
Other expenses	225,397	330,798	(105,401)
	$ 2,308,465	$ 3,789,264	$ (1,480,799)

Personnel cost represents the cost of employees including salaries, bonuses, employee benefits and employment taxes and continues to be our largest cost. Personnel cost decreased $799,180 (49%) from $1,646,860 in 2019, to $847,680 in 2020. We had 24 full time employees, 1 part time employee and 1 consultant at the end of the second quarter of 2019, and we currently have 17 full time employees and 2 consultants.

Stock based compensation is used as an incentive to attract new employees and to compensate existing employees. Stock based compensation includes stock issued and options granted to employees and non-employees. Stock compensation for the six months ended June 30, 2020 was $194,524, a decrease of $77,024, or 28%, from the year ago period expense of $271,548. The decrease is primarily due to the reductions in our work force and the timing of equity grants. The Company issues additional stock options to its employees from time to time under its Equity Compensation Plan.

Legal and professional fees increased $49,749 (26%) from $193,748 in 2019 to $243,497 in 2020. The increase was primarily due to legal services related to co-packing agreements. We anticipate legal fees related to our business and financing activities to increase as our business continues to grow.

Travel expenses were $210,867 in 2019 and decreased to $51,836 in 2020. Travel expenses are lower than 2019 due to our increased focus on controlling costs, tighter management of sales territories, and reduced travel due to COVID-19.

Rent expense in 2020 is related to our headquarters, which is located in Los Angeles, California. During the first quarter of 2019, we occupied an office in Beverly Hills, California. Effective April 1, 2019, we relocated our headquarters office to our current location, at 3600 Wilshire Boulevard, Los Angeles, California pursuant to a new four-year lease, with monthly rental cost of $6,173 . Rent expense for the Beverly Hills office was approximately $14,488 per month.

Marketing and selling expenses decreased $168,723 (55%) from $305,535 in 2019 to $136,812 in 2020. Lower marketing and selling expenses were due to changes that were made to certain sales commission agreement.

Consulting fees were $60,188 in 2020, as compared with $33,499 in 2019. Our consulting fees vary based on needs. We engaged consultants in the areas of sales and operations during the period. The need for future consulting services will be variable.

Director fees decreased $30,337 from $130,337 in 2019 to $100,000 in 2020 due to the resignation of one director in 2019. Annual director fees are $50,000 per non-employee director.

Research and development expenses decreased $93,831 (34%) from $272,985 in 2019 to $179,154 in 2020. These expenses relate to the services performed by our Director of Manufacturing and Product Development, consultants supporting that employee, and certain commissioning expenses at our contract manufacturing locations

Shipping and storage expense decreased $112,741 (33%) from $342,274 in 2019 to $229,533 in 2020. We anticipate that shipping and storage expense as a percentage of sales will continue to improve during the balance of the year, as the Company is able to take advantage of more efficient distribution arrangements.

Other expenses decreased $105,401 from $330,798 in 2019 to $225,397 in 2020. Other expenses consist of ordinary operating expenses such as investor relations, office, telephone, insurance, and stock related costs. We anticipate these expenses to be comparable for the balance of the year.

We had operating losses of $2,100,008 and $2,860,565 for the six-month periods ended June 30, 2020 and 2019, respectively. The improvement of $760,557 or 27%, was primarily due to lower General & Administrative expenses, offset by lower revenues and decreased margins.

Gain/loss from derivative liability was a gain of $157,099 for the six months ended June 30, 2020, as compared to a gain of $392,734 for the six months ended of June 30, 2019. The decrease in the gain was due to the change in the Company's stock price, modification of the terms of the Series CN1, and the conversion of convertible notes. Interest expense for the six months ended June 30, 2020 was $358,877 and was $645,887 for the six months ended June 30, 2019. Interest relates to remaining principal outstanding for convertible debt in the amount of $1,071,000 that was issued on March 14, 2018, and in the amount of $235,200 that closed during December, 2018, which bear interest at 15% and 10%, respectively. Interest expense includes amortization of $233,391 of the value of warrants issued with the convertible debt.

We had net losses of $1,922,586 and $3,421,178 in the six-month periods ended June 30, 2020 and 2019.

Liquidity and Capital Resources

During the six months ended June 30, 2020, we used cash for operations of $1,930,045 and purchased equipment for $34,365. During the six months ended June 30, 2019, we used $2,354,225 of cash for operations and purchased equipment for $319,157. We raised cash of $2,400,000 from the issuance of common stock and we raised cash from the exercise of warrants in the amount of $1,550,310.

