

PF Hospitality Group, Inc.
Form 10-Q
May 20, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2016

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

For the transition period from _____ to _____

000-51935

(Commission file number)

PF Hospitality Group, Inc.

(Exact name of registrant as specified in its charter)

Nevada **90-1119774**
(State or other jurisdiction (IRS Employer
of incorporation or organization) Identification No.)

(561) 939-2520

(Issuer's telephone number)

399 NW 2nd Avenue, Suite 216, Boca Raton Florida 33432

(Address of principal executive offices)

(561) 939-2520

(Registrant's telephone number, including area code)

Not applicable.

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

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

As of May 20, 2016, there were 81,020,404 shares of registrant's common stock outstanding.

PF HOSPITALITY GROUP, INC.

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FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements. The Securities and Exchange Commission encourages companies to disclose forward-looking information so that investors can better understand a company's future prospects and make informed investment decisions. This report and other written and oral statements that we make from time to time contain such forward-looking statements that set out anticipated results based on management's plans and assumptions regarding future events or performance. We have tried, wherever possible, to identify such statements by using words such as "anticipate," "estimate," "expect," "project," "intend," "plan," "believe," "will" and similar expressions in connection with any discussion of future operating or financial performance. In particular, these include statements relating to future actions, future performance or results of current and anticipated sales efforts, expenses, the outcome of contingencies, such as legal proceedings, and financial results.

We caution that the factors described herein and other factors could cause our actual results of operations and financial condition to differ materially from those expressed in any forward-looking statements we make and that investors should not place undue reliance on any such forward-looking statements. Further, any forward-looking statement speaks only as of the date on which such statement is made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of anticipated or unanticipated events or circumstances. New factors emerge from time to time, and it is not possible for us to predict all of such factors. Further, we cannot assess the impact of each such factor on our results of operations or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PF HOSPITALITY GROUP, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2016 (unaudited)	September 30, 2015
ASSETS		
Current assets:		
Cash	\$57,482	\$272,785
Accounts receivable, net	16,775	-
Royalties receivable	10,033	15,383
Inventory	24,427	-
Vendor deposits	29,148	-
Prepaid and other current assets	21,022	5,103
Total current assets	158,887	293,271
Property and equipment, net	66,249	34,626
Other assets:		
Intangible assets, net	114,050	116,990
Receivable from litigation settlement	19,479	30,104
Deposits	4,834	4,834
Goodwill	1,328,182	-
Total other assets	1,466,545	151,928
Total assets	\$1,691,681	\$479,825
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable and accrued liabilities	\$969,294	\$920,826
Advances	218,361	205,861
Note payable	50,000	50,000
Convertible notes payable, current portion	37,991	61,074
Total current liabilities	1,275,646	1,237,761
Long term debt:		
Convertible notes payable, long term portion	266,097	166,083

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Deferred revenue, long term portion	404,210	404,210
Customer deposits	50,000	50,000
Derivative liability	627,387	-
Total long term debt	1,347,694	620,293
Total liabilities	2,623,340	1,858,054
Stockholders' deficit:		
Preferred stock, \$0.0001 par value, 20,000,000 shares authorized as of March 31, 2016 and September 30, 2015		
Series A Preferred Stock, \$0.0001 par value; 2,000,000 shares designated, 2,000,000 shares issued and outstanding as of March 31, 2016 and September 30, 2015	200	200
Common stock, \$0.0001 par value; 500,000,000 and 2,000,000,000 shares authorized, 81,020,404 and 63,044,404 shares issued and outstanding as of March 31, 2016 and September 30, 2015, respectively	8,102	6,304
Additional paid in capital	11,025,029	9,477,645
Deficit	(11,964,990)	(10,862,378)
Total deficit	(931,659)	(1,378,229)
Total liabilities and stockholders' deficit	\$1,691,681	\$479,825

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements

PF HOSPITALITY GROUP, INC.**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(unaudited)**

	Three months ended March 31,		Six months ended March 31,	
	2016	2015	2016	2015
Revenues:				
Royalty income	\$43,369	\$69,838	\$73,446	\$122,228
Sales	94,110	-	96,277	-
Total revenues	137,479	69,838	169,723	122,228
Cost of sales	39,790	-	40,288	-
Gross profit	97,689	69,838	129,435	122,228
Operating expenses:				
Payroll expenses	118,485	99,787	220,810	193,132
Selling, general and administrative expenses	540,924	47,150	609,712	93,914
Depreciation and amortization	4,724	4,089	9,025	8,178
Total operating expenses	664,133	151,026	839,547	295,224
Net loss from operations	(566,444)	(81,188)	(710,112)	(172,996)
Other income (expense):				
Gain on change in derivative liabilities	1,458,511	-	1,458,511	-
Litigation settlement	-	102,500	-	102,500
Other income	-	-	-	1,942
Interest expense	(16,809)	-	(1,851,011)	-
Total other income (expense):	1,441,702	102,500	(392,500)	104,442
Net income (loss) before income tax provision	875,258	21,312	(1,102,612)	(68,554)
Provision for income taxes	-	-	-	-
NET INCOME (LOSS)	\$875,258	\$21,312	\$(1,102,612)	\$(68,554)
Net income (loss) per common share, basic	\$0.01	\$0.00	\$(0.01)	\$(0.00)
Net income (loss) per common share, diluted	\$0.01	\$0.00	\$(0.01)	\$(0.00)
Weighted average number of common shares outstanding, basic	78,725,899	17,117,268	76,658,961	17,117,268

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Weighted average number of common shares outstanding, diluted	116,003,567	19,502,998	76,658,961	17,117,268
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The accompanying notes are an integral part of these unaudited condensed consolidated financial statements

PF HOSPITALITY GROUP, INC.**CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIT****SIX MONTHS ENDED MARCH 31, 2016**

	Series A Preferred stock		Common stock		Additional	Accumulated	Total
	Shares	Amount	Shares	Amount	Paid in Capital	Deficit	
Balance, September 30, 2015	2,000,000	\$ 200	63,044,404	\$ 6,304	\$9,477,645	\$(10,862,378)	\$(1,378,229)
Common stock issued upon settlement of convertible notes	-	-	16,876,000	1,688	26,031	-	27,719
Common stock issued for services	-	-	600,000	60	395,940	-	396,000
Common stock issued to acquire EXO:EXO	-	-	500,000	50	1,314,950	-	1,315,000
Beneficial conversion feature related to convertible notes	-	-	-	-	80,769	-	80,769
Reclassify beneficial conversion feature from equity to derivative liability	-	-	-	-	(270,306)	-	(270,306)
Net loss	-	-	-	-	-	(1,102,612)	(1,102,612)
Balance, March 31, 2016 (unaudited)	2,000,000	\$ 200	81,020,404	\$ 8,102	\$11,025,029	\$(11,964,990)	\$(931,659)

