

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

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended December 31, 2016

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from ____ to ____

Commission File No. 333-127347

PROVISION HOLDING, INC.

(Exact name of Registrant as specified in its charter)

Nevada

(State or other jurisdiction of
incorporation or organization)

20-0754724

(IRS Employer
Identification No.)

9253 Eton Avenue, Chatsworth, California
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **(818) 775-1624**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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 at least 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 definitions of "accelerated filer, large accelerated filer and smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

There were 105,970,771 shares of the Registrant's \$0.001 par value common stock outstanding as of February 14, 2017.

INDEX

	<u>Page No.</u>
Part I. Financial Information	
Item 1. Financial Statements	1
Condensed Consolidated Balance Sheets as of December 31, 2016 (Unaudited) and June 30, 2016	1
Condensed Consolidated Statements of Operations for the three and six months ended December 31, 2016 and 2015 (Unaudited)	2
Condensed Consolidated Statement of Stockholders' Deficit for the six months ended December 31, 2016 (Unaudited)	3
Condensed Consolidated Statements of Cash Flows for the six months ended December 31, 2016 (Unaudited)	4-5
Notes to Condensed Consolidated Financial Statements (Unaudited)	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operation	22
Item 3. Quantitative and Qualitative Disclosures About Market Risk	34
Item 4. Controls and Procedures	35
Part II. Other Information	
Item 1. Legal Proceedings	35
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	35
Item 3. Default Upon Senior Securities	35
Item 4. Mine Safety Disclosures	35
Item 5. Other Information	35
Item 6. Exhibits	36
Signatures	37

ITEM 1. FINANCIAL STATEMENTS

PROVISION HOLDING, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	December 31, 2016 <u>(Unaudited)</u>	June 30, 2016 <u></u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 106,363	\$ 2,175,543
Inventory, net	2,214,362	3,521,739
Prepaid expenses	196,240	592,769
Other current assets	3,000	3,000
TOTAL CURRENT ASSETS	2,519,965	6,293,051
EQUIPMENT, net of accumulated depreciation	22,153	26,736
INTANGIBLES, net of accumulated amortization	171,477	172,725
TOTAL ASSETS	\$ 2,713,595	\$ 6,492,512
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 2,334,514	\$ 2,651,657
Payroll taxes, interest and penalties	560,589	590,799
Accrued interest	2,601,508	2,476,036
Unearned revenue	2,057,607	3,419,616
Debt settlement payable	-	16,795
Derivative liability	-	188,128
Current portion of convertible debt, net of unamortized debt discount of \$18,225 and \$16,980 and net of unamortized warrant discount of \$205,227 and \$-0- and net of financing costs of \$506,759 and \$-0-	5,761,074	609,905
Notes payable	90,000	90,000
TOTAL CURRENT LIABILITIES	13,405,292	10,042,936
CONVERTIBLE DEBT, net of current portion and unamortized debt discount of \$865,273 and \$1,291,892 and net of unamortized warrant discount of \$16,496 and \$363,663 and net of financing costs of \$367,980 and \$1,287,109	418,651	5,805,466
Nonconvertible series A preferred stock, related party	-	100
TOTAL LIABILITIES	13,823,943	15,848,502
STOCKHOLDERS' DEFICIT		
Preferred stock, par value \$0.001 per share Authorized – 4,000,000 shares Designated 1,000 Series A preferred stock, Issued and outstanding – Nil and 1,000 shares, respectively	-	-
Common stock, par value \$0.001 per share Authorized –300,000,000 shares - issued and outstanding – 103,989,554 and 89,242,624, respectively	103,989	89,242
Common stock to be issued for services, par value \$0.001 per share, 502,500 and 1,249,998, respectively	58,500	262,166
Additional paid-in capital	27,036,562	25,100,864
Less receivable for stock	(50,000)	(50,000)
Accumulated deficit	(38,259,399)	(34,758,262)
TOTAL STOCKHOLDERS' DEFICIT	(11,110,348)	(9,355,990)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 2,713,595	\$ 6,492,512

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

PROVISION HOLDING, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
UNAUDITED

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2016	2015	2016	2015
REVENUES				
Advertising revenues	\$ 158,700	\$ -	\$ 158,700	\$ -
Hardware revenues	101,325	6,724	110,195	31,166
Hardware revenues – related party	1,196,552	2,011,404	1,196,552	2,853,825
Service related revenues – related party	-	150,572	-	454,175
Software revenues – related party	16,614	33,230	66,456	33,230
TOTAL REVENUES	<u>1,473,191</u>	<u>2,201,930</u>	<u>1,531,903</u>	<u>3,372,396</u>
COST OF REVENUES	<u>1,784,956</u>	<u>1,902,108</u>	<u>1,840,983</u>	<u>2,822,060</u>
GROSS PROFIT (LOSS)	<u>(311,765)</u>	<u>299,822</u>	<u>(309,080)</u>	<u>550,336</u>
EXPENSES				
General and administrative	693,830	451,452	1,516,539	749,648
Research and development	69,772	64,830	219,904	96,899
TOTAL EXPENSES	<u>763,502</u>	<u>516,282</u>	<u>1,736,443</u>	<u>846,547</u>
LOSS FROM OPERATIONS	<u>(1,075,267)</u>	<u>(216,460)</u>	<u>(2,045,523)</u>	<u>(296,211)</u>
OTHER INCOME (EXPENSE)				
Derivative liability expense – insufficient shares	-	-	-	(85,960)
Change in fair value of derivative	2,561	-	62,418	-
Gain on forgiveness of debt	-	-	-	597,312
Loss on settlement of debt	(48,000)	-	(48,000)	-
Amortization of debt and warrant discount and financing costs	(458,855)	-	(917,710)	-
Other income	-	-	-	2,876
Interest expense	(298,049)	(386,544)	(552,322)	(738,848)
TOTAL OTHER INCOME (EXPENSE)	<u>(802,343)</u>	<u>(386,544)</u>	<u>(1,455,614)</u>	<u>(224,620)</u>
LOSS BEFORE INCOME TAXES	<u>(1,877,610)</u>	<u>(603,004)</u>	<u>(3,501,137)</u>	<u>(520,831)</u>
Income tax expense	-	-	-	-
NET LOSS	<u>\$ (1,877,610)</u>	<u>\$ (603,004)</u>	<u>\$ (3,501,137)</u>	<u>\$ (520,831)</u>
NET LOSS PER COMMON SHARE				
Basic and diluted	<u>\$ (0.02)</u>	<u>\$ (0.01)</u>	<u>\$ (0.04)</u>	<u>\$ (0.01)</u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING				
Basic and diluted	<u>98,731,644</u>	<u>77,759,535</u>	<u>95,993,522</u>	<u>77,314,933</u>

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

PROVISION HOLDING, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIT
FOR THE SIX MONTHS ENDED DECEMBER 31, 2016
UNAUDITED

	<u>Preferred A Stock</u>		<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Shares to be Issued</u>	<u>Receivable for Stock</u>	<u>Accumulated Deficit</u>	<u>Total Stockholders' Deficit</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>					
Balance, June 30, 2016	1,000	\$ -	89,242,624	\$ 89,242	\$ 25,100,864	\$ 262,166	\$ (50,000)	\$ (34,758,262)	\$ (9,355,990)
Issuance of common stock on conversion of debt and accrued interest	-	-	12,170,263	12,170	1,228,300	-	-	-	1,240,470
Issuance of common stock for services received	-	-	2,576,667	2,577	548,156	(254,166)	-	-	296,567
Issuance of options for services received	-	-	-	-	2,906	-	-	-	2,906
Common stock to be issued for debt settlement	-	-	-	-	-	48,000	-	-	48,000
Common stock to be issued for conversion of accrued interest	-	-	-	-	-	2,500	-	-	2,500
Issuance of warrants	-	-	-	-	30,626	-	-	-	30,626
Derivative liability reclass to additional paid in capital upon notes conversion	-	-	-	-	125,710	-	-	-	125,710
Repurchase of preferred stock	(1,000)	-	-	-	-	-	-	-	-
Net loss for the six months ended December 31, 2016	-	-	-	-	-	-	-	(3,501,137)	(3,501,137)
Balance, December 31, 2016	-	\$ -	103,989,554	\$ 103,989	\$ 27,036,562	\$ 58,500	\$ (50,000)	\$ (38,259,399)	\$ (11,110,348)

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

PROVISION HOLDING, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
UNAUDITED

	Six Months Ended	
	December 31	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (3,501,137)	\$ (520,831)
Adjustments to reconcile net loss to net cash used in operating activities:		
Non-cash compensation	296,567	67,600
Loss on debt settlement	48,000	-
Gain on forgiveness of debt	-	(597,312)
Depreciation expense	4,583	-
Amortization	1,248	1,248
Amortization of prepaid financing cost	412,370	175,333
Amortization of prepaid expenses	396,529	-
Amortization of debt discount	425,374	58,676
Amortization of warrant discount	141,940	63,426
Fair value of options expense	2,906	-
Fair value of warrants expense	30,626	-
Change in the fair value of derivative liability	(62,418)	-
Derivative liability expense – insufficient shares	-	85,960
Non-cash interest expenses	-	144,208
Changes in operating assets and liabilities:		
Accounts receivable	-	75,455
Inventory	1,307,377	(71,376)
Prepaid expenses	-	(166,139)
Prepaid financing costs	-	(95,200)
Accounts payable and accrued liabilities	(317,142)	(304,854)
Preferred stock liability	(100)	100
Payroll taxes, interest and penalties	(30,210)	66,903
Accrued interest	153,111	287,552
Unearned revenue	(1,362,009)	228,731
NET CASH (USED IN) OPERATING ACTIVITIES	(2,052,385)	(500,520)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed assets	-	(13,750)
NET CASH (USED IN) INVESTING ACTIVITIES	-	(13,750)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from convertible notes payable, net of fees	-	3,377,940
Payments on debt settlement	(16,795)	(100,710)
Payments on convertible notes payable	-	(27,500)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(16,795)	3,249,730
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,069,180)	2,735,460
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	2,175,543	128,968
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	\$ 106,363	\$ 2,864,428

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

PROVISION HOLDING, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS CONTINUED
UNAUDITED

Six Months Ended	
December 31,	
2016	2015

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Interest paid	\$ 288,915	\$ 27,745
Taxes paid	\$ -	\$ -

SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

Issuance of shares of common stock for debt and accrued interest conversion	\$ 1,240,470	\$ 97,000
Debt discount on convertible notes	\$ -	\$ 38,493
Fair value of warrant issued for debt discount and deferred financing cost	\$ -	\$ 800,310
Derivative liability expense – insufficient shares	\$ -	\$ 85,960
Common stock to be issued now issued	\$ 254,166	\$ -
Initial derivative liability on the notes issuance date	\$ -	\$ 182,701
Derivative liability reclass into additional paid in capital upon notes conversion	\$ 125,710	\$ 182,701
Proceed from convertible notes directly paid to accounts payable balance	\$ -	\$ 78,050

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

PROVISION HOLDING, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2016 AND 2015
UNAUDITED

NOTE 1 ORGANIZATION AND BASIS OF PRESENTATION

Business Description and Presentation

Provision Holding, Inc. (“Provision” or the “Company”) focused on the development and distribution of Provision’s patented three-dimensional, holographic interactive displays focused at grabbing and holding consumer attention particularly and initially in the advertising and product merchandising markets. The systems display a moving 3D image size to forty inches in front of the display, projecting a digital video image out into space detached from any screen, rendering truly independent floating images featuring high definition and crisp visibility from far distances. The nearest comparable to this technology can be seen in motion pictures such as Star Wars and Minority Report, where objects and humans are represented through full-motion holograms.

