10-Q 1 uvend-10q_033116.htm QUARTERLY REPORT

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 March 31, 2016

o 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: 333-165972

U-VEND, INC.
(Exact name of registrant specified in its charter)

Delaware	22-3956444
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1507 7th STREET, #425
SANTA MONICA, CALIFORNIA 90401
(Address of principal executive offices)

(800) 467-1496
(Registrant's telephone number)

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 such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

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 x No o

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

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o (Do not check if smaller reporting company)	Smaller reporting company x

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

The number of shares outstanding of the registrant's Common Stock, $0.001 par value per share, was 18,198,816, as of May 23, 2016.

U-VEND, INC.

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Item 1. Financial Statements (unaudited)

U-VEND, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	As of March 31, 2016 (unaudited)	As of December 31, 2015
ASSETS		
Current assets:		
Cash	$ 78,990	$ 139,677
Accounts receivable	13,504	3,807
Inventory (net)	59,000	46,979
Prepaid expenses and other assets	56,633	79,548
Total current assets	208,127	270,011
Noncurrent assets:		
Property and equipment (net)	750,069	747,298
Security deposits	17,186	16,018
Other assets (net)	157,613	70,010
Intangible asset (net)	238,701	260,401
Goodwill	642,340	642,340
Total noncurrent assets	1,805,909	1,736,067
Total assets	$ 2,014,036	$ 2,006,078
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
Current liabilities:		
Accounts payable	$ 324,506	$ 254,946
Accrued expenses	152,212	156,484
Accrued interest	164,070	121,080
NHL sponsorship liability	439,189	316,997
Registration rights liability	22,156	22,156
Amounts due to officers	694,381	624,307
Senior convertible notes, net of discount	—	372,498
Promissory notes payable	641,762	479,576
Convertible notes payable, net of discount	752,351	744,807
Current capital lease obligation	104,018	90,783
Total current liabilities	3,294,645	3,183,634
Noncurrent liabilities:		
Senior convertible notes, net of discount	372,498	—
Capital lease obligation, net of discount	200,192	207,703
Warrant liabilities	281,755	310,960
Total noncurrent liabilities	854,445	518,663
Total liabilities	4,149,090	3,702,297
Commitments and contingencies		
Stockholders' deficiency:		
Common stock, $.001 par value, 600,000,000 shares authorized, 18,198,816 shares issued and outstanding (18,148,816 - 2015)	18,198	18,148
Additional paid-in capital	4,162,651	4,113,055
Accumulated deficit	(6,315,903)	(5,827,422)
Total stockholders' deficiency	(2,135,054)	(1,696,219)

Total liabilities and stockholders' deficiency	$ 2,014,036	$ 2,006,078

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

U-VEND, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	For the three months ended March 31, 2016	For the three months ended March 31, 2015
Revenue	$ 293,542	$ 124,749
Cost of revenue	143,616	80,548
Gross profit	149,926	44,201
Operating expenses:		
Selling	302,024	153,699
General and administrative	273,577	324,970
	575,601	478,669
Operating loss	(425,675)	(434,468)
Other (income) expense, net		
Gain on change in fair value of debt and warrant liabilities	(29,205)	(24,992)
Amortization of debt discount and deferred financing costs	26,931	51,796
Interest expense	56,665	46,339
Unrealized loss (gain) on foreign currency	8,415	(16,779)
	62,806	56,364
Net loss	$ (488,481)	$ (490,832)
Net loss per share- basic and diluted	$ (0.03)	$ (0.05)
Weighted average common shares outstanding - basic and diluted	18,198,267	10,684,843

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

U-VEND, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the three months ended March 31, 2016	For the three months ended March 31, 2015
Cash flows from operating activities:		
Net loss	$ (488,481)	$ (490,832)
Adjustments to reconcile net loss to net cash used by operating activities:		
Stock based compensation	42,646	10,133
Gain on fair value of warrant liabilities	(29,205)	(19,592)
Common shares issued for lease obligation	—	14,105
Common shares and warrants issued for services	—	11,350
Depreciation	35,250	30,442
Amortization of intangible assets	21,700	21,700
Amortization of debt discount and deferred financing costs	26,931	51,796
Accretion and reversal of contingent consideration liability	—	22,160
Unrealized loss (gain)on foreign currency	8,415	(16,779)
Convertible notes payable fair value adjustment	—	(5,400)
(Increase) decrease in assets:		
Accounts receivable	(9,697)	(4,600)
Inventory	(12,021)	(14,423)
Prepaid expenses and other assets	21,747	59,035
Increase in liabilities:		
Accounts payable and accrued expenses	187,480	108,166
Accrued interest	40,512	19,374
Amount due to officers	70,074	54,902
Net cash used by operating activities	(84,649)	(148,463)
Cash flows from investing activities:		
Purchase of property and equipment	(38,021)	(8,904)
Net cash used by investing activities	(38,021)	(8,904)
Cash flows from financing activities:		
Proceeds from common stock warrant exercises	—	40,000
Proceeds from convertible notes, net of financing costs	—	64,180
Proceeds from promissory notes	178,800	25,000
Principal repayments of promissory notes	(16,817)	—
Deferred financing costs paid	(100,000)	—
Net cash provided by financing activities	61,983	129,180
Net decrease in cash	(60,687)	(28,187)
Cash - beginning of period	139,677	73,396
Cash - end of period	$ 78,990	$ 45,209
Cash paid for :		
Interest	$ 15,000	$ 11,841
Non-cash investing and financing activities:		
Debt discount related to warrant liability and beneficial conversion feature	$ —	$ 2,091
Issuance of common stock to satisfy capital lease obligation	$ —	$ 68,177
Issuance of common shares and warrants as debt financing cost	$ 7,000	$ —
Conversion of senior convertible notes into common stock	$ —	$ 5,000