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements

PF HOSPITALITY GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	Six months ended March 31,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$(1,102,612)	\$(68,554)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation and amortization	9,025	8,178
Amortization of debt discount	30,785	-
Non-cash interest	1,815,592	-
Gain on change in fair value of derivative liabilities	(1,458,511)	-
Common stock issued for services	396,000	-
Changes in operating assets and liabilities:		
Accounts and royalties receivable	(11,425)	65
Inventory	(7,535)	-
Litigation receivable	10,625	(40,729)
Vendor deposits	(29,148)	-
Other prepaid assets	(15,919)	-
Accounts payable and accrued liabilities	32,483	64,236
Deferred income and customer deposits	-	(12,895)
Net cash used in operating activities	(330,640)	(49,699)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net cash paid to acquire EXO:EXO	(22,163)	-
Purchase of property and equipment	(25,000)	(15,565)
Net cash used in investing activity	(47,163)	(15,565)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from advances	12,500	106,500
Proceeds from issuance of convertible notes payable	150,000	-
Net cash provided by financing activities	162,500	106,500
Net (decrease) increase in cash	(215,303)	41,236
Cash, beginning of the period	272,785	95,797
Cash, end of the period	\$57,482	\$137,033
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest	\$-	\$-
Cash paid during the period for income taxes	\$-	\$-

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Non-cash investing and financing activities:

Beneficial conversion feature relating to convertible note payable	\$80,769	\$-
Common stock issued in settlement of convertible notes	\$27,719	\$-
Common stock issued to acquire EXO:EXO	\$1,315,000	\$-

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements

PF HOSPITALITY GROUP, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies applied in the preparation of the accompanying unaudited condensed consolidated financial statements follows:

Business and Basis of Presentation

PF Hospitality Group, Inc. (the “Company”) was incorporated in Nevada on April 5, 2005 under the name Tomi Holdings, Inc. In October 2005, the Company changed its name to InfraBlue (US), Inc., and in October 2007, changed its name to NextGen Bioscience, Inc. In December 2008, the Company changed its name to Kalahari Greentech, Inc. In May 2015, the Company changed its name to PF Hospitality Group, Inc. Prior to the Company’s merger with PF Hospitality Group discussed below, we were a U.S.-based exploration company with a primary focus on projects with prior exploration and production history.

Effective July 1, 2015, the Company merged with Pizza Fusion Holdings, Inc. (“Pizza Fusion”), a franchisor of organic fare pizza restaurants. As a result of the merger, PF Hospitality Group has become a franchisor of pizza restaurants specializing in organic fare free of artificial additives, such as preservatives, growth hormones, pesticides, nitrates and trans fats. Pursuant to the terms of the May 26, 2015 merger agreement, the Company exchanged 17,117,268 shares of its common stock and issued 11,411,512 warrants to purchase the Company’s common stock for 100% of the Pizza Fusion common shares. The warrants are exercisable at \$0.25 for three years. In addition, the Company issued an aggregate of 2,385,730 warrants to acquire the Company’s common stock at \$0.25 per share for a period of three years in exchange for previously issued and outstanding warrants of Pizza Fusion Holdings, Inc. Also, Pizza Fusion’s two founders purchased 21,441,366 shares of the Company’s common stock and 1,000,000 shares of the Company’s Series A preferred stock at a price of \$.0001 per share. The shares are restricted and subject to the conditions set forth in Rule 144. Holders of convertible debt in the original principal amount of \$65,600 agreed as part of the merger to limit the number of shares convertible pursuant to such debt at 40,000,000 shares of our common stock. As the owners and management of Pizza Fusion Holdings, Inc. obtained voting and operating control of PF Hospitality Group, Inc. after the merger and PF Hospitality Group, Inc. was non-operating and did not meet the definition of a business, the transaction has been accounted for as a recapitalization of Pizza Fusion Holdings, Inc., accompanied by the issuance of its common stock for outstanding common stock of PF Hospitality Group, Inc., which was recorded at a nominal value. The accompanying financial statements and related notes give retroactive effect to the recapitalization as if it had occurred on November 6, 2006 (inception date) and accordingly all share and per share amounts have been

adjusted.

On December 16, 2015, the Company entered into and closed under the terms of a stock exchange agreement (the “Stock Exchange Agreement”) the Company entered into with EXO:EXO, Inc. (“EXO”) and Sloane McComb (EXO’s sole shareholder) pursuant to which the Company agreed to acquire all of the issued and outstanding shares of EXO from Ms. McComb in exchange for (i) the issuance to Ms. McComb of 500,000 shares of our unregistered common stock, (ii) a payment of \$25,000 to Ms. McComb, (iii) the payment of up to \$20,000 to a third party for the payment of certain debts of EXO, and (iv) certain contingent performance considerations. (see below).

The consolidated financial statements include the accounts of PF Hospitality Group, Inc. and its wholly owned subsidiaries, Pizza Fusion Holdings, Inc., EXO and Shaker & Pie, Inc. (hereafter referred to as the “Company”). All significant intercompany balances and transactions have been eliminated in consolidation.

Acquisition

On December 16, 2015, the Company acquired EXO pursuant to the terms of that certain share exchange agreement entered into between the Company and Sloane McComb, the former owner of EXO.

Upon Closing, the Company acquired 100% of the outstanding securities of EXO in consideration of \$25,000 cash, 500,000 shares of common stock of the Company and assumption of \$20,619 of debt due to third parties for a total purchase price of \$1,360,619.

PF HOSPITALITY GROUP, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2016

A summary of consideration is as follows:

Cash	\$25,000
500,000 shares of the Company's common stock	1,315,000
Liabilities assumed	20,619
Total purchase price	\$1,360,619

The following summarizes the current estimates of fair value of assets acquired and liabilities assumed:

Cash	\$2,837
Inventory	16,892
Property and equipment	12,708
Goodwill	1,328,182
Assets acquired	\$1,360,619

EXO seeks to position itself as a top consumer brand of choice within the functional fitness market riding the wave of a worldwide fitness industry growth phenomena.

The purchase price allocation for the above acquisitions is subject to further refinement as management completes its assessment of the valuation of certain assets and liabilities.

The Company accounts for acquisitions in accordance with the provisions of ASC 805-10. The Company assigns to all identifiable assets acquired, a portion of the cost of the acquired company equal to the estimated fair value of such assets at the date of acquisition. The Company records the excess of the cost of the acquired company over the sum of the amounts assigned to identifiable assets acquired as goodwill.

The Company does not amortize goodwill. The Company recorded goodwill in the aggregate amount of \$1,328,182 as a result of the acquisition of EXO during the six months ended March 31, 2016.

The Company accounts for and reports acquired goodwill under Accounting Standards Codification subtopic 350-10, Intangibles-Goodwill and Other (“ASC 350-10”). In accordance with ASC 350-10, at least annually, the Company tests its intangible assets for impairment or more often if events and circumstances warrant. Any write-downs will be included in results from operations.

Interim Financial Statements

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the rules and regulations (Regulation S-X) of the Securities and Exchange Commission (the “SEC”) and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The results of operations for the three and six months ended March 31, 2016 are not necessarily indicative of the operating results that may be expected for the year ended September 30, 2016. These unaudited condensed consolidated financial statements should be read in conjunction with the September 30, 2015 consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K.

Revenue Recognition

Revenue is recognized when persuasive evidence of an arrangement exists, delivery of the product or service has occurred, all obligations have been performed pursuant to the terms of the agreement, the sales price is fixed or determinable, and collectability is reasonably assured.

PF HOSPITALITY GROUP, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2016

Royalty income

In connection with its franchising operations, the Company receives initial franchise fees, area development fees, franchise deposits and royalties which are based on sales at franchised restaurants.