Provision’s proprietary and patented display technologies and software, and innovative solutions aim to attract consumer attention. Currently the Company has multiple contracts to place Provision’s products into large retail stores, as well as signed agreements with advertising agents to sell ad space to Fortune 500 customers. Given the technology’s potential in the advertising market, the Company is focused on creating recurring revenue streams from the sale of advertising space on each unit.

Corporate History

On February 14, 2008, MailTec, Inc. (now known as Provision Holding, Inc.) (the “Company”) entered into an Agreement and Plan of Merger, which was amended and restated on February 27, 2008 (as amended and restated, the “Agreement”), and closed effective February 28, 2008, with ProVision Merger Corp., a Nevada corporation and wholly owned subsidiary of the Company (the “Subsidiary”) and Provision Interactive Technologies, Inc., a California corporation (“Provision”). Pursuant to the Agreement, the Subsidiary merged into Provision, and Provision became a wholly owned subsidiary of the Company. As consideration for the merger of the Subsidiary into Provision, the Company issued 20,879,350 shares of the Company’s common stock to the shareholders, creditors, and certain warrant holders of Provision, representing approximately 86.5% of the Company’s aggregate issued and outstanding common stock, and the outstanding shares and debt, and those warrants whose holders received shares of the Company’s common stock, of Provision were transferred to the Company and cancelled.

Going Concern and Management Plans

These financial statements are presented on the basis that the Company is a going concern. Going concern contemplates the realization of assets and the satisfaction of liabilities in the normal course of business over a reasonable length of time. The Company had accumulated deficit at December 31, 2016 of \$38,259,399. The Company has negative working capital of \$10,885,327 as of December 31, 2016. These matters raise substantial doubt about the Company’s ability to continue as a going concern. The unaudited condensed consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. The Company’s continuation as a going concern is dependent upon its ability to generate sufficient cash flow to meet its obligations on a timely basis, to obtain additional financing or refinancing as may be required and, ultimately, to attain profitable operations. Management’s plan to eliminate the going concern situation include, but are not limited to, the raise of additional capital through issuance of debt and equity, improved cash flow management, aggressive cost reductions, and the creation of additional sales and profits across its product lines.

Basis of presentation

Throughout this report, the terms “we”, “us”, “ours”, “Provision” and “company” refer to Provision Holding, Inc., including its wholly-owned subsidiary. The condensed consolidated balance sheet presented as of June 30, 2016 has been derived from the Company’s audited consolidated financial statements. The unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission, (instructions to Form 10-Q and Article 8 of Regulation S-X). Certain information and footnote disclosures normally included in the annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America, have been omitted pursuant to those rules and regulations, but we believe that the disclosures are adequate to make the information presented not misleading. The unaudited condensed consolidated financial statements and notes included herein should be read in conjunction with the annual financial statements and notes for the fiscal year ended June 30, 2016 included in Provision’s Annual Report on Form 10-K filed with the SEC on October 13, 2016. In the opinion of management, all adjustments, consisting of normal, recurring adjustments and disclosures necessary for a fair presentation of these interim statements have been included. The results of operations for the three and six month period ended December 31, 2016 are not necessarily indicative of the results for the fiscal year ending June 30, 2017.

PROVISION HOLDING, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2016 AND 2015
UNAUDITED

NOTE 1 ORGANIZATION AND BASIS OF PRESENTATION (Continued)

Principles of Consolidation and Reporting

The consolidated financial statements include the financial statements of the Company and its wholly owned subsidiary. All significant inter-company balances and transactions have been eliminated in consolidation. The Company uses a fiscal year end of June 30.

There have been no significant changes in the Company's significant accounting policies during the three and six months ended December 31, 2016 compared to what was previously disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2016.

Basis of comparison

Certain prior-period amounts have been reclassified to conform to the current period presentation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts and timing of revenues and expenses, the reported amounts and classification of assets and liabilities, and the disclosure of contingent assets and liabilities. These estimates and assumptions are based on the Company's historical results as well as management's future expectations. The Company's actual results could vary materially from management's estimates and assumptions.

Management makes estimates that affect certain accounts including, deferred income tax assets, estimated useful lives of property and equipment, accrued expenses, fair value of equity instruments and reserves for any other commitments or contingencies. Any adjustments applied to estimates are recognized in the year in which such adjustments are determined.

Cash and Cash Equivalents

The Company considers all highly liquid investments, with an original maturity of three months or less when purchased, to be cash equivalents. As of December 31, 2016 and June 30, 2016, the Company's cash and cash equivalents were on deposit in federally insured financial institutions, and at times may exceed federally insured limits.

Accounts Receivable

Accounts receivable are not collateralized and interest is not accrued on past due accounts. Periodically, management reviews the adequacy of its provision for doubtful accounts based on historical bad debt expense results and current economic conditions using factors based on the aging of its accounts receivable. After management has exhausted all collection efforts, management writes off receivables and the related reserve. Additionally, the Company may identify additional allowance requirements based on indications that a specific customer may be experiencing financial difficulties. Actual bad debt results could differ materially from these estimates.

Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market. The Company periodically reviews its inventories for indications of slow movement and obsolescence and records an allowance when it is deemed necessary.

PROVISION HOLDING, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2016 AND 2015
UNAUDITED

NOTE 1 ORGANIZATION AND BASIS OF PRESENTATION (Continued)

Property and Equipment

Property and equipment are stated at cost. When retired or otherwise disposed, the related carrying value and accumulated depreciation are removed from the respective accounts and the net difference less any amount realized from disposition, is reflected in earnings. For financial statement purposes, property and equipment are recorded at cost and depreciated using the straight-line method over their estimated useful lives. Long-lived tangible assets are reviewed for impairment whenever events or changes in business circumstances indicate the carrying value of the assets may not be recoverable. Impairment losses are recognized based on estimated fair values if the sum of expected future undiscounted cash flows of the related assets is less than their carrying values.

Intangibles

Intangibles represent primarily costs incurred in connection with patent applications. Such costs are amortized using the straight-line method over the useful life of the patent once issued, or expensed immediately if any specific application is unsuccessful.

Revenue Recognition

The Company recognizes gross sales when persuasive evidence of an arrangement exists, title transfer has occurred, the price is fixed or readily determinable, and collection is probable. It recognizes revenue in accordance with Accounting Standards Codification (“ASC”) 605, Revenue Recognition (“ASC 605”). Revenue from licensing, distribution and marketing agreements is recognized over the term of the contract. Revenue from the sale of hardware is recognized when the product is complete and the buyer has accepted delivery. Provisions for discounts and rebates to customers, estimated returns and allowances, and other adjustments are provided for in the same period the related sales are recorded.

Cost of Revenue

Cost of revenue in respect to sale of hardware consists of costs associated with manufacturing of 3D displays, Kiosk machine, transportation, and other costs that are directly related to a revenue-generating. Such expenses are classified as cost of revenue in the corresponding period in which the revenue is recognized in the accompanying income statement.

Depreciation and Amortization

The Company depreciates its property and equipment using the straight-line method with estimated useful lives from three to seven years. For federal income tax purposes, depreciation is computed using an accelerated method.

Shipping and Handling Costs

The Company’s policy is to classify shipping and handling costs as a component of Costs of Revenues in the Statement of Operations.

Unearned Revenue

The Company bills customers in advance for certain of its services. If the customer makes payment before the service is rendered to the customer, the Company records the payment in a liability account entitled customer prepayments and recognizes the revenue related to the services when the customer receives and utilizes that service, at which time the earnings process is complete. The Company recorded \$2,057,607 and \$3,419,616 as of December 31, 2016 and June 30, 2016, respectively as deferred revenue.

Significant Customers

During the three and six months ended December 31, 2016 the Company had one customer which accounted for more than 10% of the Company’s revenues (82% and 82%, respectively). During the three and six months ended December 31, 2015 the Company had one customer which accounted for more than 10% of the Company’s revenues (99% and 98%, respectively).

PROVISION HOLDING, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2016 AND 2015
UNAUDITED

NOTE 1 ORGANIZATION AND BASIS OF PRESENTATION (Continued)

Research and Development Costs

The Company charges all research and development costs to expense when incurred. Manufacturing costs associated with the development of a new process or a new product are expensed until such times as these processes or products are proven through final testing and initial acceptance by the customer.

For the three months ended December 31, 2016 and 2015, the Company incurred \$69,772 and \$64,830, respectively for research and development expense which are included in the unaudited condensed consolidated statements of operations. For the six months ended December 31, 2016 and 2015, the Company incurred \$219,904 and \$96,899, respectively for research and development expense which are included in the unaudited condensed consolidated statements of operations.

Fair Value of Financial Instruments

Fair value estimates discussed herein are based upon certain market assumptions and pertinent information available to management as of December 31, 2016 and June 30, 2016. The respective carrying value of certain on-balance-sheet financial instruments, approximate their fair values. These financial instruments include cash, accounts receivable, accounts payable, accrued expenses and notes payable. Fair values were assumed to approximate carrying values for these financial instruments because they are short term in nature and their carrying amounts approximate fair values or they are receivable or payable on demand.

The Company uses fair value measurements under the three-level valuation hierarchy for disclosures of fair value measurement and enhances disclosure for fair value measures. The three levels are defined as follows:

- Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the assets or liability, either directly or indirectly, for substantially the full term of the financial instruments.
- Level 3 inputs to the valuation methodology are unobservable and significant to the fair value.

	<u>Carrying Value</u>	<u>Fair Value Measurements Using Fair Value Hierarchy</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Convertible notes (net of discount) – December 31, 2016	\$ 6,179,725	\$ -	\$ -	\$ 6,179,725
Convertible notes (net of discount) – June 30, 2016	\$ 6,415,371	\$ -	\$ -	\$ 6,415,371
Derivative liability – December 31, 2016	\$ -	\$ -	\$ -	\$ -
Derivative liability – June 30, 2016	\$ 188,128	\$ -	\$ -	\$ 188,128

The following table provides a summary of the changes in fair value of the Company's Promissory Notes, which are both Level 3 liabilities as of December 31, 2016:

Balance at June 30, 2016	\$ 6,415,371
Accretion of debt and warrant discount and prepaid financing costs	979,684
Issuance of shares of common stock for convertible debt	<u>(1,215,330)</u>
Balance December 31, 2016	<u>\$ 6,179,725</u>

The Company determined the value of its convertible notes using a market interest rate and the value of the warrants and beneficial conversion feature issued at the time of the transaction less the accretion. There is no active market for the debt and the value was based on the delayed payment terms in addition to other facts and circumstances at the end of December 31, 2016 and June 30, 2016.