Equipment, inventory and coin financed with debt	$ —	$ 65,750

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

U-VEND, INC.
Notes to the Condensed Consolidated Financial Statements
March 31, 2016 (Unaudited)

NOTE 1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company entered the business of developing, marketing and distributing various self-serve electronic kiosks and mall/airport co-branded islands throughout North America with the merger with U-Vend Canada, Inc. on January 7, 2014. The Company seeks to place its kiosks in high-traffic host locations such as big box stores, restaurants, malls, airports, casinos, universities, and colleges. Currently, the Company leases, owns and operates their kiosks but intends to also provide the kiosks, through a distributor relationship, to the entrepreneur wanting to own their own business.

The Company's vending kiosks incorporate advanced wireless technology, creative concepts, and ease of management. The Company's kiosks have been designed to be tech-savvy and can be managed on line 24 hours a day/7 days a week, accepting traditional cash input as well as credit and debit cards. Host locations and suppliers have been drawn to this distribution concept of product vending based on the advantages of reduced labor and lower product theft as compared to non-kiosk merchandising platforms. The Company takes a solutions development approach for the marketing of products through a variety of kiosk offerings. The Company's approach to the market can include the addition of a digital LCD monitor to most makes and models in a kiosk program. This would allow the Company to offer digital advertising as a national and/or local loop basis and a corresponding additional revenue stream for the Company.

Management's plans

The accompanying unaudited condensed consolidated financial statements have been prepared on a going concern basis. The Company incurred a loss of $488,481 during the three months ended March 31, 2016, has incurred accumulated losses totaling $6,315,903, and has a working capital deficit of $3,086,518 at March 31, 2016. These factors, among others, indicate that the Company may be unable to continue as a going concern. The condensed consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

To fund the Company's operations for the next 12 months, to allow the Company to continue the development of its business plans and satisfy its obligations on a timely basis the Company needs to raise additional financing. Should additional financing not be available, the Company will have to negotiate with its lenders to extend the repayment dates of its indebtedness. There can be no assurance that the Company will be able to successfully restructure its debt obligations in the event it fails to obtain additional financing.

On January 7, 2014, U-Vend, Inc. (formerly Internet Media Services, Inc. ("IMS")) entered into an Exchange of Securities Agreement with U-Vend Canada, Inc., and the shareholders of U-Vend Canada, Inc. ("U-Vend Canada") The Company believes the merger with U-Vend Canada will provide it with business operations and also working capital. The Company is in discussion to raise additional capital to execute on its current business plans. There is no assurance that future financing arrangements will be successful or that the operating results of U-Vend, Inc. will yield sufficient cash flow to execute the Company's business plans or satisfy its obligations. The accompanying condensed consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis of Presentation - The accompanying condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information. Accordingly, these statements do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, the accompanying condensed consolidated balance sheets and related condensed consolidated statements of operations and cash flows include all adjustments, consisting only of normal recurring items necessary for their fair presentation in accordance with U.S. generally accepted accounting principles. Interim results are not necessarily indicative of results expected for a full year. For further information regarding the Company's accounting policies, please refer to the audited consolidated financial statements and footnotes for the year ended December 31, 2015 included in the Company's 10-K annual report filed with the SEC on April 28, 2016.

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States (U.S. GAAP), 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 materially from those estimates and assumptions.

Principles of Consolidation - The condensed consolidated financial statements include the accounts of U-Vend, Inc. (formerly Internet Media Services, Inc.), and the operations of U-Vend America, Inc., U-Vend Canada, Inc. and its wholly owned subsidiary, U-Vend USA LLC. All intercompany balances and transactions have been eliminated in consolidation.

Common Shares Issued and Earnings Per Share - Common shares issued are recorded based on the value of the shares issued or consideration received, including cash, services rendered or other non-monetary assets, whichever is more readily determinable. The Company presents basic and diluted earnings per share. Basic earnings per share reflect the actual weighted average of shares issued and outstanding during the period. Diluted earnings per share are computed including the number of additional shares that would have been outstanding if dilutive potential shares had been issued. In a loss period, the calculation for basic and diluted earnings per share is considered to be the same, as the impact of potential common shares is anti-dilutive.

As of March 31, 2016, there were approximately 44.9 million (44.3 million at March 31, 2015) shares potentially issuable under convertible debt agreements, options, and warrants that could dilute basic earnings per share in the future that were excluded from the calculation of diluted earnings per share because their inclusion would have been anti-dilutive to the Company's losses during the periods presented.