Franchise fees, which are typically received prior to completion of the revenue of the revenue recognition process, are deferred when received. Such fees are recognized as income when substantially all services to be performed by the Company and conditions related to the sale of the franchise have been performed or satisfied, which generally occurs when the franchised restaurant commences operations.

Development agreements require the developer to open a specified number of restaurants in the development area within a specified time period or the agreements may be cancelled by the Company. Fees from development agreements are deferred when received and recognized as income as restaurants in the development area commence operations on a pro rata basis to the minimum number of restaurants required to be open.

Deferred franchise fees and development fees are classified as current or long term in the financial statements based on the projected opening date of the restaurants. Royalty fees, which are based upon a percentage of franchise sales, are made by the franchisee.

Sales

Sales are generated from an online process either through a web site or through third party providers such as Amazon. Collections are received at the point of sales.

During the three and six months ended March 31, 2016, sales were comprised of sports products from the Company's wholly owned subsidiary, EXO.

Inventory

The Company maintains an inventory, which consists primarily of packaged, delivered sports product. The Company acquires all of its inventory in a completed (finished goods) condition. The average cost method is utilized in valuing the inventory, and is stated at the lower of cost or market.

As of March 31, 2016, the Company's inventory, comprised of available for sale sports goods, was \$24,427.

Cost of sales

Cost of sales is comprised of cost of product sold, packaging, and shipping costs from the manufacturer.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include the recoverability and useful lives of long-lived assets, the fair value of the Company's stock, stock-based compensation, debt discounts and the fair values of derivative liabilities. Actual results may differ from these estimates.

Fair Value of Financial Instruments

Fair value estimates discussed herein are based upon certain market assumptions and pertinent information available to management as of March 31, 2016 and September 30, 2015. The respective carrying value of certain on-balance-sheet financial instruments approximated their fair values. These financial instruments include cash, notes payable, convertible notes payable, derivative liabilities and accounts payable. Fair values were assumed to approximate carrying values for cash and payables because they are short term in nature and their carrying amounts approximate fair values or they are payable on demand.

PF HOSPITALITY GROUP, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2016

Impairment of Long-Lived Assets

The Company reviews the carrying value of intangibles and other long-lived assets for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by comparing the carrying amount of the asset or asset group to the undiscounted cash flows that the asset or asset group is expected to generate. If the undiscounted cash flows of such assets are less than the carrying amount, the impairment to be recognized is measured by the amount by which the carrying amount of the property, if any, exceeds its fair market value.

At September 30, 2015, the Company management performed an evaluation of its acquired intangible assets for purposes of determining the implied fair value of the assets at September 30, 2015. The tests indicated that the recorded remaining book value of its intangible assets did not exceed its fair value for the years ended September 30, 2015; and no impairment was deemed to exist as of September 30, 2015 and 2014. Considerable management judgment is necessary to estimate the fair value. Accordingly, actual results could vary significantly from management's estimates.

Derivative Liability

The Company accounts for derivatives in accordance with ASC 815, which establishes accounting and reporting standards for derivative instruments and hedging activities, including certain derivative instruments embedded in other financial instruments or contracts and requires recognition of all derivatives on the balance sheet at fair value, regardless of hedging relationship designation. Accounting for changes in fair value of the derivative instruments depends on whether the derivatives qualify as hedge relationships and the types of relationships designated are based on the exposures hedged. At March 31, 2016 and September 30, 2015, the Company did not have any derivative instruments that were designated as hedges. See Notes 7 and 8 for discussion of the Company's derivative liabilities.

Convertible Instruments

GAAP requires companies to bifurcate conversion options from their host instruments and account for them as free standing derivative financial instruments according to certain criteria. The criteria include circumstances in which (a) the economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risks of the host contract, (b) the hybrid instrument that embodies both the embedded derivative instrument and the host contract is not re-measured at fair value under otherwise applicable generally accepted accounting principles with changes in fair value reported in earnings as they occur and (c) a separate instrument with the same terms as the embedded derivative instrument would be considered a derivative instrument. An exception to this rule is when the host instrument is deemed to be conventional, as that term is described under applicable GAAP.

When the Company has determined that the embedded conversion options should not be bifurcated from their host instruments, the Company records, when necessary, discounts to convertible notes for the intrinsic value of conversion options embedded in debt instruments based upon the differences between the fair value of the underlying common stock at the commitment date of the note transaction and the effective conversion price embedded in the note. Debt discounts under these arrangements are amortized over the term of the related debt to their stated date of redemption.

On December 31, 2015, the Company determined that the conversion provisions embedded in issued convertible debentures met the defined criteria of a derivative in such that the net settlement requirement of delivery of common shares does meet the “readily convertible to cash” as described in Accounting Standards Codification 815 and therefore bifurcation is required.

PF HOSPITALITY GROUP, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2016

Segment Information

Accounting Standards Codification subtopic Segment Reporting 280-10 (“ASC 280-10”) establishes standards for reporting information regarding operating segments in annual financial statements and requires selected information for those segments to be presented in interim financial reports issued to stockholders. ASC 280-10 also establishes standards for related disclosures about products and services and geographic areas. Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision maker, or decision-making group, in making decisions how to allocate resources and assess performance. The information disclosed herein materially represents all of the financial information related to the Company’s only material principal operating segment.

Net Income (Loss) per Share

The Company computes basic net income (loss) per share by dividing net income (loss) per share available to common stockholders by the weighted average number of common shares outstanding for the period and excludes the effects of any potentially dilutive securities. Diluted earnings per share, if presented, would include the dilution that would occur upon the exercise or conversion of all potentially dilutive securities into common stock using the “treasury stock” and/or “if converted” methods as applicable.

The computation of basic and diluted income (loss) per share as of March 31, 2016 and 2015 excludes potentially dilutive securities when their inclusion would be anti-dilutive, or if their exercise prices were greater than the average market price of the common stock during the period.

Potentially dilutive securities excluded from the computation of basic and diluted net income (loss) per share are as follows:

March 31,	March 31,
2016	2015

Convertible notes payable	23,480,426	-
Warrants to purchase common stock	13,797,242	2,385,730
Totals	37,277,668	2,385,730

Stock-Based Compensation

The Company measures the cost of services received in exchange for an award of equity instruments based on the fair value of the award. For employees and directors, the fair value of the award is measured on the grant date and for non-employees, the fair value of the award is generally re-measured on vesting dates and interim financial reporting dates until the service period is complete. The fair value amount is then recognized over the period during which services are required to be provided in exchange for the award, usually the vesting period. Stock-based compensation expense is recorded by the Company in the same expense classifications in the consolidated statements of operations, as if such amounts were paid in cash.

Registration Rights

The Company accounts for registration rights agreements in accordance with the Accounting Standards Codification subtopic 825-20, Registration Payment Arrangements (“ASC 825-20”). Under ASC 825-20, the Company is required to disclose the nature and terms of the arrangement, the maximum potential amount and to assess each reporting period the probable liability under these arrangements and, if exists, to record or adjust the liability to current period operations. On March 31, 2016, the Company determined that possible payments under its registration rights agreement was not probable and therefore did not accrue as interest expense in current period operations for possible liability under the registration rights agreements.