We have a history of operating losses and negative cash flow. As our operations grow, we expect to experience significant increases in our working capital requirements. Management has evaluated these conditions and concluded substantial doubt was mitigated due to the issuance of stock and the debt that was restructured. However, the Company cannot predict, with certainty, the outcome of its actions to preserve liquidity, including the accuracy of its financial forecast, the ability to sustain the current trend of cost cutting, the ability to raise additional capital or to extend the maturity date of the debt that is maturing in November 2021 and March 2022.

As of June 30, 2020, we had $3,398,276 of cash and restricted cash on the balance sheet. We have continued to significantly reduce core operating expenses, reducing total General and Administrative Expense in the first six months of 2020 by $1,480,799, or 39%, as compared with the first six months of 2019. The Company's forecast for the next twelve months reflects a continuation of the improvement in cash flow from operations as the Company continues to reduce operating expenses and increase contracts with school locations, and military bases, and anticipates the roll-out of a new product launch with the Twist & Go 8oz bottles. The Company has implemented cost reduction measures which will reduce cash expenses over the next twelve months, which includes reduced headcount. The savings in General and Administrative is estimated to yield $400,000 per year in cash savings.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to stockholders.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not required because we are a smaller reporting company.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Accounting Officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Securities and Exchange Act of 1934 Rules 13a-15(f). Disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed in the reports that we file or submit under the Exchange Act has been appropriately recorded, processed, summarized and reported on a timely basis and are effective in ensuring that such information is accumulated and communicated to the Company's management including our CEO and our CFO, as appropriate to allow timely decisions regarding required disclosure. Based on this evaluation, our Chief Executive Officer and our Chief Accounting Officer concluded that as of June 30, 2020, our disclosure controls and procedures are not effective.

Management has identified the following material weaknesses in our internal control over financial reporting:

Inadequate Segregation of Duties: We have an inadequate number of personnel to properly implement internal controls over financial reporting.

Since the assessment of the effectiveness of our internal control over financial reporting did identify material weaknesses, management considers its internal control over financial reporting to be ineffective.

Management believes that the material weakness set forth above did not have an effect on our financial results.

Changes in Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting during the three months ended June 30, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II-OTHER INFORMATION

Item 1. Legal Proceedings.

Neither the Company nor its subsidiaries are party to or have property that is the subject of any material pending legal proceedings. We may be subject to ordinary legal proceedings incidental to our business from time to time that are not required to be disclosed under this Item 1.

Item 1A. Risk Factors.

Not required because we are a smaller reporting company.

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

The Company did not issue or sell any other unregistered equity securities during the period covered by this report that were not previously reported on a Current Report on Form 8-K.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit No.	Description
31.1	Certification of Principal Executive Officer, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
31.2	Certification of Principal Accounting Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32.1	Certification of Principal Executive Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32.2	Certification of Principal Accounting Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)
	^ Compensatory plan or arrangement
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema Document*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document*

*XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

In accordance with SEC Release 33-8238, Exhibits 32.1 and 32.2 are furnished and not filed.

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.

BARFRESH FOOD GROUP INC.

Date: August 13, 2020

By: */s/ Riccardo Delle Coste*
Riccardo Delle Coste
Chief Executive Officer
(Principal Executive Officer)

Date: August 13, 2020

By: */s/ Raffi Loussararian*
Vice President of Finance
(Principal Accounting Officer)

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Riccardo Delle Coste, certify that:

1. I have reviewed this Form 10-Q of Barfresh Food Group Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods present in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13-a-15 (f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financing reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involved management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 13, 2020

By: */s/ Riccardo Delle Coste*
Riccardo Delle Coste
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF PRINCIPAL ACCOUNTING OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Raffi Loussararian, certify that:

1. I have reviewed this Form 10-Q of Barfresh Food Group Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods present in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13-a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financing reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involved management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 13, 2020

By: */s/ Raffi Loussararian*
Vice President of Finance
(Principal Accounting Officer)

Exhibit 32.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Barfresh Food Group Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Riccardo Delle Coste, Chief Executive Officer of the Company, does hereby certify, pursuant to § 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350), that to his knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 13, 2020

By: */s/ Riccardo Delle Coste*
Riccardo Delle Coste
Chief Executive Officer
(Principal Executive Officer)

Exhibit 32.2

CERTIFICATION OF PRINCIPAL ACCOUNTING OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with this Quarterly Report of Barfresh Food Group Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Raffi Loussararian, Vice President of Finance of the Company, does hereby certify, pursuant to § 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350), that to his knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Barfresh Food Group Inc.

Date: August 13, 2020

By: */s/ Raffi Loussararian*
Vice President of Finance
(Principal Accounting Officer)