Fair Value of Financial Instruments- Financial instruments include cash, accounts receivable, accounts payable, accrued expenses, derivative warrant liabilities, promissory notes payable, capital lease obligation, convertible notes payables, and senior convertible notes payable. Fair values were assumed to approximate carrying values for these financial instruments, except for derivative warrant liabilities, convertible notes payable and senior convertible notes payable, since they are short term in nature or they are payable on demand. The senior convertible notes and the convertible notes payable are recorded at face value net of any unamortized discounts, based upon the number of underlying convertible shares. The estimated fair value of the convertible notes is determined based on the trading price on March 31, 2016 since the underlying shares are trading in an active observable market, the fair value measurement qualifies as a Level 1 input. Certain convertible notes payable are recorded at fair value at March 31, 2016. (See Note 2). The determination of the fair value of the derivative warrant liabilities include unobservable inputs and is therefore categorized as a Level 3 measurement. Changes in unobservable inputs may result in significantly higher or lower fair value measurement.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FASB ASC 820 "Fair Value Measurement" establishes a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). These tiers include:

- Level 1, defined as observable inputs such as quoted prices for identical instruments in active markets;
- Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable such as quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active; and
- Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions, such as valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

Reclassifications - Certain prior period amounts in the accompanying condensed consolidated financial statements have been reclassified to current period presentation. These reclassifications had no effect on the results of operations or cash flows for the periods presented.

Accounting Pronouncements – FASB ASU 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory. This ASU requires inventory within the scope of the guidance be measured at the lower of cost or net realizable value. FASB ASU 2015-11 is effective for annual and interim periods beginning after December 15, 2016, with prospective application required. Early adoption is permitted. The Company is evaluating the potential impact of this ASU on the consolidated financial statements.

In May 2014, the FASB issued new accounting guidance on revenue from contracts with customers, ASU 2014-09. The new guidance requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods and services to customers. The updated guidance will replace most existing revenue recognition guidance in GAAP when it becomes effective. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company is currently evaluating the effect the updated standard will have on the consolidated financial statements and related disclosures.

In August 2014, the FASB issued ASU No. 2014-15, "Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern." The guidance requires an entity to evaluate whether there are conditions or events, in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued and to provide related footnote disclosures in certain circumstances. The guidance is effective for the annual period ending after December 15, 2016, and for annual and interim periods thereafter. Early application is permitted. The Company does not believe the adoption of this ASU will have a significant impact on its consolidated financial statements.

In February 2016, the FASB issued an accounting standard update ASU 2016-02, "Leases", which requires that lease arrangements longer than 12 months result in an entity recognizing an asset and liability. ASU 2016-02 is effective for interim and annual periods beginning after December 15, 2018, and early adoption is permitted. The Company has not yet evaluated nor has it determined the effect of the standard on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, "Compensation — Stock Compensation: Improvements to Employee Share-Based Payment Accounting." The standard is intended to simplify several areas of accounting for share-based compensation arrangements, including the income tax impact, classification on the statement of cash flows and forfeitures. ASU 2016-09 is effective for the Company on January 1, 2017 and the Company is currently evaluating the impact that ASU 2016-09 will have on its consolidated financial statements and related disclosures.

In April 2016, the FASB issued ASU 2016-10, "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing" to clarify two aspects of Topic 606: (i) identifying performance obligations and (ii) the licensing implementation guidance, while retaining the related principles for those areas. The Company is evaluating the impact, if any, the adoption of this standard will have on the consolidated financial statements and related disclosures.

NOTE 2. DEBT

Senior Convertible Notes

The Company entered into a Securities Purchase Agreement ("2013 SPA") dated June 18, 2013 with Cobrador Multi-Strategy Partners, LP ("Investor" or "Cobrador") pursuant to Cobrador providing an aggregate of $400,000 financing through senior convertible notes and warrants. At March 31, 2016, total outstanding Senior Convertible Notes had a face value and carrying value of $372,498 ($372,498 at December 31, 2015) as the debt discounts are completely amortized. Pursuant to 2013 SPA, there were an aggregate of 11.2 million Series A Warrants expiring at various dates between June 2016 and November 2017 and an aggregate of 12 million Series B Warrants expiring at various dates between June 2018 and November 2019.

During the three months ended March 31, 2016, the terms of the convertible notes were extended until December 31, 2017. Pursuant to the extension the maturity of the convertibles notes are for more than one year as of March 31, 2016 and accordingly are reclassified as noncurrent liabilities. In connection with the extension, the Company extended the expiration dates of Series A Warrants by one year. The fair value of the Series A Warrants did not materially change due to the extension.

Promissory Notes Payable

In March 2016, the Company issued three unsecured promissory notes and borrowed an aggregate amount of $155,000. The promissory notes bear interest at 10% per annum, with a provision for an increase in the interest rate upon an event of default as defined therein, and are due at various due dates in May 2016.