PF HOSPITALITY GROUP, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2016

Recent Accounting Pronouncements

There are various updates recently issued, most of which represented technical corrections to the accounting literature or application to specific industries and are not expected to have a material impact on the Company's financial position, results of operations or cash flows.

2. GOING CONCERN AND MANAGEMENT'S LIQUIDITY PLANS

The Company's unaudited condensed consolidated financial statements are prepared using generally accepted accounting principles applicable to a going concern which contemplates the realization of assets and liquidation of liabilities in the normal course of business. The Company has incurred significant recurring losses which have resulted in an accumulated deficit of \$11,964,990, net loss of \$1,102,612 and net cash used in operations of \$330,640 for the six months ended March 31, 2016 which raises substantial doubt about the Company's ability to continue as a going concern.

During the six months ended March 31, 2016, the Company raised \$150,000 in cash proceeds from the issuance of convertible promissory notes. The Company believes that its current cash on hand will not be sufficient to fund its projected operating requirements through June 2016.

The Company's primary source of operating funds since inception has been cash proceeds from the private placements of common stock and proceeds from convertible and other debt. The Company intends to raise additional capital through private placements of debt and equity securities, but there can be no assurance that these funds will be available on terms acceptable to the Company, or will be sufficient to enable the Company to fully complete its development activities or sustain operations. If the Company is unable to raise sufficient additional funds, it will have to develop and implement a plan to further extend payables, reduce overhead, or scale back its current business plan until sufficient additional capital is raised to support further operations. There can be no assurance that such a plan will be successful.

Accordingly, the accompanying condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”), which contemplate continuation of the Company as a going concern and the realization of assets and satisfaction of liabilities in the normal course of business. The carrying amounts of assets and liabilities presented in the financial statements do not necessarily purport to represent realizable or settlement values. The condensed consolidated financial statements do not include any adjustment that might result from the outcome of this uncertainty.

3. DEFERRED INCOME AND CUSTOMER DEPOSITS

The Company has received advances from customers seeking to purchase a franchise. The deposits are classified as customer deposits until a franchise agreement is signed. Once a franchise agreement is signed the advances are nonrefundable and reclassified to deferred income. The franchisee has the responsibility to complete the build out of the restaurant within the time designated in the franchise agreement (generally 5 years). Once the restaurant build out is complete and is operational the Company recognizes the franchise fee as revenues. If the franchisee fails to complete the build out within the required period the franchise fee is forfeited and the Company recognizes the fee as income.

4. PROPERTY AND EQUIPMENT

Property and equipment as of March 31, 2016 and September 30, 2015 is summarized as follows:

	March 31, 2016	September 30, 2015
Construction in process	\$43,150	\$ 18,150
Equipment	60,406	47,697
Leasehold improvements	10,513	10,513
Furniture and fixtures	37,604	37,604
Subtotal	151,673	113,964
Less accumulated depreciation	(85,424)	(79,338)
Property and equipment, net	\$66,249	\$ 34,626

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Depreciation expense for the three and six months ended March 31, 2016 was \$3,254 and \$6,085, respectively; and \$2,619 and \$5,238 for the three and six months ended March 31, 2015, respectively.

5. INTANGIBLE ASSETS

Intangible assets as of March 31, 2016 and September 30, 2015 is summarized as follows:

	March 31, 2016	September 30, 2015
Franchise and trademark rights	\$71,949	\$71,949
Trademark costs	45,429	45,429
Website	43,625	43,625
Subtotal	161,003	161,003
Less accumulated depreciation	(46,953)	(44,013)
Property and equipment, net	\$114,050	\$116,990

Amortization expense for the three and six months ended March 31, 2016 was \$1,470 and \$2,940, respectively; and \$1,470 and \$2,940 for the three and six months ended March 31, 2015, respectively.

6. NOTES PAYABLE

On July 10, 2014 the Company issued a note payable with face value \$50,000, non-interest bearing, due on demand. The balance as of March 31, 2016 and September 30, 2015 was \$50,000.

7. CONVERTIBLE NOTES PAYABLE

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Convertible notes payable as of March 31, 2016 and September 30, 2015 is summarized as follows:

	March 31, 2016	September 30, 2015
Notes payable, acquired in recapitalization	\$37,991	\$ 61,074
Notes payable, due July 27, 2020, net of unamortized debt discounts of \$291,675 and \$224,924, respectively	266,097	166,183
Subtotal	290,559	227,257
Less current maturities	(37,991)	(61,074)
Long term portion	\$266,097	\$ 166,183

Under the terms of the securities purchase agreement dated July 27, 2015, the Company issued and sold an aggregate of \$1,333,334 principal amount of convertible debentures due July 27, 2020 for a price of \$1,200,000. Proceeds from this debenture will be paid to the company as follows: \$140,000 upon signing with the balance payable in five consecutive monthly installments of \$212,000 commencing on September 1, 2015. The company agreed to pay interest for the first 12 months at the rate of 10% per annum on the amounts advanced payable in cash in six equal tranches, the first of which is due on date the company closed on the financing and remainder will be due on each of the first five monthly anniversaries of such date. As of March 31, 2016, the Company has received net proceeds of \$502,000 under the security purchase agreement. The Company is in discussions with the purchasers of the convertible debentures to revise the payment schedule for the remaining \$698,000 due to the Company under the convertible debentures.

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The terms of the Securities Purchase Agreement contain certain negative covenants by the company, unless consent of purchasers holding at least 75% of the aggregate principal amount of the outstanding debentures, including prohibitions on: incurrence of certain indebtedness and liens, amendment to our articles of incorporation or bylaws, repayment or repurchase of the company's common stock or debts, sell substantially all of its assets or merger with another entity, pay cash dividends or enter into any related party transactions. The Company granted investors certain pro-rata rights of first refusal on future offerings by the company for as long as the investor(s) beneficially own any of the debentures.

The debentures are convertible into shares of the company's common stock at a conversion price equal to 65% of the lowest traded price of its common stock for the twenty trading days prior to each conversion date subject to adjustment. The conversion price of the debentures is subject to proportional adjustment in the event of stock splits, stock dividends and similar corporate events. In addition, the conversion price is subject to adjustment if the company issues or sells shares of its common stock for a consideration per share less than the conversion price then in effect, or issue options, warrants or other securities convertible or exchange for shares of its common stock at a conversion or exercise price less than the conversion price of the debentures then in effect. If either of these events should occur, the conversion price is reduced to the lowest price at which these securities were issued or are exercisable.

At the time of issuance and until December 31, 2015, the Company determined that the conversion provisions embedded in issued convertible debentures did not meet the defined criteria of a derivative in such that the net settlement requirement of delivery of common shares does not meet the "readily convertible to cash" as described in Accounting Standards Codification 815 and therefore bifurcation was not required. There was no established market for the Company's common stock. As of December 31, 2015, the Company determined a market had been established for the Company's common stock and accordingly, reclassified from equity to liability treatment the initial previously recorded beneficial conversion feature of the conversion provision of \$270,306.