PROVISION HOLDING, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2016 AND 2015
UNAUDITED

NOTE 1 ORGANIZATION AND BASIS OF PRESENTATION (Continued)

Derivative Financial Instruments

The Company evaluates our financial instruments to determine if such instruments are derivatives or contain features that qualify as embedded derivatives. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported in the statements of operations. For stock-based derivative financial instruments, the Company uses the Black-Scholes-Merton pricing model to value the derivative instruments. The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is evaluated at the end of each reporting period. Derivative instrument liabilities are classified in the balance sheet as current or non-current based on whether or not net-cash settlement of the derivative instrument could be required within 12 months of the balance sheet date.

Certain of the Company's embedded conversion features on debt and outstanding warrants are treated as derivative liabilities for accounting purposes under ASC 815 due to insufficient authorized shares to settle these outstanding contracts, or due to other rights connected with these contracts, such as registration rights. In the case of insufficient authorized share capital available to fully settle outstanding contracts, the Company utilizes the latest maturity date sequencing method to reclassify outstanding contracts as derivative instruments. These contracts are recognized currently in earnings until such time as the warrants are exercised, expire, the related rights have been waived and/or the authorized share capital has been amended to accommodate settlement of these contracts. These instruments do not trade in an active securities market.

The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is re-assessed at the end of each reporting period. Derivative instruments that become subject to reclassification are reclassified at the fair value of the instrument on the reclassification date. Derivative instrument liabilities will be classified in the balance sheet as current or non-current based on whether or not settlement of the derivative instrument is expected within 12 months of the balance sheet date.

The Company estimates the fair value of these instruments using the Black-Scholes option pricing model and the intrinsic value if the convertible notes are due on demand.

We have determined that certain convertible debt instruments outstanding as of the date of these financial statements include an exercise price "reset" adjustment that qualifies as derivative financial instruments under the provisions of ASC 815-40, Derivatives and Hedging - Contracts in an Entity's Own Stock ("ASC 815-40"). Certain of the convertible debentures have a variable exercise price, thus are convertible into an indeterminate number of shares for which we cannot determine if we have sufficient authorized shares to settle the transaction with. Accordingly, the embedded conversion option is a derivative liability and is marked to market through earnings at the end of each reporting period. Any change in fair value during the period recorded in earnings as "Other income (expense) - gain (loss) on change in derivative liabilities."

The following table represents the Company's derivative liability activity for the period ended:

Balance at June 30, 2016	\$ 188,128
Derivative liability reclass into additional paid in capital upon notes conversion	(125,710)
Change in fair value of derivative at period end	<u>(62,418)</u>
Balance December 31, 2016	<u>\$ -</u>

Commitments and Contingencies:

In the normal course of business, the Company is subject to loss contingencies, such as legal proceedings and claims arising out of its business, that cover a wide range of matters, including, among others, government investigations, environment liability and tax matters. An accrual for a loss contingency is recognized when it is probable that an asset had been impaired or a liability had been incurred and the amount of loss can be reasonably estimated.

PROVISION HOLDING, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2016 AND 2015
UNAUDITED

NOTE 1 ORGANIZATION AND BASIS OF PRESENTATION (Continued)

Basic and Diluted Income (Loss) per Share

Basic income (loss) per common share is computed by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding. Diluted income (loss) per common share is computed similar to basic income per common share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. As of December 31, 2016, the Company had debt instruments, options and warrants outstanding that can potentially be converted into approximately 105,215,698 shares of common stock.

Anti-dilutive securities not included in diluted loss per share relating to:

Warrants outstanding	5,746,133
Options vested and outstanding	-
Convertible debt and notes payable including accrued interest	63,810,242

Material Equity Instruments

The Company evaluates stock options, stock warrants and other contracts (convertible promissory note payable) to determine if those contracts or embedded components of those contracts qualify as derivative financial instruments to be separately accounted for under the relevant sections of ASC 815-40, *Derivative Instruments and Hedging: Contracts in Entity's Own Equity* ("ASC 815"). The result of this accounting treatment could be that the fair value of a financial instrument is classified as a derivative financial instrument and is marked-to-market at each balance sheet date and recorded as a liability. In the event that the fair value is recorded as a liability, the change in fair value is recorded in the statement of operations as other income or other expense. Upon conversion or exercise of a derivative financial instrument, the instrument is marked to fair value at the conversion date and then that fair value is reclassified to equity. Financial instruments that are initially classified as equity that become subject to reclassification under ASC 815 are reclassified to a liability account at the fair value of the instrument on the reclassification date.

Certain of the Company's embedded conversion features on debt and outstanding warrants are treated as derivative liabilities for accounting purposes under ASC 815-40 due to insufficient authorized shares to settle these outstanding contracts. Pursuant to SEC staff guidance that permits a sequencing approach based on the use of ASC 840-15-25 which provides guidance for contracts that permit partial net share settlement. The sequencing approach may be applied in one of two ways: contracts may be evaluated based on (1) earliest issuance date or (2) latest maturity date. In the case of insufficient authorized share capital available to fully settle outstanding contracts, the Company utilizes the earliest maturity date sequencing method to reclassify outstanding contracts as derivative instruments. These contracts are recognized currently in earnings until such time as the convertible notes or warrants are exercised, expire, the related rights have been waived and/or the authorized share capital has been amended to accommodate settlement of these contracts. These instruments do not trade in an active securities market.

Recent Accounting Pronouncements

In January 2016, the FASB issued an accounting standard update which requires, among other things, that entities measure equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) at fair value, with changes in fair value recognized in earnings. Under the standard, entities will no longer be able to recognize unrealized holding gains and losses on equity securities classified today as available for sale as a component of other comprehensive income. For equity investments without readily determinable fair values the cost method of accounting is also eliminated, however subject to certain exceptions, entities will be able to elect to record equity investments without readily determinable fair values at cost, less impairment and plus or minus adjustments for observable price changes, with all such changes recognized in earnings. This new standard does not change the guidance for classifying and measuring investments in debt securities and loans. The standard is effective for us on July 1, 2018 (the first quarter of our 2019 fiscal year). The Company is currently evaluating the anticipated impact of this standard on our financial statements.

PROVISION HOLDING, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2016 AND 2015
UNAUDITED

NOTE 1 ORGANIZATION AND BASIS OF PRESENTATION (Continued)

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Topic 842 affects any entity that enters into a lease, with some specified scope exemptions. The guidance in this Update supersedes Topic 840, Leases. The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from leases. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For public companies, the amendments in this Update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. We are currently evaluating the impact of adopting ASU No. 2016-02 on our consolidated financial statements.

In March 2016, the FASB issued ASU 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)* that clarifies how to apply revenue recognition guidance related to whether an entity is a principal or an agent. ASU 2016-08 clarifies that the analysis must focus on whether the entity has control of the goods or services before they are transferred to the customer and provides additional guidance about how to apply the control principle when services are provided and when goods or services are combined with other goods or services. The effective date for ASU 2016-08 is the same as the effective date of ASU 2014-09 as amended by ASU 2015-14, for annual reporting periods beginning after December 15, 2017, including interim periods within those years. The Company has not yet determined the impact of ASU 2016-08 on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Compensation – Stock Compensation, or ASU No. 2016-09. The areas for simplification in this Update involve several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. For public entities, the amendments in this Update are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted in any interim or annual period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. Amendments related to the timing of when excess tax benefits are recognized, minimum statutory withholding requirements, forfeitures, and intrinsic value should be applied using a modified retrospective transition method by means of a cumulative-effect adjustment to equity as of the beginning of the period in which the guidance is adopted. Amendments related to the presentation of employee taxes paid on the statement of cash flows when an employer withholds shares to meet the minimum statutory withholding requirement should be applied retrospectively. Amendments requiring recognition of excess tax benefits and tax deficiencies in the income statement and the practical expedient for estimating expected term should be applied prospectively. An entity may elect to apply the amendments related to the presentation of excess tax benefits on the statement of cash flows using either a prospective transition method or a retrospective transition method. We are currently evaluating the impact of adopting ASU No. 2016-09 on our consolidated financial statements.

In April 2016, the FASB issued ASU 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*, which provides further guidance on identifying performance obligations and improves the operability and understandability of licensing implementation guidance. The effective date for ASU 2016-10 is the same as the effective date of ASU 2014-09 as amended by ASU 2015-14, for annual reporting periods beginning after December 15, 2017, including interim periods within those years. The Company has not yet determined the impact of ASU 2016-10 on its consolidated financial statements.

In June 2016, the FASB Issued ASU 2016-12, “Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients” and clarifies the objective of the collectability criterion, presentation of taxes collected from customers, non-cash consideration, contract modifications at transition, completed contracts at transition and how guidance in Topic 606 is retrospectively applied. The amendments do not change the core principle of the guidance in Topic 606. The effective dates are the same as those for Topic 606. The Company has not yet determined the impact of ASU 2016-12 on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, in an effort to reduce the diversity of how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments of this ASU are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. The Company has not yet determined the impact of ASU 2016-15 on its consolidated financial statements.

PROVISION HOLDING, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2016 AND 2015
UNAUDITED

NOTE 1 ORGANIZATION AND BASIS OF PRESENTATION (Continued)

In October 2016, the FASB issued ASU No 2016-16 - Income Taxes: Intra-Entity Transfers of Assets Other Than Inventory. ASU 2016-16 will require the tax effects of intercompany transactions, other than sales of inventory, to be recognized currently, eliminating an exception under current GAAP in which the tax effects of intra-entity asset transfers are deferred until the transferred asset is sold to a third party or otherwise recovered through use. The guidance will be effective for the first interim period of our 2019 fiscal year, with early adoption permitted. The Company has not yet determined the impact of ASU 2016-16 on its consolidated financial statements.

In January 2017, FASB issued ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business, in an effort to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The amendments of this ASU are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company has not yet determined the impact of ASU 2017-01 on its consolidated financial statements.

NOTE 2 INVENTORY

Inventory consists of raw materials; work in process and finished goods. The Company's inventory is stated at the lower of cost (FIFO cost basis) or market.

The carrying value of inventory consisted of the following:

	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Raw materials	\$ 36,794	\$ 26,619
Finished goods	2,334,933	3,652,485
	<u>2,371,727</u>	<u>3,679,104</u>
Less Inventory reserve	(157,365)	(157,365)
Total	<u>\$ 2,214,362</u>	<u>\$ 3,521,739</u>

At December 31, 2016 and June 30, 2016, the inventory reserve remained unchanged, respectively.

NOTE 3 PREPAID EXPENSES

During the six months ended December 31, 2016, the Company prepaid certain expenses related to software licensing fees. At December 31, 2016 and June 30, 2016, \$196,240 and \$592,769, respectively, of these expenses remains to be amortized over the useful life through May 2017.