In addition, during the three months ended March 31, 2016, the Company borrowed an aggregate of $23,800 pursuant to two unsecured promissory notes. The notes bear interest at 19% and the borrowings are payable together with interest over a period of six months from the date of borrowing. The Company repaid an aggregate of $16,816 of borrowings during the three months ended March 31, 2016 and the balance outstanding on these notes at March 31, 2016 was $18,067 ($11,083 at December 31, 2015).

In January and October 2015, the Company entered into two separate 24 month equipment financing agreements with Perkin Industries, LLC ("the Lender") for equipment in the aggregate amount of $137,750 with an annual interest rate of 15%. The Lender received an aggregate of 110,200 warrants with an exercise price of $0.35 per share and a term of three years in connection with this financing which was recorded as a debt discount and derivative warrant liability due to the "down round provision" in the amount of $1,237. During the three months ended March 31, 2016, the Company amortized debt discount of $293 and the carrying value of this financing is $137,457, net of $203 debt discount, at March 31, 2016. The fair value of the warrant liability related to Perkin equipment financing obligations was $2,636 as of March 31, 2016 ($2,920 December 31, 2015).

As of March 31, 2016 one promissory note in the face amount of $10,000 is currently due for repayment. The Company is in discussion with the note holder for an extension of the repayment date, however, as of May 23, 2016 no agreement has been reached.

Convertible Note Payable

The Company has two convertible 18% notes, payable in Canadian dollars that were acquired in connection with the U-Vend Canada merger on January 7, 2014. As of March 31, 2016 these convertible notes have a carrying value of $96,250. During the three months ended March 31, 2016, the Company recorded an unrealized loss on foreign currency translation related to these notes and the related accrued interest of $8,415. During the three months ended March 31, 2015, the Company recorded an unrealized gain on foreign currency translation related to these notes and the accrued interest of $16,779.

During the year ended December 31, 2015, the Company issued eleven 9.5% subordinated convertible notes aggregating $441,000 pursuant to 2015 Stock Purchase Agreement (2015 SPA). In connection with these borrowings, the Company granted a total of 735,002 warrants with an exercise price of $0.40 per share and 5 year terms. The Company allocated $8,113 of proceeds received to debt discount based on the computed fair value of the convertible notes and warrants issued. During the three months ended March 31, 2016 the Company recorded $1,411 as amortization of debt discount on the 2015 SPA subordinated convertible notes. As of March 31, 2016, outstanding 2015 SPA notes had a face value of $441,000 ($441,000 at December 31, 2015) and are presented net of debt discount of $898 ($2,309 at December 31, 2015) resulting in a carrying value of $440,102 ($438,691 at December 31, 2015).

As of March 31, 2016 six convertible notes payable with a face amount of $256,250 ($175,313 at December 31, 2015) are currently due for repayment. The terms of the notes, amongst other things, provide for payment of additional interest if repayments are not made on due dates. The Company is in discussion with the note holders for an extension of the repayment date, however, as of May 23, 2016 no agreement has been reached. Additional interest payable, if any, on the notes as of March 31, 2016 was immaterial.

Other Assets -Deferred Financing Costs

Financing costs associated with the Senior Secured Convertible Notes, certain of the Subordinated Convertible Notes payable and planned financing are included in deferred financing costs on the condensed consolidated balance sheets at March 31, 2016 and December 31, 2015. These costs are amortized over the term of the respective notes. The Company incurred approximately $107,000 of financing costs during the three months ended March 31, 2016, including $7,000 related to maturity extensions of a convertible note paid in shares of the Company's common stock. Amortization of financing costs for the three months ended March 31, 2016 and 2015 was $19,397 and $19,382, respectively. As of March 31, 2016, Other Assets balance includes $150,000 ($50,000 at December 31, 2015) financing costs incurred with respect to a planned financing that has not been completed.

NOTE 3. STOCKHOLDERS' DEFICIENCY

During the three months ended March 31, 2016, the Company granted options to acquire 20,000 shares of its common shares pursuant to the Company's Stock Option plan.

During the three months ended March 31, 2016, $42,646 ($10,133 in 2015) was charged to operations as stock based compensation costs for the options and the restricted shares granted.

During the three months ended March 31, 2016, the Company issued 50,000 shares of common stock with a fair value of $7,000 to a note holder to extend the maturity date of the note.

At March 31, 2016 the Company had the following warrant securities outstanding:

	Warrants	Exercise Price		Expiration
2011 Private placement warrants	12,500	$	60.00	March 2018
2013 Series A warrants Senior convertible notes	5,200,000	$	0.05	June 2017-December 2017
2013 Series B warrants Senior convertible notes	6,000,000	$	0.06	June 2018-December 2018
2013 Issued with lease obligation	861,250	$	0.12	October 2016
2014 Series A warrants Senior convertible notes	6,000,000	$	0.05	January 2018-December 2018
2014 Series B warrants Senior convertible notes	6,000,000	$	0.06	January 2019-November 2019
2014 Warrants for services	420,000	$	0.35	August 2019-December 2019
2014 Warrants for services	240,000	$	0.05	April 2016-December 2016
2014 Warrants for services	1,184,000	$	0.06	June 2018-December 2018
2014 Issued to Director for debt	729,166	$	0.24	November 2016-July 2017
2014 Issued with 2014 SPA convertible debt	243,334	$	0.35	August 2019-December 2019
2014 Issued with equipment financing obligation	200,000	$	0.35	October 2017
2014 issued with lease obligation	246,563	$	0.20	March 2017