The Company determined the fair value of the embedded conversion provisions of the debentures of \$2,085,898 at December 31, 2015 using the Multinomial Lattice pricing model and the following assumptions: estimated contractual terms, a risk free interest rate of 1.76%, a dividend yield of 0%, and volatility of 56.38%. The fair value derivative liability of \$2,085,898 was recorded as a liability at December 31, 2015 and a charge to current period interest of \$1,815,592 representing the excess in fair value of the liability from the initially recorded beneficial conversion feature reclassified from equity.

At March 31, 2016, the fair value of the embedded conversion provisions of the debentures of \$627,387 was determined using the Binomial Option Pricing model with the following assumptions: dividend yield: 0%; volatility: 62.01%; risk free rate: 1.21%; and expected life: 4.33 years. The Company recorded a gain on change in derivative liabilities of \$1,458,511 during the three and months ended March 31, 2016.

For the three and six months ended March 31, 2016, the Company amortized \$16,810 and \$30,684 of debt discount and original issuance discounts to current period operations as interest expense, respectively.

Under the terms of a Registration Rights Agreement entered into as part of the offering, the company agreed to file a registration statement with the Securities and Exchange Commission within 60 days of the closing date covering the public resale of the shares of common stock underlying the debentures, and to use its best efforts to cause the registration statement to be declared effective within 180 days from the closing date. Should the number of shares of common stock the company is permitted to include in the initial registration statement be limited pursuant to Rule 415 of the Securities Act of 1933, the company further agreed to file additional registration statements with the SEC to register any remaining shares. The Company will pay all costs associated with the registration statements, other than underwriting commissions and discounts. The parties to the Registration Rights Agreement have agreed to defer the Company's obligation to file a registration statement until further notice by the holders of the convertible debt.

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From March 19, 2013 through October 4, 2013, the Company entered into promissory notes for an aggregate of \$65,600 in cash. The notes are unsecured, interest bearing at 10% per annum (18% upon default), and matured from September 19, 2013 through April 4, 2014. The notes were initially convertible at the option of the Company at a fixed price of \$0.20 per share.

In connection with the recapitalization, the holders of convertible debt in the original principal amount of \$65,600 agreed as part of the merger to limit the number of shares convertible pursuant to such debt and accrued interest into 40,000,000 shares of our common stock.

As of March 31, 2016, the Company has issued an aggregate of 19,820,000 shares of its common stock in settlement of \$32,245 of promissory notes.

8. DERIVATIVE LIABILITIES

As described in Note 7, the Company issued convertible notes that contain conversion features and reset provision. The accounting treatment of derivative financial instruments requires that the Company record fair value of the derivatives as of the inception date and to fair value as of each subsequent reporting date.

9. STOCKHOLDERS' DEFICIT

Preferred stock

The Company is authorized to issue 20,000,000 shares of \$0.0001 par value preferred stock as of March 31, 2016 and September 30, 2015. As of March 31, 2016, the Company has designated and sold 2,000,000 shares of Series A Preferred Stock.

Common stock

The Company is authorized to issue 500,000,000 shares of \$0.0001 par value common stock as of March 31, 2016 and September 30, 2015. As of March 31, 2016 and September 30, 2015, the Company had 81,020,404 and 63,044,404 common shares issued and outstanding, respectively.

During the six months ended March 31, 2016, the Company issued 16,876,000 shares of its common stock in settlement of \$27,719 of promissory notes.

During the six months ended March 31, 2016, the Company issued 600,000 shares of its common stock for consulting services valued at \$396,000.

During the six months ended March 31, 2016, the Company issued 500,000 shares of its common stock to acquire EXO on December 16, 2015 as discussed in Note 1.

Warrants

The following table summarizes information with respect to outstanding warrants to purchase common stock of the Company, all of which were exercisable, at March 31, 2016:

Exercise Price	Number Outstanding	Expiration Date
\$ 0.25	13,797,242	July 2018

In Connection with the merger agreement, the Company issued an aggregate of 13,797,242 warrants to acquire the Company's common stock at \$0.25 per share for a period of three years. 11,411,512 warrants were issued as part of the exchange consideration to acquire 100% of the common stock of Pizza Fusion and 2,385,730 shares were issued in exchange for previously issued and outstanding warrants of Pizza Fusion Holdings, Inc.

PF HOSPITALITY GROUP, INC.**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****MARCH 31, 2016**

A summary of the warrant activity for the six months ended March 31, 2016:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at September 30, 2015	13,797,242	\$ 0.25	3.00	\$-
Grants	-			
Exercised	-			
Canceled	-			
Outstanding at March 31, 2016	13,797,242	\$ 0.25	2.25	\$-
Vested and expected to vest at March 31, 2016	13,797,242	\$ 0.25	2.25	\$689,862
Exercisable at March 31, 2016	13,797,242	\$ 0.25	2.25	\$689,862

The aggregate intrinsic value in the preceding tables represents the total pretax intrinsic value, based on warrants with an exercise price less than the Company's stock price of \$0.30 as of March 31, 2016, which would have been received by the warrant holders had those warrant holders exercised their warrants as of that date.

10. COMMITMENTS AND CONTINGENCIESPlanned Joint Venture

In 2015, the Company formed Shaker & Pie, Inc., a Florida corporation that is expected to enter into a joint venture agreement with an unrelated third party that will own and operate the initial Shaker & Pie location. Shaker & Pie is a new interactive restaurant concept combining wood-fired pizzas with healthy, hearty Italian-influenced street food. Under the terms of the planned joint venture, the Company plans to own 51% of the joint venture entity. Prior to September 30, 2015, Shaker & Pie, Inc. was inactive. See, however, Note 13-Subsequent Events.

Debt assumption/indemnification

In connection with the merger on July 1, 2015, previous officers of PF Hospitality Group, Inc. assumed and indemnified the Company for an aggregate of \$590,990 outstanding debt, all of which was considered old, unidentified and considered due by the previous management.

Litigation

The Company is subject at times to legal proceedings and claims, which arise in the ordinary course of its business. Although occasional adverse decisions or settlements may occur, the Company believes that the final disposition of such matters should not have a material adverse effect on its financial position, results of operations or liquidity. There was no outstanding litigation as of March 31, 2016.

11. RELATED PARTY TRANSACTIONS

The Company's current and former officers and stockholders advance funds to the Company for travel related and working capital purposes. As of March 31, 2016 and September 30, 2015, there were no related party advances outstanding.

As of March 31, 2016 and September 30, 2015, accrued compensation due officers and executives included in accounts payable was \$718,311 and \$670,839, respectively.

PF HOSPITALITY GROUP, INC.**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****MARCH 31, 2016****12. FAIR VALUE MEASUREMENTS**

ASC 825-10 defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions, and risk of nonperformance. ASC 825-10 establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. ASC 825-10 establishes three levels of inputs that may be used to measure fair value:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2: Quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability; or

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and are unobservable.

Items recorded or measured at fair value on a recurring basis in the accompanying unaudited condensed consolidated financial statements consisted of the following items as of March 31, 2016:

	Level 1	Level 2	Level 3	Total
Long-term investments	\$ -	\$ -	\$-	\$-
Total	\$ -	\$ -	\$-	\$-
Derivative liabilities	\$ -	\$ -	\$627,387	\$627,387
Total	\$ -	\$ -	\$627,387	\$627,387

The table below sets forth a summary of changes in the fair value of the Company's Level 3 financial liabilities (derivative liability) for the six months ended March 31, 2016.