NOTE 4 PROPERTY and EQUIPMENT, net

Property and equipment consists of the following:

	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Furniture and fixtures	\$ 12,492	\$ 12,492
Computer equipment	39,180	39,180
Equipment	4,493	4,493
	<u>56,165</u>	<u>56,165</u>
Less accumulated depreciation	(34,012)	(29,429)
Total	<u>\$ 22,153</u>	<u>\$ 26,736</u>

The aggregate depreciation charge to operations was \$2,291 and \$-0- and \$4,583 and \$ -0- for the three and six months ended December 31, 2016 and 2015, respectively. The depreciation policies followed by the Company are described in Note 1.

PROVISION HOLDING, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2016 AND 2015
UNAUDITED

NOTE 5 PREPAID FINANCING COSTS

The Company pays financing costs to consultants and service providers related to certain financing transactions. The financing costs are then amortized over the respective life of the financing agreements. As such, the Company has prepaid \$874,739 and \$1,287,109 in financing costs at December 31, 2016 and June 30, 2016, respectively. Prepaid financing costs are presented with the net convertible debt as appropriate.

The aggregate amortization of prepaid financing cost charged to operations was \$206,185 and \$117,254 and \$412,370 and \$175,333 for three and six months period ended December 31, 2016 and 2015, respectively.

NOTE 6 INTANGIBLES, net of accumulated amortization

Intangibles consist of the following:

	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Patents in process	\$ 142,116	\$ 142,116
Patents issued	58,037	58,037
	<u>200,153</u>	<u>200,153</u>
Less accumulated amortization	<u>(28,676)</u>	<u>(27,428)</u>
Total	<u>\$ 171,477</u>	<u>\$ 172,725</u>

The aggregate amortization expense charged to operations was \$624 and \$624 and \$1,248 and \$1,248 for three and six months ended December 31, 2016 and 2015, respectively. The amortization policies followed by the Company are described in Note 1.

As of December 31, 2016, the estimated future amortization expense related to finite-lived intangible assets was as follows:

Fiscal year ending,

June 30, 2017- remaining six months	\$ 1,248
June 30, 2018	2,496
June 30, 2019	2,496
June 30, 2020	2,496
June 30, 2021	2,496
Thereafter	<u>160,245</u>
Total	<u>\$ 171,477</u>

NOTE 7 DEBT SETTLEMENT

During February 2015 the Company settled with a convertible note holder to repay the principal and accrued interest due with an interest free scheduled payment plan. On the date of the settlement the principal and accrued interest had a total value of \$333,563. The scheduled payment plan calls for payments totaling \$260,000. Accordingly, the Company recorded \$73,563 of gain on debt extinguishment in June 2015. The Company repaid \$16,795 on this debt during the six months ended December 31, 2016. The remaining balance is \$-0- and \$16,795 at December 31, 2016 and June 30, 2016, respectively.

During January 2017 the Company settled a prior debt. According to the settlement agreement, the Company is required to issue 400,000 shares of common stock to the recipient. The shares were valued at \$48,000 and the Company has recorded the same as expense in the statement of operations for the six months ended December 31, 2016 along with the shares to be issued.

PROVISION HOLDING, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2016 AND 2015
UNAUDITED

NOTE 8 CONVERTIBLE DEBT

Convertible debt consists of the following:

	December 31, 2016	June 30, 2016
Convertible notes payable, annual interest rate of 10%, due dates range from May 2010 to February 2019 and convertible into common stock at a rate of \$0.06 to \$1.00 per share.	\$ 7,409,685	\$ 8,625,015
Convertible note payable, annual interest rate of 10%, convertible into common stock at a rate of \$1.00 per share and due July 2017.	750,000	750,000
Unamortized prepaid financing costs	(874,739)	(1,287,109)
Unamortized warrants discount to notes	(221,723)	(363,663)
Unamortized debt discount	(883,498)	(1,308,872)
	6,179,725	6,415,371
Less current portion	(5,761,074)	(609,905)
Convertible debt, net of current portion and debt discount	\$ 418,651	\$ 5,805,466

During the six month period ended December 31, 2016 the few holders of the Notes converted \$1,240,470 including accrued interest value into 12,170,263 shares of the Company's common stock. The determined fair value of the debt derivatives of \$125,710 was reclassified into equity during the period ended December 31, 2016.

For the three and six months ended December 31, 2016 and 2015, \$70,970 and \$56,716 and \$141,940 and \$63,426 were expensed in the statement of operation as amortization of warrant discount and shown as interest expenses, respectively. For the three and six months ended December 31, 2016 and 2015, \$181,700 and \$10,092 and \$363,400 and \$58,676 was amortized of debt discount and shown as interest expenses, respectively.

During the year ended June 30, 2016, the Company issued \$5,417,800 in 12% Series A Senior Secured Convertible Promissory Notes, convertible into shares of the Company's Common Stock at a conversion price of \$0.10 per share. Each subscriber will receive, for every \$1,000 in Promissory Notes purchase, Series A Warrants to purchase 2,000 shares of the Company's Common Stock at an exercise price of \$0.15 per share. The Promissory Notes shall be secured by all current and future assets of the Company on a pro-rata basis. During the year ended June 30, 2016, the Company issued warrants to placement agents at exercise price of \$0.15 per share which was valued at \$685,250 and recorded as deferred financing cost.

The aggregate amortization of prepaid financing cost charged to operations was \$206,185 and \$117,254 and \$412,370 and \$175,333 for three and six month period ended December 31, 2016 and 2015, respectively.

Accrued and unpaid interest for convertible notes payable at December 31, 2016 and June 30, 2016 was \$2,575,434 and \$1,678,138, respectively.

For the three and six months ended December 31, 2016 and 2015, \$216,148 and \$164,257 and \$450,496 and \$255,786, was charged as interest on debt and shown as interest expenses, respectively.

PROVISION HOLDING, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2016 AND 2015
UNAUDITED

NOTE 9 DERIVATIVE LIABILITY

On June 10, 2016, the Company entered into a Loan Agreement with an investor pursuant to which the Company reissued a convertible promissory note from a selling investor in the principal amount of for up to \$160,330. The Note is convertible into shares of common stock at an initial conversion price subject to adjustment as contained in the Note. The Conversion Price is the 80% of the average closing price of the last thirty trading days of the stock, not lower than \$0.10. The Note accrues interest at a rate of 7% per annum and matures on December 10, 2017.

Due to the variable conversion price associated with this convertible promissory note, the Company has determined that the conversion feature is considered a derivative liability. The accounting treatment of derivative financial instruments requires that the Company record the fair value of the derivatives as of the inception date of the Convertible Promissory Note and to adjust the fair value as of each subsequent balance sheet date.

The initial fair value of the embedded debt derivative of \$206,996 was allocated as a debt discount \$76,163 was determined using intrinsic value with the remainder \$130,833 charged to current period operations as interest expenses. The fair value of the described embedded derivative was determined using the Black-Scholes Model with the following assumptions:

(1) dividend yield of	0%;
(2) expected volatility of	164%,
(3) risk-free interest rate of	0.87%,
(4) expected life of	36 months
(5) fair value of the Company's common stock of	\$0.26 per share.

During the period ended December 31, 2016, the above note was fully converted into shares and hence, now onwards no further derivative liability needs to accrue.

During the three and six months ended December 31, 2016 and 2015, the Company recorded the loss (gain) in fair value of derivative \$(2,561) and \$(-0-) and \$(62,418) and \$-0-, respectively.

For the three and six months ended December 31, 2016 and 2015, \$68,373 and \$-0- and \$74,772 and \$-0-, respectively, was expensed in the statement of operation as amortization of debt discount related to above notes and shown as interest expenses, respectively.

The following table represents the Company's derivative liability activity for the period ended:

Balance at June 30, 2016	\$ 188,128
Derivative liability reclass into additional paid in capital upon notes conversion	(125,710)
Change in fair value of derivative at period end	(62,418)
Balance December 31, 2016	<u><u>\$ -</u></u>

NOTE 10 NOTES PAYABLE

At December 31, 2016 and June 30, 2016, \$90,000 and \$90,000, respectively, of debt was outstanding with an interest rate of 8%.

Accrued and unpaid interest for these notes payable at December 31, 2016 and June 30, 2016 were \$28,573 and \$26,528, respectively.

For the three and six months ended December 31, 2016 and 2015, \$1,022 and \$1,705 and \$2,044 and \$3,417 was charged as interest on debt and shown as interest expenses, respectively.

PROVISION HOLDING, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2016 AND 2015
UNAUDITED

NOTE 11 COMMITMENTS

Lease Agreement - The Company leases its office space under a month-to-month lease. Rent expense was \$25,074 and \$18,456 and \$48,099 and \$36,912 for the three and six months ended December 31, 2016 and 2015, respectively. On March 2, 2016, the Company entered into an Amendment to Lease in order to extend the current lease through March 31, 2019. The lease calls for monthly rent of \$6,719 per month for the period of April 1, 2016 through March 31, 2017. The monthly rent increases 4% for each of the next two years.

The future minimum payments under this lease are as follows:

Fiscal year ending, June 30:	
2017 – remaining six months	\$ 41,121
2018	84,696
2019	<u>65,412</u>
Total	\$ <u>191,229</u>

The Company is delinquent in remitting its payroll taxes to the applicable governmental authorities. Total due, including estimated penalties and interest is \$560,589 and \$590,799 at December 31, 2016 and June 30, 2016, respectively.

NOTE 12 EQUITY

Preferred Stock

The Company is authorized to issue 4,000,000 shares of Preferred Stock with a par value of \$0.001 per share as of December 31, 2016. Preferred shares issued and outstanding at December 31, 2016 and June 30, 2016 were Nil and 1,000 shares.

On December 30, 2015, the Company filed an amendment to the Company's Articles of Incorporation, as amended, in the form of a Certificate of Designation that authorized for issuance of up to 1,000 shares of Series A preferred stock, par value \$0.001 per share, of the Company designated "Super Voting Preferred Stock" and established the rights, preferences and limitations thereof. The pertinent rights and privileges of each share of the Super Voting Preferred Stock are as follows:

- (i) each share shall not be entitled to receive any dividends nor any liquidation preference;
- (ii) each share shall not be convertible into shares of the Company's common stock;
- (iii) shall be automatically redeemed by the Company at \$0.10 per share on the first to occur of the following triggering events: (a) 90 days following the date on which this Certificate of Designation is filed with the Secretary of State of Nevada or (b) on the date that Mr. Thornton ceases, for any reason, to serve as officer, director or consultant of the Company; and
- (iv) long as any shares of the Series A Preferred Stock remain issued and outstanding, the holders thereof, voting separately as a class, shall have the right to vote in an amount equal to 51% of the total vote (representing a majority voting power) effecting an increase in the authorized common stock of the Company. Such vote shall be determined by the holder(s) of the then issued and outstanding shares of Series A Preferred Stock. For example, if there are 10,000 shares of the Company's common stock issued and outstanding at the time of a shareholder vote, the holders of the Series A Preferred Stock, will have the right to vote an aggregate of 10,408 shares, out of a total number of 20,408 shares voting. The amount of voting rights is determined based on the common shares outstanding and at the record date for the determination of shareholders entitled to vote at each meeting of shareholders of the Company or action by written consent in lieu of meetings with respect to effecting an increase in the authorized shares as presented to the shareholders of the Company. Each holder of Super Voting Preferred Stock shall vote together with the holders of Common Stock, as a single class, except (i) as provided by Nevada Statutes and (ii) with regard to the amendment, alteration or repeal of the preferences, rights, powers or other terms with the written consent of the majority of holders of Super Voting Preferred Stock.