2014 issued with lease obligation	483,889	$	0.18	May 2017
2014 Issued with promissory note	41,667	$	0.18	May 2017
2015 Issued with 2014 SPA convertible debt	116,668	$	0.35	January 2020-March 2020

2015 Issued with convertible financing obligation	110,200	$	0.35	January 2018-October 2018
2015 Issued for services	407,067	$	0.40	April 2020-November 2020
2015 Issued with 2015 SPA convertible debt	735,001	$	0.40	April 2020- September 2020
2015 Warrants issued for equipment	200,000	$	0.35	January 2020
2015 Warrants issued with sale of common shares	779,413	$	0.30	December 2017
	30,210,718			

During the three months March 31, 2016, 1,100,815 warrants expired unexercised.

NOTE 4. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table provides a summary of changes in derivative warrant liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended March 31, 2016 and the year ended December 31, 2015.

	March 31, 2016	December 31, 2015
Balance at beginning of period	$ 310,960	$ 309,993
Allocation of proceeds related to convertible and promissory notes to derivative liabilities due to "down round" provision	—	38,282
Reclassification of warrant liability as additional paid in capital upon exercise of warrants	—	(3,534)
Equipment purchased with warrants classified as derivative liabilities due to "down round" provision	—	50,100
Unrealized gain on fair value adjustment	(29,205)	(83,881)
	$ 281,755	$ 310,960

The fair value of warrants outstanding at March 31, 2016 and December 31, 2015 has been determined based on the consideration of the enterprise value of the Company, the limited market of the shares issuable under the agreement and modeling of the Monte Carlo simulation using multiple volatility assumptions. Warrants issued in and prior to 2012 are significantly out of the money and diluted therefore, management has deemed the fair value of these to be de minimis. Due to certain unobservable inputs in the fair value calculations of the warrants, derivative warrant liabilities are classified as Level 3.

NOTE 5. SUBSEQUENT EVENTS

Subsequent to March 31, 2016 the Company entered into a license agreement beginning January 1, 2016 through December 31, 2018 with a third party for the non-exclusive right to certain proprietary intangible property of the Licensor to be used in connection with the manufacturing, distribution, promotion and advertisement of the Company's products sold within the U.S., the District of Columbia and U.S. territories. Under the license agreement, the Company is scheduled to pay the following guaranteed payments; $25,000 on April 15, 2016, $25,000 on July 15, 2016, $100,000 on October 15, 2016, $275,000 during 2017, $575,000 during 2018. The Company is obligated to pay the licensor a royalty based on the product sold or advertising sold. The royalty paid shall offset all or a portion of the guaranteed payments. The agreement is subject to customary default and termination clauses.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
For the three March 31, 2016 and March 31, 2015

FORWARD-LOOKING STATEMENTS

Certain statements contained herein constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the "1995 Reform Act"). U-Vend, Inc. desires to avail itself of certain "safe harbor" provisions of the 1995 Reform Act and is therefore including this special note to enable us to do so. Except for the historical information contained herein, this report contains forward-looking statements (identified by the words "estimate," "project," "anticipate," "plan," "expect," "intend," "believe," "hope," "strategy" and similar expressions), which are based on our current expectations and speak only as of the date made. These forward-looking statements are subject to various risks, uncertainties and factors that could cause actual results to differ materially from the results anticipated in the forward-looking statements, including, without limitation, those discussed under Part I, Item 1A "Risk Factors" in this Annual Report, and those described herein that could cause actual results to differ materially from the results anticipated in the forward-looking statements, and the following:

- Our limited operating history with our business model.
- The low cash balance and limited financing currently available to us. We may in the near future have a number of obligations that we will be unable to meet without generating additional income or raising additional capital.
- Further cost reductions or curtailment in future operations due to our low cash balance and negative cash flow.
- Our ability to effect a financing transaction to fund our operations which could adversely affect the value of our stock.
- Our limited cash resources may not be sufficient to fund continuing losses from operations.
- The failure of our products and services to achieve market acceptance.
- The inability to compete in our market, especially against established industry competitors with greater market presence and financial resources.

The following discussion and analysis provides information that our management believes is relevant to an assessment and understanding of our results of operations and financial condition and should be read in conjunction with the financial statements and footnotes that appear elsewhere in this report.

General

U-Vend, Inc. was incorporated in March 2007 as a Delaware corporation and herein we refer to the company as "we", "us", the "Company" or "U-Vend." We are headquartered in Santa Monica, California and maintain operations in Ontario, Canada, Chicago, Illinois, southern California, and Las Vegas, Nevada. Our corporate office is located at 1507 7th Street, #425, Santa Monica, CA 90401 and our telephone number is (800) 467-1496. Our corporate website address is www.u-vend.com. Information contained on our websites is not a part of this interim report.