Six months ended March 31, 2016:

	Derivative Liabilities
Balance, April 1, 2015	\$-
Transfers in from equity the initial beneficial conversion feature	270,306
Adjustment to interest expense the excess of fair value of fair value of derivative liabilities	1,815,592
Mark-to-market at March 31, 2016:	(1,458,511)
Balance, March 31, 2016	\$627,387
Net gain for the period included in earnings relating to the liabilities held at March 31, 2016	\$1,458,511

Level 3 Liabilities were comprised of our bifurcated convertible debt features on our convertible notes (see Note 8).

13. SUBSEQUENT EVENTS

The Company terminated its plans to open its Shaker & Pie restaurant concept it intended to open in Boca Raton's Mizner Park because it recently became apparent that the landlord for the planned location would not be able to secure required approval for parking from the City of Boca Raton. The Company also terminated its efforts to enter into a joint venture with agreement with an unrelated third party who was expected to provide financing and marketing and operating assistance in this planned location.

ITEM 2 – MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Overview

Pizza Fusion

We are a management firm which creates, cultivates, and operates innovative and healthy lifestyle brands within the restaurant and retail industries. We focus on consumer food service concepts that is founded on a franchised and multi-unit business model in the retail, fast-casual, and casual restaurant sector. As the creator and current advisor organization of the all-natural and organic pizza franchise, Pizza Fusion, we are seeking to expand our innovative food service with an emphasis on sustainability and community impact. Currently with locations in selected markets in the United States, Saudi Arabia, and the United Arab Emirates, we are poised to rollout new concepts we plan to develop and manage.

We are exploring ways to broaden our reach into the hospitality space as we seek to add and develop brands from the natural and organic space into our current and planned locations and are respond to the changing demographics driven by millennials. As part of this effort, we granted Aramark Food and Support Services Group, Inc. (“Aramark”) the non-exclusive right to operate Pizza Fusion restaurants within Aramark’s U.S. network of colleges, universities, sports complexes, healthcare facilities and entertainment venues at locations to be agreed on by us and Aramark pursuant to a Test License Agreement. No locations to be operated under this agreement have been identified as of the date of this report.

In 2014 and the early part of 2015, we franchised two new Pizza Fusion locations in Dubai, UAE. Continuing to follow progress of our Pizza Fusion expansion of units within the Middle East, we plan to narrow our focus on the rebranding of the Pizza Fusion concept. Part of this effort will be building strong sales growth of existing restaurants with the introduction of new and innovative menu offerings. We are also looking into physical refurbishments to individual Pizza Fusion establishments, and assessing key investments in mobile technology designed to engage the brand’s growing, savvy audience. Pizza Fusion is a fast-casual pizza restaurant that utilizes primarily organic and all-natural ingredients. In addition to pizza, Pizza Fusion establishments serve appetizers, salads, sandwiches, desserts, natural sodas, teas, juices, beer and wine. Restaurants are typically 1,200 to 2,400 square feet. The average lunch check is \$8.00 per person and the average dinner check is \$11.00 per person.

During the three-month period ended March 31, 2016, the operator of the Pizza Fusion locations in Saudi Arabia closed four of the seven locations as a result of weakening demand stemming from reductions in discretionary spending due to continued world-wide reductions in the price of and demand for crude oil. As of the date of this

report, there are a total of 6 Pizza Fusion locations in the U.S., 2 in United Arab Emirates and 3 in Saudi Arabia.

EXO:EXO

Following our December 16, 2015 acquisition of EXO:EXO, Inc., (“EXO”), a designer and producer of active wear brands offered in national fitness retailers in the U.S., we sell the “Exosleeve” compression knee sleeves and other active wear products that are utilized in functional athletic fitness, powerlifting, Olympic weightlifting, endurance training, boot camps, circuit training programs, and strength training protocols, and are sold by major online retailers.

As part of our plans to expand this line of our business, on April 5, 2016 we announced the relaunch of EXO’s retail website www.exosleeve.com featuring athletic sleeves, wraps, workout gear and product information in a more user engaging way. Exosleeve is the brand name of EXO’s active wear product line. Since our December 2015 acquisition of EXO, we have been developing plans to introduce an innovative new line of active wear along with the relaunch of this website. Exo is the brand of choice for numerous elite functional fitness athletes including Olympic Gold Medalist, Anna Tunnicliffe of the 2008 US Sailing Team, Top 25 CrossFit Games athlete Brooke Ence and Noah Ohlsen who recently won the 2016 CrossFit Games Open. EXO has also recently begun selling its products through several online retailers to meet increasing demand for its Exosleeve branded active wear products.

Also, on April 7, 2016 we announced that 2016 NFL first round draft pick Keanu Neal signed a non-binding memorandum of understanding to become a brand ambassador for EXO's Athletic Brand division. Mr. Neal is considered "ultra-athletic and strong" and embodies the personal and athletic characteristics EXO's target market customer strives for. Mr. Neal will join EXO's other sponsored CrossFit athletes, Noah Ohlsen, who recently won 1st place in the 2016 CrossFit Games Open Men's Division and Brooke Ence who won third place in the Northern California Region of the 2016 CrossFit Games Open Women's Division.

We expect that this group will drive solid opportunities for expansion. We believe that leveraging our infrastructure and operations team will lead to potential acquisitions of undervalued brands in need of our managerial talent and cost control procedures.

Shaker & Pie

We terminated our plans to open our planned Shaker & Pie restaurant concept we intended to open in Boca Raton's Mizner Park because it recently became apparent that the landlord for the planned location would not be able to secure required approval for parking from the City of Boca Raton. We also terminated our efforts to enter into a joint venture with agreement with an unrelated third party who was expected to provide financing and marketing and operating assistance in this planned location. We are evaluating our plans on whether to identifying another location for this restaurant concept. .

Results of Operations

Three months Ended March 31, 2016 Compared to Three Months Ended March 31, 2015

Total Revenue. For three months ended March 31 2016, total revenue increased by \$67,641 to \$137,479 compared to \$69,838 in the same period in fiscal 2015. The increase in revenue for the three months ended March 31, 2016 was primarily related to a \$94,110 increase in sales from EXO which we acquired in December 2015, partially offset by a reduction of approximately \$26,469 in royalty income due to the closure of five Pizza Fusion locations in Saudi Arabia.

Cost of sales. Cost of sales was \$39,790 or 42% of related sales for the three months ended March 31, 2016 giving us a gross profit from sales of \$54,320 or 58%. We did not have sales/cost of sales for same period in 2015.

Total Operating Expenses. For three months ended March 31, 2016, total operating expenses increased 339.7% to \$664,133 compared to \$151,026 for same period in fiscal 2015. This increase was primarily due non-cash stock based compensation paid for investment banking and financial advisory services of \$396,000 in the current period as compared to \$-0- the prior year. In addition, our payroll and selling, general and administrative expenses increased by \$10,611 and \$51,347 due to our acquisition of EXO subsidiary.

Gain on change in fair value of derivative liabilities. During fiscal 2015 and 2016, we issued convertible notes with an embedded derivative, all requiring us to fair value the derivatives each reporting period and mark to market as a non-cash adjustment to our current period operations. This resulted in a gain of \$1,458,511 and \$-0- on change in fair value of derivative liabilities for the three months ended March 31, 2016 and 2015, respectively.