PROVISION HOLDING, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2016 AND 2015
UNAUDITED

NOTE 12 EQUITY (Continued)

On December 31, 2015, the Company issued 1,000 shares of Super Voting Preferred Stock for \$0.10 per share to Curt Thornton, President and Chief Executive Officer, and a director of the Company, as described in Note 13 Related Party Transactions.

The Preferred Stock – Series A has a mandatory redemption provision of \$0.10 per share, accordingly it is classified as a liability in the balance sheet.

During the period ended December 31, 2016, the Company repurchase the said 1,000 Preferred Stock at par value of \$100. Preferred shares issued and outstanding at December 31, 2016 were Nil.

Common Stock

On December 31, 2015, the Company amended its Articles of Incorporation by filing a Certificate of Amendment with the Secretary of State of Nevada to effect an increase in the number of the Company’s authorized common shares from 100,000,000 to 200,000,000. The increase in the authorized number of shares of common stock was approved by the Board of Director of the Company on December 30, 2015 and holders of more than 50% of the voting power of the Company’s capital stock on December 31, 2015.

On June 30, 2016, the Company amended its Articles of Incorporation by filing a Certificate of Amendment with the Secretary of State of Nevada to effect an increase in the number of the Company’s authorized common shares from 200,000,000 to 300,000,000. The increase in the authorized number of shares of common stock was approved by the Board of Director of the Company on June 30, 2016 and holders of more than 50% of the voting power of the Company’s capital stock. The Company’s ticker symbol and CUSIP remain unchanged.

As of December 31, 2016 and June 30, 2016, there were 103,989,554 and 89,242,624 shares of common stock issued and outstanding, respectively.

During the six months ended December 31, 2016, the Company issued 2,576,667 shares of common stock in exchange for consulting services valued at \$550,733, out of which \$254,166 relates to prior period services.

During the six months ended December 31, 2016 the Company issued 12,170,263 shares of its common stock in conversion of \$1,240,470 debt and accrued interest.

Warrants

Warrant activity during the six months ended December 31, 2016, is as follows:

	Warrants	Weighted- Average Exercise Price	Aggregate Intrinsic Value
Outstanding and exercisable at June 30, 2016	26,396,958	\$ 0.14	\$ 3,695,574
Granted	375,000	0.04	
Exercised			
Expired	(1,050,000)	0.05	
Outstanding and exercisable at December 31 2016	<u>25,721,958</u>	<u>\$ 0.14</u>	<u>\$ 3,670,213</u>

PROVISION HOLDING, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2016 AND 2015
UNAUDITED

NOTE 12 EQUITY (Continued)

Stock Option Plan

Stock option activity during the six months ended December 31, 2016 is as follows:

	Stock Options	Weighted- Average Exercise Price	Aggregate Intrinsic Value
Outstanding at June 30, 2016	-	\$ -	\$ -
Granted	50,000	0.23	11,500
Exercised			
Expired			
Outstanding at December 31, 2016	<u>50,000</u>	<u>\$ 0.23</u>	<u>\$ 11,500</u>
Exercisable at December 31, 2016	<u>22,000</u>	<u>\$ 0.23</u>	<u>\$ 5,060</u>
Un-exercisable at December 31, 2016	<u>28,000</u>	<u>\$ 0.23</u>	<u>\$ 6,440</u>

The Company has one stock option plan: The Provision Interactive Technologies, Inc. 2002 Stock Option and Incentive Plan, (the "Plan"). As of December 31, 2016, there were 3,324,149 shares available for issuance under the Plan. The Plan is administered by the Company's Board of Directors, (the "Board").

As of December 31, 2016, the Plan provides for the granting of non-qualified and incentive stock options to purchase up to 5,000,000 shares of common stock. Options vest at rates set by the Board, not to exceed five years and are exercisable up to ten years from the date of issuance. The option exercise price is set by the Board at time of grant. Options and restricted stock awards may be granted to employees, officers, directors and consultants.

During the six months ended December 31, 2016 and 2015, the Company issued 50,000 and -0- options and recorded \$2,906 and \$-0- of stock compensation expense, respectively.

The fair value of options exercised in the six months ended December 31, 2016 and 2015 was approximately \$-0- and \$-0-, respectively.

As of December 31, 2016, there was \$3,710 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under existing stock option plans.

Restricted Stock

On June 1, 2016, the Company issued 1,500,000 restricted shares per rule 144 of its Common Stock, vesting in equal amounts over six (6) months to its consultant as partial compensation for services.

The fair value of the restricted stock granted during the six month period ended December 31, 2016 was stated at market price on the date of vested.

During the six month period ended December 31, 2016 and 2015, the Company recorded expenses of \$300,000 and \$-0-, respectively, related to restricted stock vested to non-employees.

PROVISION HOLDING, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2016 AND 2015
UNAUDITED

NOTE 13 RELATED ENTITY ACTIVITIES

ProDava 3D

DB Dava LLC, a Delaware limited liability company (“DB”), and the Company agreed to engage in a venture for the purpose of exploiting the Company’s technology and its agreement with a national pharmacy chain to place a number of its kiosks in stores. In June 2014, the Company and DB, caused ProDava LLC (“ProDava”) to be formed, and the parties entered into the ProDava LLC Agreement (the “LLC Agreement”) on June 30, 2014, which set out, among other things, the parties’ respective rights and obligations with respect to ProDava.

The two members of ProDava are the Company and DB. At the time of the formation of ProDava, the LLC Agreement originally provided that DB owned 80 percent of the membership interests of ProDava and the Company owned 20 percent of the membership interests of ProDava, assuming a \$50,000,000 capital contribution by DB. Pursuant to the LLC Agreement, the Company made a capital contribution of \$12,500,000, which represented the agreed upon value of a certain agreements which granted the Company rights to place kiosks in retail stores.

The Company’s motivation to enter into the LLC Agreement was to use DB’s financing to place kiosks into retail stores. Pursuant to LLC Agreement, DB agreed to make a capital contribution of up to US\$50,000,000. It was understood and agreed between the parties that the Company’s role in ProDava was to provide, among other things, the kiosks, the content, resources and the know-how as to the placement and maintenance of the kiosks in retail stores.

To that end, ProDava entered into a Professional Services Agreement, dated June 30, 2014 (the “PSA”) with the Company, whereby ProDava engaged the Company to provide services for ProDava with respect to the sourcing, due diligence, acquisition, management, construction and marketing of the kiosks financed and purchased by ProDava. As full compensation for rendering and performing such services under the PSA, the Company was entitled to receive from ProDava, the unreimbursed expenses incurred by the Company. It was agreed and understood that DB’s role in ProDava was to provide the funding necessary for the unreimbursable expenses and the production, manufacture and maintenance of the kiosks placed in stores. As a result of the ownership percentage in ProDava, DB would receive 80% of the profits of the ProDava from advertising related revenue less expenses.

For the six months ended December 31, 2016 and 2015 total revenue includes \$1,263,008 and \$3,314,130, respectively, revenue from a related party. For the three months ended December 31, 2016 and 2015 total revenue includes \$1,213,166 and \$2,195,205, respectively, revenue from a related party. Also, total unearned revenue as of December 31, 2016 of \$2,057,607 includes \$1,256,607 advance for sales order received from a related party.

Transactions with Officers and Directors

On December 30, 2015, the Company entered into a Purchase Agreement with Curt Thornton, the Company’s President and Chief Executive Officer for the sale of 1,000 shares of “Super Voting Preferred Stock – Series A” for \$0.10 per share and the closing price of the Company’s Common Stock was \$0.08 per share, as reported on the Over-the-Counter Markets (OTCQB) on the date prior to the date the Board approved the transaction. The Series A Preferred Shares does not have a dividend rate or liquidation preference and are not convertible into shares of common stock. The shares of the Series A Preferred Stock shall be automatically redeemed by the Company at \$0.10 per share on the first to occur of the following triggering events: (i) 90 days following the date on which this Certificate of Designation is filed with the Secretary of State of Nevada or (ii) on the date that Mr. Thornton ceases, for any reason, to serve as officer, director or consultant of the Company. For so long as any shares of the Series A Preferred Stock remain issued and outstanding, the holders thereof, voting separately as a class, shall have the right to vote in an amount equal to 51% of the total vote (representing a majority voting power) effecting an increase in the authorized common stock of the Company. Such vote shall be determined by the holder(s) of the then issued and outstanding shares of Series A Preferred Stock. For example, if there are 10,000 shares of the Company’s common stock issued and outstanding at the time of a shareholder vote, the holders of the Series A Preferred Stock, will have the right to vote an aggregate of 10,408 shares, out of a total number of 20,408 shares voting. The adoption of the Series A Preferred Stock and its issuance to Mr. Thornton was taken solely to allow the Company to increase the Company’s authorized shares of common stock. As a result, the Company determined that there was no recorded a preferred stock control premium for the Preferred Stock – Series A that was issued to Mr. Thornton. The rights and preferences of the shares are described in Note 12 Equity. During the period ended December 31, 2016, the Company repurchase the said 1,000 Preferred Stock at par value of \$100. Preferred shares issued and outstanding at December 31, 2016 were Nil.

PROVISION HOLDING, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2016 AND 2015
UNAUDITED

NOTE 14 LEGAL PROCEEDINGS

On August 26, 2004, in order to protect its legal rights and in the best interest of the shareholders at large, the Company filed, in the Superior Court of California, a complaint alleging breach of contract, rescission, tortious interference and fraud with Betacorp Management, Inc. In an effort to resolve all outstanding issues, the parties agreed, in good faith, to enter into arbitration in the State of Texas, domicile of the defendants. On August 11, 2006, a judgment was awarded against the Company in the sum of \$592,312. A contingency loss of \$592,312 was charged to operations during the year ended June 30, 2007. Subsequently, The Company filed a counter lawsuit and was awarded a default judgement in its favor, and as such removed the contingency loss during the year ended June 30, 2016.

Litigation

From time to time, we may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business. We are currently not aware of any such legal proceedings that we believe will have, individually or in the aggregate, a material adverse effect on our business, financial condition or operating results.