Nature of Business

The Company entered the business of developing, marketing and distributing various self-serve electronic kiosks and mall/airport co-branded islands throughout North America with the merger with U-Vend Canada, Inc. on January 7, 2014. The Company seeks to place its kiosks in high-traffic host locations such as big box stores, restaurants, malls, airports, casinos, universities, and colleges. Currently, the Company leases, owns and operates their kiosks but intends to also provide the kiosks, through a distributor relationship, to the entrepreneur wanting to own their own business.

The Company's vending kiosks incorporate advanced wireless technology, creative concepts, and ease of management. The Company's kiosks have been designed to be tech-savvy and can be managed on line 24 hours a day/7 days a week, accepting traditional cash input as well as credit and debit cards. Host locations and suppliers have been drawn to this distribution concept of product vending based on the advantages of reduced labor and lower product theft as compared to non-kiosk merchandising platforms. The Company takes a solutions development approach for the marketing of products through a variety of kiosk offerings. The Company's approach to the market includes the addition of digital LCD monitors to most makes and models of their kiosk program. This would allow the Company to offer digital advertising as a national and/or local loop basis and a corresponding additional revenue stream for the Company.

The Company began its current business efforts with the acquisition of the U-Vend Canada business in January 2014. The business acquired from U-Vend Canada was focused on the Chicago, Illinois region at the date of the acquisition and has since expanded to include southern California during the fourth quarter of 2014 and Las Vegas, Nevada in the third quarter of 2015. The Company has a depot and staffing to develop and service customers in each of these geographic regions. The Company will experience increased expenses with the growth in sales and number of kiosks in service, both of which increased as the Company executed it business plan.

In February 2015, the Company announced entering into an exclusive five year North American sponsorship and licensing agreement with the National Hockey League ("NHL") for the development, manufacturing and marketing of a novelty ice cream product. The Company has branded the product Frozen Pond Premium Ice Cream. This is the first consumer product the Company has taken from concept to market and will seek to establish a wide distribution network for the sale of the product to consumers throughout Canada and the United States.

Management's plans

The accompanying condensed consolidated financial statements have been prepared on a going concern basis. The Company incurred a loss of $488,481 during the three months ended March 31, 2016, has accumulated losses totaling $6,315,903, and has a working capital deficit of $3,086,518 at March 31, 2016. These factors, among others, indicate that the Company may be unable to continue as a going concern. The condensed consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

To fund the Company's operations for the next 12 months, to allow the Company to continue the development of its business plans and satisfy its obligations on a timely basis, the Company needs to raise additional financing. Should additional financing not be available, the Company will have to negotiate with its lenders to extend the repayment dates of its indebtedness. There can be no assurance that the Company will be able to successfully restructure its debt obligations in the event it fails to obtain additional financing.

On January 7, 2014, U-Vend, Inc., formerly Internet Media Services, Inc. ("IMS") entered into an Exchange of Securities Agreement with U-Vend Canada, Inc., and the stockholders of U-Vend Canada, Inc. ("U-Vend Canada"). The Company believes the merger with U-Vend Canada will provide it with business operations and also working capital. The Company is in discussion to raise additional capital to execute on its current business plans. There is no assurance that future financing arrangements will be successful or that the operating results of U-Vend, Inc. will yield sufficient cash flow to execute the Company's business plans or satisfy its obligations. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Results of Operations: For the Three March 31, 2016 and March 31 2015

Revenues

For the three months ended March 31, 2016 the Company's revenues increased by $168,793 or 135.3% to $293,542 compared to revenues of $124,749 during the three months ended March 31, 2015. The increase in revenue was due to additional electronic kiosks installed and operational during 2016. As of March 31, 2016, the Company had 125 electronic kiosks installed and operational in Greater Chicago, Illinois, southern California and Las Vegas, Nevada compared to 118 at March 31, 2015. A substantial number of kiosks were installed in the first quarter of 2015 and the benefit of a full operational quarter of these kiosks was realized in 2016.

Cost of Revenues:

For the three months ended March 31, 2016, the Company's cost of revenues increased by $63,068 or 78.3% to $143,616 compared to cost of revenues of $80,548 during the three months ended March 31, 2015. The increase in cost of revenues in 2016 was due to higher revenues generated by the Company in 2016 compared to 2015. The Company's cost of revenues as a percentage of revenues during the three March 31, 2016 was 48.9%, compared to 64.6% in 2015.

Selling Expenses:

Selling expenses for three months ended March 31, 2016 increased by $148,325 compared to the comparable period in 2015. Selling expenses increased, in part, due to increased revenues attained by the Company during 2016 resulting in increases in selling expenses such as commissions paid to host locations where the Company's kiosks are based. In addition, during the three ended March 31, 2016, the Company accrued $122,192 for sponsorship and media commitment fees in connection with the NHL Corporate Marketing Agreement compared to $43,875 during the comparable period in 2015.

General and Administrative Expenses:

General and Administrative expenses for the three months ended March 31, 2016 decreased by $51,393 compared to the comparable period in 2015. Increased levels of operations and revenues in 2016 resulted in increases in support costs including compensation, revenue based incentives and travel expenses. However the increases were offset by decreases in professional fees and merger related expenses compared to costs incurred in 2015.