Litigation settlement. During the three months ended March 31, 2015, we received \$102,500 in litigation settlement as compared to \$-0- for the current period.

Interest expense. Interest expense for the three months ended March 31, 2016 primarily represents amortization of debt discounts related to our issued convertible notes of \$16,809 as compared to \$-0- for same period last year.

Net Income. As a result of the above, the net income for three months ended March 31, 2016 increased \$853,946, or 4006.9 %, to \$875,258 compared to \$21,312 in the same period, last year.

Six months Ended March 31, 2016 Compared to Six Months Ended March 31, 2015

Total Revenue. For six months ended March 31 2016, total revenue increased by \$47,495 to \$169,723 compared to \$122,228 in the same period in fiscal 2015. The increase in revenue for the six months ended March 31, 2016 was primarily related to a \$96,277 increase in sales from EXO which we acquired in December 2015, partially offset by a reduction of approximately \$48,782 in royalty income due to the closure of four Pizza Fusion locations in Saudi Arabia and the two units that left the franchise system as part of a settlement in fiscal 2015.

Cost of sales. Cost of sales was \$40,288 or 41.8% of related sales for the six months ended March 31, 2016 giving us a gross profit from sales of \$55,989 or 58.2%. We did not have sales/cost of sales for same period in 2015.

Total Operating Expenses. For six months ended March 31, 2016, total operating expenses increased 184.4% to \$839,547 compared to \$295,224 for same period in fiscal 2015. This increase was primarily due non-cash stock based compensation paid for investment banking and financial advisory services of \$396,000 in the current period as compared to \$-0- the prior year. In addition, our payroll and selling, general and administrative expenses increased by \$10,611 and \$51,347 due to our acquisition of EXO subsidiary. Lastly we incurred additional selling, general and administrative expense due to our acquisition of Pizza Fusion Holdings, Inc., SEC reporting obligations and compliance with our SEC filing obligations

Gain on change in fair value of derivative liabilities

During fiscal 2015 and 2016, we issued convertible promissory notes with an embedded derivative, all requiring us to fair value the derivatives each reporting period and mark to market as a non-cash adjustment to our current period operations. This resulted in a gain of \$1,458,511 and \$-0- on change in fair value of derivative liabilities for the six months ended March 31, 2016 and 2015, respectively.

Interest expense. During the six months ended March 31, 2016, we had outstanding convertible debentures with an embedded derivative, at December 31, 2015, we determined a market had been established for our common stock and accordingly, reclassified from equity to liability treatment the initial previously recorded beneficial conversion feature of the conversion provision of \$270,306 and recorded an interest charge of \$1,815,592 in establishing the initial fair value of the conversion option. In addition, we amortized debt discounts associated with our issued convertible notes of \$30,785 for the six months ended March 31, 2016 as compared to \$-0- for same period last year.

Net Loss. As a result of the above, the net loss for six months ended March 31, 2016 increased \$1,034,058, or 1508.4 %, to \$1,102,612 compared to \$68,554 in the same period, last year.

Liquidity and Capital Resources

Liquidity is the ability of an enterprise to generate adequate amounts of cash to meet its needs for cash requirements.

Six Months Ended March 31, 2016 Compared to Six Months Ended March 31, 2015

As of March 31, 2016, our working capital deficit amounted to \$1,116,759, an increase of \$172,269 as compared to working capital deficit of \$944,490 as of September 30, 2015. This increase is primarily a result of a \$134,384 reduction in total current assets and by a \$37,885 increase in current liabilities. Working capital at March 31, 2016 included primarily cash and cash equivalents of \$57,482, accounts and royalty receivables of \$26,808, inventory of 24,427, vendor deposits of \$29,148 and prepaid and other current assets of \$21,022, offset by accounts payable and accrued liabilities of \$ 969,294, advances of \$218,361, convertible notes payable of \$37,991 and \$50,000 of notes payable.

Cash used in operating activities of \$330,640 during six months ended March 31, 2016 was primarily attributable to a net loss of \$1,102,612, partially offset by non-cash interest of \$1,815,592, depreciation and amortization of \$39,810, stock based compensation of \$396,000, offset by gain on change in derivative liability of \$1,458,511 and changes in operating assets and liabilities of \$20,919.

Cash used in investing activities was \$47,163 during six months ended March 31, 2016 comprised of \$22,163 net cash component of the acquisition of EXO and purchase of property and equipment principally related to design and related costs associated with a planned new restaurant of \$25,000.

Cash provided by financing activities of \$162,500 during six months ended March 31, 2016 was attributable to proceeds from issuance of convertible notes of \$150,000 and advances of \$12,500 from the Company's prospective joint venture partner for the proposed Shaker & Pie restaurant. Cash provided by financing activities of \$106,500 during six months ended March 31, 2015 was attributable to proceeds from advances.

Capital Resources

We expect to incur a minimum of \$500,000 in expenses during the next twelve months of operations as we expand our EXO operations, acquisition of new restaurant concepts and manage our current franchise operations. We estimate that this will be comprised of approximately \$300,000 towards inventory and marketing costs and approximately \$200,000 will be needed for general overhead expenses such as for corporate legal and accounting fees, office overhead and general working capital.

We have not determined the amount of funds needed to finance our growth plans. We plan to fund these costs from the proceeds of our \$1.3 million principal amount convertible debentures. In the event we run into cost overruns or lower than anticipated revenues, we will have to raise the funds to pay for these expenses. We potentially will have to issue debt or equity, obtain capital from our joint venture partner or enter into a strategic arrangement with other third parties.

There can be no assurance that additional capital will be available to us. Other than the remaining \$698,000 principal amount due us under our outstanding convertible debentures and our discussions with the investors in that offering to continue funding this amount, we currently have no agreements, arrangements or understandings with any person to obtain funds through bank loans, lines of credit or any other sources. Since we have no other such arrangements or plans currently in effect, our inability to raise funds for the above purposes that exceed our current working capital and the future amounts funded under our convertible debentures will have a severe negative impact on our ability to remain a viable company.

Off-Balance Sheet Arrangements

As of March 31, 2016, Pizza Fusion did not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on its financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors. The term “off-balance sheet arrangement” generally means any transaction, agreement or other contractual arrangement to which an entity unconsolidated with us is a party, under which we have any obligation arising under a guarantee contract, derivative instrument or variable interest or a retained or contingent interest in assets transferred to such entity or similar arrangement that serves as credit, liquidity or market risk support for such assets.

Auditor’s Opinion Expresses Doubt About the Company’s Ability to Continue as a “Going Concern”

The independent auditor's report on our September 30, 2015 consolidated financial statements states that the Company's historical losses and accumulated deficiency raise substantial doubts about the Company's ability to continue as a going concern, due to the losses incurred and deficiency. If we are unable to develop our business, we will have to reduce, discontinue operations or cease to exist, which would be detrimental to the value of the Company's common stock. We can make no assurances that our business operations will develop and provide us with significant cash to continue operations.

In order to continue as a going concern, we will need, among other things, additional capital resources. Management's plan is to obtain such resources for our capital needs by obtaining capital from management and significant shareholders sufficient to meet its operating expenses and planned expansion and seeking equity and/or debt financing. However, management cannot provide any assurances that we will be successful in accomplishing any of our plans.