In the best interests of shareholders and to reflect expenses paid on behalf of ProDava, the Company initiated an action against DB in November 2016 seeking declaratory judgment. After the execution of the LLC Agreement, both DB and the Company performed their respective duties. The Company caused numerous kiosks to be manufactured for placement in retail stores in accordance with the PSA, maintained and serviced these kiosks. DB provided funds to ProDava for, the production of kiosks and for expenses incurred by the Company in connection with the maintenance of servicing of the kiosks. In total, DB provided sums totaling \$6.5 million. In the first quarter of 2016, DB ceased providing the funding required by the LLC Agreement. DB advised The Company that DB was analyzing information and that it would make a determination as to whether it would continue to provide funding in accordance with the LLC Agreement. The Company has been incurring the reimbursable expenses that were to be reimbursed by DB. The LLC Agreement provides that, in the event that DB fails to fund any portion of the total amount is was required to provide in accordance with the terms of the LLC Agreement, the LLC Agreement provides for the recalculation of the parties' membership interests in ProDava. The Company filed an action in the Supreme Court of the State of New York in New York County (Index No. 656127/2016) to seed to recalculate the ownership percentage of ProDava. DB filed a motion to dismiss and the Company filed an action opposing such motion. No claims were made against the Company. If successful, the Company will own a greater percentage of ProDava. If unsuccessful, the Company will have to continue to fund ProDava's expenses until advertising income exceeds expenses.

NOTE 15 SUBSEQUENT EVENTS

During January 2017 the Company issued 1,145,045 shares of its common stock in payment of \$125,008 debt and accrued interest.

During January 2017, the Company issued 168,390 shares of common stock in exchange for consulting services valued at \$19,000.

During January 2017 the Company issued 400,000 shares of its common stock in payment of \$48,000 of a debt settlement.

During January 2017 the Company issued 158,612 shares of common stock as a result of a cashless exercise of warrants.

During February 2017, the Company issued 109,710 shares of common stock in exchange for consulting services valued at \$10,000.

On February 6, 2017, the Company issued a \$158,500 convertible debenture. The note bears interest at 12%, is due on November 12, 2017 and is convertible into shares of the Company's common stock at 61% of the average of the lowest three trading prices during the ten days prior to the conversion date.

During January 2017 the Company settled a prior debt. According to the settlement agreement, the Company is required to issue 400,000 shares of common stock to the recipient. The shares were valued at \$48,000 and the Company has recorded the same as expense in the statement of operations for the six months ended December 31, 2016 along with the shares to be issued.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our financial statements and the notes thereto included elsewhere in this quarterly report on Form 10-Q and in our annual report on Form 10-K filed with the Securities and Exchange Commission.

THIS FILING, INCLUDING BUT NOT LIMITED TO "MANAGEMENT'S DISCUSSION AND ANALYSIS", CONTAINS FORWARD-LOOKING STATEMENTS. THE WORDS "ANTICIPATED," "BELIEVE," "EXPECT," "PLAN," "INTEND," "SEEK," "ESTIMATE," "PROJECT," "WILL," "COULD," "MAY," AND SIMILAR EXPRESSIONS ARE INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS. THESE STATEMENTS INCLUDE, AMONG OTHERS, INFORMATION REGARDING FUTURE OPERATIONS, FUTURE CAPITAL EXPENDITURES, AND FUTURE NET CASH FLOW. SUCH STATEMENTS REFLECT THE COMPANY'S CURRENT VIEWS WITH RESPECT TO FUTURE EVENTS AND FINANCIAL PERFORMANCE AND INVOLVE RISKS AND UNCERTAINTIES, INCLUDING, WITHOUT LIMITATION, GENERAL ECONOMIC AND BUSINESS CONDITIONS, CHANGES IN SOCIAL, AND ECONOMIC CONDITIONS, AND COMPLIANCE WITH GOVERNMENTAL REGULATIONS, THE ABILITY TO ACHIEVE MARKET PENETRATION AND CUSTOMERS, AND VARIOUS OTHER MATTERS, MANY OF WHICH ARE BEYOND THE COMPANY'S CONTROL. OUR ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE ANTICIPATED IN THESE FORWARD-LOOKING STATEMENTS AS A RESULT OF SEVERAL FACTORS, INCLUDING THE RISKS FACED BY US AS DESCRIBED BELOW AND ELSEWHERE IN THIS FORM 10-Q. IN LIGHT OF THESE RISKS AND UNCERTAINTIES THERE CAN BE NO ASSURANCE THAT THE FORWARD-LOOKING STATEMENTS CONTAINED IN THIS FORM 10-Q WILL OCCUR. WE HAVE NO OBLIGATION TO PUBLICLY UPDATE OR REVISE THESE FORWARD-LOOKING STATEMENTS TO REFLECT NEW INFORMATION, FUTURE EVENTS, OR OTHERWISE, EXCEPT AS REQUIRED BY FEDERAL SECURITIES LAWS AND WE CAUTION YOU NOT TO PLACE UNDUE RELIANCE ON THESE FORWARD-LOOKING STATEMENTS. WE MAY NOT UPDATE THESE FORWARD-LOOKING STATEMENTS, EVEN THOUGH OUR SITUATION MAY CHANGE.

Business History and Overview

Provision Holding, Inc. and its subsidiary, Provision Interactive Technologies, Inc. ("Provision"), is a purveyor of intelligent interactive 3D holographic display technologies, software, and integrated solutions for both commercial and consumer focused applications. Provision's 3D holographic display systems projects full color, high resolution videos into space detached from the screen, without any special glasses. Provision is currently a market leader in true 3D consumer advertising display products.

We are focused on the development and distribution of our patented three-dimensional, holographic interactive video displays focused at grabbing and holding consumer attention particularly and initially in the advertising and product merchandising markets. The systems display a moving 3D image size to forty inches in front of the display, projecting a digital video image out into space detached from any screen, rendering truly independent floating images featuring high definition and crisp visibility from far distances. The nearest comparable to this technology can be seen in motion pictures such as Star Wars and Minority Report, where objects and humans are represented through full-motion holograms. In addition to selling the hardware for our patented three-dimensional, holographic interactive video displays, we are building our business into a digital media company offering advertising on a network of our 3D holographic video displays and integrating them into Provision's 3D Savings Center kiosks.

We have a limited operating history upon which an investor can evaluate our business prospects, which makes it difficult to forecast our future operating results, in light of the risks, uncertainties and problems frequently encountered by companies with limited operating histories. These include, but are not limited to, competition, the need to develop customers and market expertise, market conditions, sales, and marketing and governmental regulation.

We were incorporated in Nevada under the name MailTec, Inc. on February 9, 2004. Pursuant to an Agreement and Plan of Merger, dated February 14, 2008, which was amended and restated on February 27, 2008 (as amended and restated, the "Agreement"), MailTec, Inc. with ProVision Merger Corp., a Nevada corporation and wholly owned subsidiary of the Company (the "Subsidiary") and Provision Interactive Technologies, Inc., a California corporation ("ProVision"), the Subsidiary merged into ProVision, and ProVision became a wholly owned subsidiary of the Company. As consideration for the merger of the Subsidiary into ProVision, the Company issued 20,879,350 shares of the Company's common stock to the shareholders, creditors, and certain warrant holders of ProVision, representing approximately 86.5% of the Company's aggregate issued and outstanding common stock, and the outstanding shares and debt, and those warrants whose holders received shares of the Company's common stock, of ProVision were transferred to the Company and cancelled. Effective February 28, 2008, pursuant to the Agreement, ProVision became a wholly owned subsidiary of the Company. At the time of the reverse acquisition, MailTec was not engaged in any active business.

Our corporate headquarters are located in Chatsworth, California and our phone number is (818) 775-1624.

Products and Services

We believe we are well positioned to capitalize on advertisers' demands as ProVision's HoloVision™ display and 3D Savings Center kiosks offer advertisers and customers an opportunity to reach a highly sought-after, captive audience outside the home, in familiar settings like grocery stores, malls, convenience stores, gas stations, banks and other retail locations. We reach the consumer and business professional at the critical time - when they are away from their homes and businesses and when they are making their buying decisions.

ProVision is marketing our patented three-dimensional, holographic interactive video display and is also developing and marketing several new point-of-purchase, and other devices, tailored to specific industries with major international companies or readying to begin shortly; including the medical, entertainment, government and home markets. ProVision's floating image display technologies have multiple potential market applications across a broad spectrum of industries. In addition to hardware sales, we are initially focusing our efforts on the point-of-purchase and advertising markets.

ProVision's HoloVision™ display can be used for a number of applications, including:

Retail	Education	Medical	Entertainment	Consumer
Drug Stores / Convenience Stores	Primary / Secondary Schools	Doctors / Dentist Offices	Slot Machines, Pachinko	Home Game Consoles
Grocery Stores	Universities	Hospitals	Casinos	Computer Monitors
Banking	Museums	Imaging	Lottery	TV
Fast Food	Libraries		Movie Theaters	Cell Phones
Hotels / Hospitality	Science Centers		Video Games	
Electronics			Theme Parks	

The projected and estimated economic model for retail stores utilizing a kiosk application is (on a per machine basis):

3D Hologram Ads	Rotation of 10 Second Hologram Ads @ \$150 per Ad	\$ 1,500
Coupons	Issuance of 11 Coupon Programs @ \$100 per Program	\$ 1,100
Net Revenue	Per Machine (net of agency fees)	\$ 2,600
Operating Costs	Monthly Paper, Service and Network Fees	\$ 150
	Retailer Share (estimated at 25% of Net Revenue)	\$ 650
Operating Costs	Per Kiosk	\$ 800
Monthly Operating Profit Per Kiosk		<u>\$ 1,800</u>

The monthly operating profit per kiosk would be reduced by the financing costs, such as a lease of the machine or funding through a joint venture such as ProDava 3D. Currently, all of the kiosks are owned by joint ventures with 648 of 659 kiosks owned by ProDava 3D. As a result of the current arrangement with ProDava 3D, the operating costs are paid for by ProDava 3D. The Company, as a 20% owner of ProDava 3D would have a gross profit of \$360 per machine.

Business Development

Launching our first products into grocery stores and retail pharmacies, we have developed a new patented application. Known as the "3D Savings Center", this ProVision device projects 3D video advertisements and allows consumers to print coupons as well as receive non-cash awards. The 3D Savings Center kiosk provides consumer product goods companies and other advertisers with a new way of promoting their products at the point of purchase, where consumers are making 70% (seventy percent) of their buying decisions.¹

¹ There are many independent studies that confirm that the majority of purchase decisions are made in-store. The most often-cited support for the "70 Percent Rule" is a 1995 study initiated by Point-of-Purchase Advertising International (1995 POPAI Consumer Buying Habits Study).

We tested our concept in Fred Meyer Stores, a division of The Kroger, Co., installing 3D Savings Center kiosks in the Pacific Northwest. We received advertising placements from some of the largest manufacturers in the country, including Unilever, Proctor & Gamble, Johnson & Johnson, BIC and Kimberly Clark. The Company has published a case study of this successful market trial which is available from the Company.

We have now aligned a retail chain, a hardware purchaser to buy 3D Savings Center kiosks to install into the retail chain and advertising agencies to sell ads for the 3D Savings Center kiosks and expect to generate additional revenue from hardware sales in the year ended June 30, 2017 and significant advertising sales thereafter.