Change in fair value of debt and warrant liabilities:

The Company evaluates financial instruments to determine if such instruments are derivatives or contain features that qualify as embedded derivatives. Certain warrants the Company has issued have a "down round provision" as a result the warrants are classified as derivative liabilities for accounting purposes. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair market value and then is revalued at each reporting date with any change in fair value reported in the condensed consolidated statement of operations. During the three months ended March 31, 2016, the Company recognized a gain on the change in fair value of warrant liabilities in the amount of $29,205 compared to a gains on the change in fair value of warrant liabilities in the amount of $24,992 during the three months ended March 31, 2015.

Amortization of debt discount and deferred financing costs:

Amortization of debt discount and deferred financing costs decreased by $24,865 from $51,796 during the three months ended March 31, 2015 to $26,931 during the three months ended March 31, 2016. Since a significant part of the debt discount and deferred financing related to the senior convertible notes that were amortized in 2015 and 2014, these expenses decreased in 2016.

Interest expense:
Interest expense for the three months ended March 31, 2016 increased by $10,326 over the prior year. The increases were due to higher levels of borrowings in 2016.

Unrealized (gain) loss on foreign currency:
The Company has two convertible notes payable in Canadian dollars that were acquired in connection with the U-Vend Canada merger on January 7, 2014. During the three months ended March 31, 2016, the Company recorded an unrealized loss on foreign currency related to these notes and the related accrued interest of $8,415. Unrealized foreign currency gains of $16,779 were recorded in the three months ended March 31, 2015.

Net Loss:
As a result of the foregoing, the net loss for the three months ended March 31, 2016 was $488,481 compared to a net loss of $490,832 during the three months ended March 31, 2015.

Liquidity and Capital Resources

At March 31, 2016, the Company had a working capital deficiency of approximately $3,087,000 compared to working capital deficiency of approximately $2,914,000 at December 31, 2015. The increase in the working capital deficiency is primarily due to the Company's operating losses during the three months ended March 31, 2016 and is partially offset by reclassification of Senior convertible notes as noncurrent liabilities due to their maturities extension. During the three months ended March 31, 2016, the Company's operating activities used cash of approximately $85,000 compared to approximately $148,000 used during the three months ended March 31, 2015.

During the three months ended March 31, 2016, the Company's operations, after adjusting for non-cash items, used approximately $383,000 of cash. Changes in working capital items provided approximately $298,000 of cash during the three months ended March 31, 2016. During the three months ended March 31, 2015, the Company's operations , after adjustment for non-cash items, used approximately $371,000 of cash and working capital items provided approximately $223,000 of cash.

During the three months ended March 31, 2016, the Company issued three promissory notes and borrowed an aggregate amount of $155,000. The promissory notes bear interest at 10% per annum and are due at various due dates in May 2016. In addition, during the three months ended March 31, 2016, the Company borrowed an aggregate of $23,800 pursuant to two promissory notes. The notes bear interest at 19% and the borrowings are payable together with interest over a period of six months from the date of borrowing. The Company repaid an aggregate of $16,816 of borrowings during the three months ended March 31, 2016 and the balance outstanding on these notes at March 31, 2016 was $18,067.

As of March 31, 2016, aggregate principal amounts of approximately $266,250 are due for repayment pursuant to the terms of the related notes. The Company is in discussion with the note holders for an extension of the repayment date, however, as of May 23, 2016 no agreement has been reached. There is no assurance that an acceptable extension agreement will be reached.

The accompanying unaudited condensed consolidated financial statements have been prepared on a going concern basis. The Company incurred a loss of $488,481 during the three months ended March 31, 2016, has accumulated losses totaling $6,315,903, and has a working capital deficit of $3,086,518 at March 31, 2016. These factors, among others, indicate that the Company may be unable to continue as a going concern. The condensed consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

To fund the Company's operations for the next 12 months, to allow the Company to continue the development of its business plans and satisfy its obligations on a timely basis the Company needs to raise additional financing. Should additional financing not be available the Company will have to negotiate with its lenders to extend the repayment dates of its indebtedness. There can be no assurance that the Company will be able to successfully restructure its debt obligations in the event it fails to obtain additional financing.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have, or are reasonably likely to have, an effect on our financial condition, financial statements, revenues or expenses.

Inflation

Although our operations are influenced by general economic conditions, we do not believe that inflation had a material effect on our results of operations during the last three years as we are generally able to pass the increase in our material and labor costs to our customers, or absorb them as we improve the efficiency of our operations.