Our ability to continue as a going concern is dependent upon our ability to successfully accomplish the plans described in the preceding paragraph and eventually secure other sources of financing and attain profitable operations. The accompanying financial statements do not include any adjustments that might be necessary if we were unable to continue as a going concern.

Critical Accounting Policies

We have identified the following policies below as critical to its business and results of operations. Our reported results are impacted by the application of the following accounting policies, certain of which require management to make subjective or complex judgments. These judgments involve making estimates about the effect of matters that are inherently uncertain and may significantly impact quarterly or annual results of operations. For all of these policies, management cautions that future events rarely develop exactly as expected, and the best estimates routinely require adjustment. Specific risks associated with these critical accounting policies are described in the following paragraphs.

Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Impairment of Long-Lived Assets. The Company continually monitors events and changes in circumstances that could indicate carrying amounts of long-lived assets may not be recoverable. When such events or changes in circumstances are present, the Company assesses the recoverability of long-lived assets by determining whether the carrying value of such assets will be recovered through undiscounted expected future cash flows. If the total of the future cash flows is less than the carrying amount of those assets, the Company recognizes an impairment loss based on the excess of the carrying amount over the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or the fair value less costs to sell.

Fair value of Financial Instruments. The fair value of cash and cash equivalents, royalties receivable, prepaid expenses and other assets, accounts payable and accrued liabilities, deferred income, approximates the carrying amount of these financial instruments due to their short-term nature. The fair value of long-term debt, which approximates its carrying value, is based on current rates at which we could borrow funds with similar remaining maturities.

Derivative Liability. The Company accounts for derivatives in accordance with ASC 815, which establishes accounting and reporting standards for derivative instruments and hedging activities, including certain derivative instruments embedded in other financial instruments or contracts and requires recognition of all derivatives on the balance sheet at fair value, regardless of hedging relationship designation. Accounting for changes in fair value of the derivative instruments depends on whether the derivatives qualify as hedge relationships and the types of relationships designated are based on the exposures hedged. At March 31, 2016 and September 30, 2015, the Company did not have any derivative instruments that were designated as hedges.

Stock-based Compensation. The Company follows the provisions of ASC 718 which requires all share-based payments to employees, including grants of employee stock options, to be recognized in the statement of operations based on their fair values. The Company uses the Black-Scholes pricing model for determining the fair value of stock-based compensation.

Revenue Recognition Revenue is recognized when persuasive evidence of an arrangement exists, delivery of the product or service has occurred, all obligations have been performed pursuant to the terms of the agreement, the sales price is fixed or determinable, and collectability is reasonably assured.

Royalty income

In connection with its franchising operations, the Company receives initial franchise fees, area development fees, franchise deposits and royalties which are based on sales at franchised restaurants.

Franchise fees, which are typically received prior to completion of the revenue of the revenue recognition process, are deferred when received. Such fees are recognized as income when substantially all services to be performed by the Company and conditions related to the sale of the franchise have been performed or satisfied, which generally occurs when the franchised restaurant commences operations.

Development agreements require the developer to open a specified number of restaurants in the development area within a specified time period or the agreements may be cancelled by the Company. Fees from development agreements are deferred when received and recognized as income as restaurants in the development area commence operations on a pro rata basis to the minimum number of restaurants required to be open.

Deferred franchise fees and development fees are classified as current or long term in the financial statements based on the projected opening date of the restaurants. Royalty fees, which are based upon a percentage of franchise sales, are made by the franchisee.

Sales

Sales are generated from an online process either through a web site or through third party providers such as Amazon. Collections are received at the point of sales.

During the six months ended March 31, 2016, sales were comprised of sports products from the Company's wholly owned subsidiary, EXO:EXO, Inc.

Recent Accounting Pronouncements

We implemented all new accounting standards that are in effect and that may impact its consolidated financial statements. We do not believe that there are any other new accounting pronouncements that have been issued that might have a material impact on the consolidated financial position or results of operations.

ITEM 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4 – CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act that are designed to ensure that information required to be disclosed in our reports filed or submitted to the SEC under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, and that information is accumulated and communicated to management, including our Chief Executive Officer and President who acts as our chief financial and accounting officer, as appropriate, to allow timely decisions regarding required disclosures. Our Chief Executive Officer and President evaluated the effectiveness of disclosure controls and procedures as of March 31, 2016 pursuant to Rule 13a-15(b) under the Exchange Act. Based on that evaluation, our Chief Executive Officer and President concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were not effective to ensure that information required to be included in our periodic SEC filings is recorded, processed, summarized, and reported within the time periods specified in the SEC rules and forms.

Management identified the following material weakness and significant deficiencies in its disclosure controls and procedures as of March 31, 2016:

Material Weakness – The Company did not maintain effective controls over certain aspects of the financial reporting process because we lacked a sufficient complement of personnel with a level of accounting expertise and an adequate supervisory review structure that is commensurate with our financial reporting requirements.

Significant Deficiencies – Inadequate segregation of duties.

We expect to be materially dependent upon a third party to provide us with accounting consulting services for the foreseeable future. Until such time as we have a chief financial officer with the requisite expertise in U.S. GAAP, there are no assurances that the material weaknesses and significant deficiencies in our disclosure controls and procedures and internal control over financial reporting will not result in errors in our financial statements which could lead to a restatement of those financial statements.

Our management, including our Chief Executive Officer and President, does not expect that our disclosure controls and procedures or our internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Due to the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected.

Changes in Internal Control over Financial Reporting

No changes were made to our internal control over financial reporting during the three months ended March 31, 2016 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

Occasionally, we may be involved in litigation matters relating to claims arising from the ordinary course of business. We do not believe that there are any claims or actions pending or threatened against us, the ultimate disposition of which would have a material adverse effect on our business, results of operations and financial condition.

ITEM 1A – RISK FACTORS

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

ITEM 2 – UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

During the three months ended March 31, 2016, the Company converted debt and accrued interest totaling \$3,281 into 2,000,000 shares of its common stock.

These shares of our common stock were issued in reliance on the exemption from registration provided by Section 3(a)(9) of the Securities Act of 1933, as amended (the “Securities Act”).

ITEM 3 – DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4 – MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5 – OTHER INFORMATION

None.

ITEM 6 – EXHIBITS

Banking Engagement Agreement between PF Hospitality Group, Inc. and Newbridge Securities Corporation
10.1 dated February 29, 2016 (Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed with the SEC on March 3, 2016).

31.1 Certification of Principal Executive Officer pursuant to 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Principal Financial Officer pursuant to 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of the Principal Financial Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of the Principal Financial Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Schema

101.CAL XBRL Taxonomy Calculation Linkbase

101.DEF XBRL Taxonomy Definition Linkbase

101.LAB XBRL Taxonomy Label Linkbase

101.PRE XBRL Taxonomy Presentation Linkbase

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
<i>/s/ Vaughan Dugan</i> Vaughan Dugan	Chief Executive Officer and Director (principal executive officer)	May 20, 2016
<i>/s/ Randy Romano</i> Randy Romano	President and Director (principal financial and accounting officer)	May 20, 2016