Rite Aid Pharmacies

We plan to build, own, and operate networks of 3D Savings Center kiosks. In April 2013 we have an agreement with Rite Aid Pharmacies (“Rite Aid”) to install 3D Savings Centers kiosks in all participating Rite Aid stores throughout the United States. We successfully completed the pilot test phase with nine stores in Los Angeles, and have completed the manufacturing of, and received payment for, the first 200 3D Savings Center kiosks in March 2015. The Company shipped the first 200 kiosks to be installed in stores at the end of March 2015. We currently have 659 3D Savings Center kiosks installed at our retail partner. These kiosks have been installed in New York, Los Angeles, Detroit, Philadelphia and San Francisco retail locations. With the successful incorporation of Rite Aid’s wellness and loyalty program, now known as “Plenti” onto the 3D Savings Center kiosks in New York and Los Angeles, we plan to continue to expand to 1,000 stores in Rite Aid’s top 10 demographic markets. The Company will earn advertising revenue from advertisements in Rite Aid and share a portion of the revenues with Rite Aid.

ProDava 3D

DB Dava LLC, a Delaware limited liability company (“DB”), and the Company agreed to engage in a venture for the purpose of exploiting the Company’s technology and its agreement with a national pharmacy chain to place a number of its kiosks in stores. In June 2014, the Company and DB, caused ProDava LLC (“ProDava”) to be formed, and the parties entered into the ProDava LLC Agreement (the “LLC Agreement”) on June 30, 2014, which set out, among other things, the parties’ respective rights and obligations with respect to ProDava.

The two members of ProDava are the Company and DB. At the time of the formation of ProDava, the LLC Agreement originally provided that DB owned 80 percent of the membership interests of ProDava and the Company owned 20 percent of the membership interests of ProDava, assuming a \$50,000,000 capital contribution by DB. Pursuant to the LLC Agreement, the Company made a capital contribution of \$12,500,000, which represented the agreed upon value of a certain agreements which granted the Company rights to place kiosks in retail stores.

The Company’s motivation to enter into the LLC Agreement was to use DB’s financing to place kiosks into retail stores. Pursuant to LLC Agreement, DB agreed to make a capital contribution of up to US\$50,000,000. It was understood and agreed between the parties that the Company’s role in ProDava was to provide, among other things, the kiosks, the content, resources and the know-how as to the placement and maintenance of the kiosks in retail stores.

To that end, ProDava entered into a Professional Services Agreement, dated June 30, 2014 (the “PSA”) with the Company, whereby ProDava engaged the Company to provide services for ProDava with respect to the sourcing, due diligence, acquisition, management, construction and marketing of the kiosks financed and purchased by ProDava. As full compensation for rendering and performing such services under the PSA, the Company was entitled to receive from ProDava, the unreimbursed expenses incurred by the Company. It was agreed and understood that DB’s role in ProDava was to provide the funding necessary for the unreimbursable expenses and the production, manufacture and maintenance of the kiosks placed in stores. As a result of the ownership percentage in ProDava, DB would receive 80% of the profits of the ProDava from advertising related revenue less expenses.

Advertising Agencies

Provision has engaged TSQ LL (TSQ) and GRI LLC (GRC) to provide non-exclusive national advertising sales to the OTC (over-the-counter) and DTC (direct-to-consumer) brands in support of the 3D Saving Center kiosks being deployed inside Rite Aid.

We have also engaged Pharmark, Inc. to provide local and regional advertising sales to support the 3D Savings Center kiosks in retail stores. The clients of Pharmark will provide local coupons, promotions and other advertising campaigns in digital format expanding advertising to include local merchants joining national brands.

Other Business Arrangements

The Company has signed a Master Collaboration Agreement with Intel Corporation to identify and collaborate on certain technical and marketing activities as contained in the agreement. Collaboration includes joint technical development and marketing activities as determined by the two companies.

The Company has signed a Master Service Agreement with Fujifilm Corporation to provide to Company and its customers with installation and maintenance services to the Company's 3D Savings Center Kiosks inside Rite Aid retail stores.

In April 2014, Provision announced that it has shipped its first two 3D Holographic displays, models HL40D and HL17MD to an international shopping center group. Operating one of the world's largest shopping center portfolios with interests in 90 shopping centers around the world, the group is testing Provision's 3D holographic display as a potential marketing tool, including the use of interactive features.

Competition

Currently, Provision's competition is no other 3D companies that may exist in the marketplace, but traditional advertising media like television, radio, newspapers and magazines. We also compete with companies that operate outdoor and Digital Out-Of-Home (DOOH) advertising media networks that can be seen at malls, gas stations, and retailers containing traditional 2D (two dimensional) TV screens or flat screens. We also compete for overall advertising spending with other alternative advertising media companies, such as Internet, billboard and public transport advertising companies.

The competition for ProVision's patented (issued, approved and pending) and proprietary 3D floating image holographic technology includes alternative 3D displays currently in the marketplace:

Employees

As of December 31, 2016 we have eight employees. None of our employees is represented by a labor union. We have not experienced any work stoppages and we consider relations with our employees to be good. The company also uses independent contractors to support administration, marketing, sales and field support activities.

Research and Development

Research and Development Activities

At present, Provision's patents and patent applications are supplemented by substantial intellectual property we are currently protecting as trade secrets and proprietary know-how. This includes matter related to all product lines. We expect to file additional patent applications on a regular basis in the future.

Intellectual Property

ProVision's floating image display systems project full-motion 3D digital streaming media 9"- 40" into space detached from the display unit into free space and should not be confused with autostereoscopic systems. Autostereoscopic 3D systems produced by various firms' layer two or more LCD screens, or lenticular lens based screens, while utilizing filters and collimators to provide the illusion of depth perception. Such systems are only capable of displaying digital content attached to layered screens with all images being contained within the actual display unit. Due to the inherent nature of this technology approach the end result of their product line results in the following characteristics: eye strain, nausea, low resolution, low brightness and poor quality imagery, all resulting in poor/low customer acceptance. The cost to produce custom and special content for these screens are excessively expensive and time consuming becoming a major hurdle to overcome for mass adoption. Their major advantage might be characterized by their "flat screens" and slightly wider viewing angles, however consumer acceptance has been limited due to the limitations and poor visual experience. Companies attempting to launch these screens include 3D Magnetec, Alisocopy, Tridelity, and 3D Fusion. Companies that have tried to launch these types of screens, and have failed or ceased operations, include: Phillips, Sharp, and Newsight.

RESULTS OF OPERATIONS

THREE MONTHS ENDED DECEMBER 31, 2016 COMPARED TO THREE MONTHS ENDED DECEMBER 31, 2015

The following table sets forth, for the periods indicated, certain data derived from our Statements of Operations:

	December 31,	
	2016	2015
REVENUES		
Advertising revenues	\$ 158,700	\$ -
Hardware revenues	101,325	6,724
Hardware revenues – related party	1,196,552	2,011,404
Service related revenues – related party	-	150,572
Software revenues – related party	16,614	33,230
TOTAL REVENUES	1,473,191	2,201,930
COST OF REVENUES	1,784,956	1,902,108
GROSS PROFIT(LOSS)	(311,765)	299,822
EXPENSES		
General and administrative	693,830	451,452
Research and development	69,772	64,830
TOTAL EXPENSES	763,502	516,282
LOSS FROM OPERATIONS	(1,075,267)	(216,460)
OTHER INCOME (EXPENSE)		
Change in fair value of derivative	2,561	-
Loss on debt settlement	(48,000)	
Amortization of debt and warrant discount and financing costs	(458,855)	
Interest expense	(298,049)	(386,544)
TOTAL OTHER INCOME (EXPENSE)	(802,343)	(386,544)
NET LOSS	\$ (1,877,610)	\$ (603,004)

REVENUES

The Company recognizes revenues from hardware sales, advertising and from licensing, distribution and marketing agreements. Revenues for the quarter ended December 31, 2016 were \$1,473,191, a decrease of \$728,739 from \$2,201,930 generated in the quarter ended December 31, 2015. The decrease in revenues was primarily from a decrease in related party sales. The related party revenue for the three months ended December 31, 2016 the result of hardware and service sales along with amortization of a long-term software contract on sales to ProDava 3D, LLC related to the purchase of Provision's 3D Savings Center kiosks for placement into retail stores. The related party revenue for the three months ended December 31, 2015 is for sales to ProDava 3D, LLC to purchase Provision's 3D Savings Center kiosks for placement into retail stores. During the three ended December 31, 2016 the Company had one customer which accounted for 10% of the Company's revenues (82%). During the three ended December 31, 2015 the Company had one customer which accounted for 10% of the Company's revenues (99%).

COST OF REVENUES

Cost of revenues for the quarter ended December 31, 2016 was \$1,784,956 as compared to \$1,902,108 incurred in the quarter ended December 31, 2015. Cost of revenues for the quarter ended December 31, 2016 increased due to the uncollectibility of expenses paid on behalf of ProDava.

OPERATING EXPENSES

The Company incurred \$763,502 in operating expenses for the quarter ended December 31, 2016, an increase from \$516,282 incurred during the quarter ended December 31, 2015 primarily as a result of a \$242,378 increase in general and administrative expenses and increase in research and development expenses by \$4,942. General and administrative expenses for the quarter ended December 31, 2016 increased primarily as a result of the fees for independent contractors and consultants for the Company's operations and additional marketing agreements.

OTHER EXPENSES

The Company also recorded additional \$370,360 of interest expense and amortization of debt and warrant discounts and finance costs during the quarter ended December 31, 2016 compared to the comparable quarter in 2015, related to the convertible notes outstanding. Additionally, the Company recorded a \$48,000 loss due to the settlement of a debt during the three months ended December 31, 2016.

NET LOSS

The Company had a net loss of \$1,877,610 for the quarter ended December 31, 2016 compared to net loss of \$603,004 for the quarter ended December 31, 2015. The increase in net loss in the quarter ended December 31, 2016 was primarily a result of the uncollectibility of \$320,073 of expenses paid on behalf of ProDava, higher interest expense by \$370,360, increased operating expenses by \$247,220 along with the debt settlement of \$48,000.