Critical Accounting Policies

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires management to make judgments, assumptions and estimates that affect the amounts reported in our consolidated financial statements and accompanying notes. The consolidated financial statements as of December 31, 2015 describe the significant accounting policies and methods used in the preparation of the consolidated financial statements. Actual results could differ from those estimates and be based on events different from those assumptions. Future events and their effects cannot be predicted with certainty; estimating therefore, requires the exercise of judgment. Thus, accounting estimates change as new events occur, as more experience is acquired or as additional information is obtained. The following critical accounting policies are impacted significantly by judgments, assumptions and estimates used in the preparation of our consolidated financial statements:

Fair Value of Financial Instruments

Financial instruments include cash, accounts receivable, accounts payable, accrued expenses, derivative warrant liabilities, promissory notes payable, capital lease obligations, convertible notes payables, and senior convertible notes payable. Fair values were assumed to approximate carrying values for these financial instruments, except for derivative warrant liabilities, convertible notes payable and senior convertible notes payable, since they are short term in nature and their carrying amounts approximate fair values or they are receivable or payable on demand. The convertible notes payable are recorded at face amount, net of any unamortized discounts based on the underlying shares the notes can be converted into. The estimated fair value of the convertible notes is determined based on the trading price on March 31, 2016, since the underlying shares are trading in an active, observable market, the fair value measurement qualifies as a Level 1 input. The determination of the fair value of the derivative warrant liabilities include unobservable inputs and is therefore categorized as a Level 3 measurement.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FASB ASC 820 "Fair Value Measurement" establishes a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). These tiers include:

- Level 1, defined as observable inputs such as quoted prices for identical instruments in active markets;
- Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable such as quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active; and
- Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions, such as valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

Derivative Financial Instruments

We do not use derivative instruments to hedge exposures to cash flow, market or foreign currency risks. We evaluate all of our financial instruments to determine if such instruments are derivatives or contain features that qualify as embedded derivatives. Certain warrants the Company has issued have a "down round provision." As a result, the warrants are classified as derivative liabilities for accounting purposes.

For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair market value and then is revalued at each reporting date, with changes in fair value reported in the consolidated statement of operations. The methodology for valuing our outstanding warrants classified as derivative instruments was determined based on the consideration of the enterprise value of the Company, the limited market of the shares issuable under the agreement and modeling of the Monte Carlo simulation using multiple volatility assumptions. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement. The warrant liability is measured at fair value using certain estimated factors such as volatility and probability which are classified within Level 3 of the valuation hierarchy. Significant unobservable inputs are used in the fair value measurement of the Company's derivative warrant liabilities include impact of dilution and volatility. Significant increases (decreases) in the volatility input would result in a significantly higher (lower) fair value measurement.

Share-Based Payments

We record our common shares issued based on the value of the shares issued or consideration received, including cash, services rendered or other non-monetary assets, whichever is more readily determinable. The Company accounts for stock-based compensation under the provisions of FASB ASC 718 "Stock Compensation." This statement requires the Company to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost is recognized over the period in which the employee is required to provide service in exchange for the award, which is usually the vesting period. In accordance with FASB ASC 505 "Equity", the measurement date for the non-forfeitable awards to nonemployees that vest immediately is the date the award is issued.

ITEM 4 - CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures:

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in its Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including the Company's chief executive officer also acting as chief financial officer, as appropriate, to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Our chief executive officer also acting as chief financial officer, after evaluating the effectiveness of the Company's "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 (Exchange Act) Rules 13a-15(e) or 15d-15(e)) as of the end of the period covered by this quarterly report, have concluded that our disclosure controls and procedures were not effective and that material weaknesses described in our Form 10-K for the fiscal year ended December 31, 2015 exist in our internal control over financial reporting based on the evaluation of these controls and procedures as required by paragraph (b) of Exchange Act Rules 13a-15 or 15d-15.

To address the material weaknesses we performed additional analyses and other post-closing procedures and retained the services of a consultant to ensure that our condensed consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). Notwithstanding these material weaknesses, management believes that the financial statements included in this Quarterly Report on Form 10-Q fairly present, in all material respects, our financial condition, result of operations and cash flows for the periods presented.

(b) Changes in Internal Control over Financial Reporting:

There were no changes in the Company's internal control over financial reporting during the first quarter of 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

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

During the three months ended March 31, 2016

The Company issued 50,000 common shares to a note holder as consideration to extend the maturity of the note.

The shares of common stock to be issued in the above transactions have not been registered under the Securities Act of 1933, as amended (the “Securities Act”), and were issued and sold in reliance upon the exemption from registration contained in Section 4(2) of the Securities Act and Rule 506 of Regulation D promulgated thereunder.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

None.

ITEM 6 – EXHIBITS

31.1 Certification of Principal Executive and Chief Financial Officer Pursuant to Rule 13a-14(a) and15d-14(a)

32.1 Certification of Principal Executive and Chief Financial Officer Pursuant to 18 U.S.C. 1350

101.INS* XBRL Instance Document

101.SCH* XBRL Taxonomy Extension Schema Document

101.CAL* XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF* XBRLTaxonomy Extension Definition Linkbase Document

101.LAB* XBRL Taxonomy Extension Label Linkbase Document

101.PRE* XBRL Taxonomy Extension Presentation Linkbase Document

*Pursuant to Rule 406T of Regulation S-T, the interactive data files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Exchange Act of 1934, as amended, are deemed not filed for purposes of Section 18 of the Securities Act of 1934, as amended, and otherwise are not subject to liability under those sections.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act 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.

U-VEND, INC.

May 23, 2016

By: /s/ Raymond Meyers
Raymond Meyers
Chief Executive Officer and Chief Financial Officer
(Principal Executive Officer and Principal Financial Officer)