SIX MONTHS ENDED DECEMBER 31, 2016 COMPARED TO SIX MONTHS ENDED DECEMBER 31, 2015

	Six Months Ended	
	December 31,	
	2016	2015
REVENUES		
Advertising revenues	\$ 158,700	\$ -
Hardware revenues	110,195	31,166
Hardware revenues – related party	1,196,552	2,583,825
Service related revenues – related party	-	454,175
Software revenues – related party	66,456	33,230
TOTAL REVENUES	1,531,903	3,372,396
COST OF REVENUES	1,840,983	2,822,060
GROSS PROFIT(LOSS)	(309,080)	550,336
EXPENSES		
General and administrative	1,516,539	749,648
Research and development	219,904	96,899
TOTAL EXPENSES	1,736,443	846,547
LOSS FROM OPERATIONS	(2,045,523)	(296,211)
OTHER INCOME (EXPENSE)		
Derivative liability expense – insufficient shares	-	(85,960)
Change in fair value of derivative	62,418	-
Gain on forgiveness of debt	-	597,312
Loss on settlement of debt	(48,000)	-
Amortization of debt and warrant discount and financing costs	(917,710)	-
Other income	-	2,876
Interest expense	(552,322)	(738,848)
TOTAL OTHER INCOME (EXPENSE)	(1,455,614)	(224,620)
NET LOSS	\$ (3,501,137)	\$ (520,831)

REVENUES

The Company recognizes revenues from hardware sales, advertising and from licensing, distribution and marketing agreements. Revenues for the six months ended December 31, 2016 were \$1,531,903, a decrease from \$3,372,396 generated in the six months ended December 31, 2015. The decrease in revenues was primarily from an increase in related party sales. The related party revenue is for sales to ProDava 3D, LLC to purchase Provision's 3D Savings Center kiosks for placement into retail stores. During the six months ended December 31, 2016 sales to ProDava 3D, LLC accounted for 82% of the Company's revenues. During the six months ended December 31, 2015 sales to ProDava 3D, LLC accounted for 98% of the Company's revenues

COST OF REVENUES

Cost of revenues for the six months ended December 31, 2016 was \$1,840,983 from \$2,822,060 incurred in the six months ended December 31, 2015. Cost of revenues for the fiscal six months ended December 31, 2016 increased due to the uncollectibility of expenses paid on behalf of ProDava.

OPERATING EXPENSES

The Company incurred \$1,736,443 in operating expenses for the six months ended December 31, 2016, an increase from \$846,547 incurred during the six months ended December 31, 2015 primarily as a result of a \$766,891 increase in general and administrative expenses and increase in research and development expenses by \$123,005. General and administrative expenses for the six months ended December 31, 2016 increased primarily as a result of accounting and legal costs due to the Company completing several overdue SEC filings and additional travel expenses related to the supervision of the installations of kiosks during the six months.

OTHER EXPENSES

The Company had various miscellaneous income and expenses. The largest gain was a gain of \$597,312 during the six months ended December 31, 2015 on extinguishment of debt of a previously recorded contingency loss after it filed a lawsuit and was awarded a default judgement in its favor from a dispute that started in 2004 with Betacorp Management, Inc.

The Company also recorded additional interest expense of \$731,184 primarily related to the issuance of convertible notes during the six months ended December 31, 2016. During the six months ended December 31, 2015 the Company recorded a charge of \$85,960 for the derivative liability resulting from the Company having insufficient shares for issued and outstanding common stock equivalents. The Company authorized additional shares during the six months ending December 31, 2015. The Company recognized a gain of \$62,418 for the quarter ended December 31, 2016 from the change in fair value of derivative as a result of fluctuating market prices of the Company's common stock.

Additionally, the Company recorded a \$48,000 loss due to the settlement of a debt during the six months ended December 31, 2016.

NET LOSS:

The Company had a net loss of \$3,501,137 for the six months ended December 31, 2016 compared to net loss of \$520,831 for the six months ended December 31, 2015. The higher net loss for the six months ended December 31, 2016 was primarily a result of the gain on forgiveness of debt partially offset by the uncollectibility of \$320,073 of expenses paid on behalf of ProDava, higher interest expense and increased operating expenses.

Liquidity and Capital Resources

The financial statements in this Form 10-Q are presented on the basis that the Company is a going concern. Going concern contemplates the realization of assets and the satisfaction of liabilities in the normal course of business over a reasonable length of time. The Company had accumulated deficit at December 31, 2016 of \$38,259,399. The Company has negative working capital of \$10,885,327 as of December 31, 2016. The largest balances in current liabilities are for accrued interest \$2,601,508, unearned revenue \$2,057,607, account payable and accrued expenses of \$2,334,514 and the current portion of convertible debt, net in the amount of \$5,761,074. The Company is in the process of negotiating with noteholders to convert accrued interest into long-term notes to reduce current liabilities and plans to ship goods to reduce the unearned revenue.

The condensed consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. The Company's continuation as a going concern is dependent upon its ability to generate sufficient cash flow to meet its obligations on a timely basis, to obtain additional financing or refinancing as may be required and, ultimately, to attain profitable operations. Management's plan to eliminate the going concern situation include, but are not limited to, the raise of additional capital through issuance of debt and equity, improved cash flow management, aggressive cost reductions, and the creation of additional sales and profits across its product lines.

The Company does have \$106,363 in cash as of December 31, 2016. The Company does not have sufficient cash to operate for the next 12 months. Failure to raise additional capital or improve its performance in the next 12 months, however, may cause the Company to curtail its business activities and expansion plans within the next twelve months.

During the six months ended December 31, 2016, the Company used \$2,052,385 of cash for operating activities compared to a use of \$500,520 in the six months ended December 31, 2015. The increase in cash used for operating activities was due a higher net loss and the use of cash to lower accounts payable and accrued liabilities. Cash used by investing activities was \$-0- and \$13,750 in the six months ended December 31, 2016 and 2015. Cash used by financing activities was \$16,795 in the six months ended December 31, 2016 compared to cash from financing activities of \$3,249,730 during the six months ended December 31, 2015.

DB Dava LLC, a Delaware limited liability company (“DB”), and the Company agreed to engage in a venture for the purpose of exploiting the Company’s technology and its agreement with a national pharmacy chain to place a number of its kiosks in stores. In June 2014, the Company and DB, caused ProDava LLC (“ProDava”) to be formed, and the parties entered into the ProDava LLC Agreement (the “LLC Agreement”) on June 30, 2014, which set out, among other things, the parties’ respective rights and obligations with respect to ProDava.

The two members of ProDava are the Company and DB. At the time of the formation of ProDava, the LLC Agreement originally provided that DB owned 80 percent of the membership interests of ProDava and the Company owned 20 percent of the membership interests of ProDava, assuming a \$50,000,000 capital contribution by DB. Pursuant to the LLC Agreement, the Company made a capital contribution of \$12,500,000, which represented the agreed upon value of a certain agreements which granted the Company rights to place kiosks in retail stores.

The Company’s motivation to enter into the LLC Agreement was to use DB’s financing to place kiosks into retail stores. Pursuant to LLC Agreement, DB agreed to make a capital contribution of up to US\$50,000,000. It was understood and agreed between the parties that the Company’s role in ProDava was to provide, among other things, the kiosks, the content, resources and the know-how as to the placement and maintenance of the kiosks in retail stores.

To that end, ProDava entered into a Professional Services Agreement, dated June 30, 2014 (the “PSA”) with the Company, whereby ProDava engaged the Company to provide services for ProDava with respect to the sourcing, due diligence, acquisition, management, construction and marketing of the kiosks financed and purchased by ProDava. As full compensation for rendering and performing such services under the PSA, the Company was entitled to receive from ProDava, the unreimbursed expenses incurred by the Company. It was agreed and understood that DB’s role in ProDava was to provide the funding necessary for the unreimbursable expenses and the production, manufacture and maintenance of the kiosks placed in stores. As a result of the ownership percentage in ProDava, DB would receive 80% of the profits of the ProDava from advertising related revenue less expenses.

In the best interests of shareholders and to reflect expenses paid on behalf of ProDava, the Company initiated an action against DB in November 2016 seeking declaratory judgment. After the execution of the LLC Agreement, both DB and the Company performed their respective duties. The Company caused numerous kiosks to be manufactured for placement in retail stores in accordance with the PSA, maintained and serviced these kiosks. DB provided funds to ProDava for, the production of kiosks and for expenses incurred by the Company in connection with the maintenance of servicing of the kiosks. In total, DB provided sums totaling \$6.5 million. In the first quarter of 2016, DB ceased providing the funding required by the LLC Agreement. DB advised The Company that DB was analyzing information and that it would make a determination as to whether it would continue to provide funding in accordance with the LLC Agreement. The Company has been incurring the reimbursable expenses that were to be reimbursed by DB. The LLC Agreement provides that, in the event that DB fails to fund any portion of the total amount is was required to provide in accordance with the terms of the LLC Agreement, the LLC Agreement provides for the recalculation of the parties’ membership interests in ProDava. The Company filed an action in the Supreme Court of the State of New York in New York County (Index No. 656127/2016) to seed to recalculate the ownership percentage of ProDava. DB filed a motion to dismiss and the Company filed an action opposing such motion. No claims were made against the Company. If successful, the Company will own a greater percentage of ProDava. If unsuccessful, the Company will have to continue to fund ProDava’s expenses until advertising income exceeds expenses.

CRITICAL ESTIMATES AND JUDGMENTS

The preparation of the Company’s financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management evaluates its estimates and judgments, including those related to receivables and accrued expenses. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable based on the circumstances. Actual results may differ from these estimates under different assumptions or conditions. The most significant accounting estimates inherent in the preparation of the Company’s financial statements include estimates as to the appropriate carrying value of the Company’s intangible assets, the amount of stock compensation, and the amount of accrued liabilities that are not readily attainable from other sources. These accounting policies are described at relevant sections in this discussion and analysis and in the notes to the unaudited condensed consolidated financial statements.

CRITICAL ACCOUNTING POLICIES

Cash and Cash Equivalents

The Company considers all highly liquid investments, with an original maturity of three months or less when purchased, to be cash equivalents. As of December 31, 2016 and June 30, 2016, the Company’s cash and cash equivalents were on deposit in federally insured financial institutions, and at times may exceed federally insured limits.

Accounts Receivable

Accounts receivable are not collateralized and interest is not accrued on past due accounts. Periodically, management reviews the adequacy of its provision for doubtful accounts based on historical bad debt expense results and current economic conditions using factors based on the aging of its accounts receivable. After management has exhausted all collection efforts, management writes off receivables and the related reserve. Additionally, the Company may identify additional allowance requirements based on indications that a specific customer may be experiencing financial difficulties. Actual bad debt results could differ materially from these estimates.

Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market. The Company periodically reviews its inventories for indications of slow movement and obsolescence and records an allowance when it is deemed necessary.

Property and Equipment

Property and equipment are stated at cost. When retired or otherwise disposed, the related carrying value and accumulated depreciation are removed from the respective accounts and the net difference less any amount realized from disposition, is reflected in earnings. For financial statement purposes, property and equipment are recorded at cost and depreciated using the straight-line method over their estimated useful lives. Long-lived tangible assets are reviewed for impairment whenever events or changes in business circumstances indicate the carrying value of the assets may not be recoverable. Impairment losses are recognized based on estimated fair values if the sum of expected future undiscounted cash flows of the related assets is less than their carrying values.

Intangibles

Intangibles represent primarily costs incurred in connection with patent applications. Such costs are amortized using the straight-line method over the useful life of the patent once issued, or expensed immediately if any specific application is unsuccessful.

Revenue Recognition

The Company recognizes gross sales when persuasive evidence of an arrangement exists, title transfer has occurred, the price is fixed or readily determinable, and collection is probable. It recognizes revenue in accordance with Accounting Standards Codification (“ASC”) 605, Revenue Recognition (“ASC 605”). Revenue from licensing, distribution and marketing agreements is recognized over the term of the contract. Revenue from the sale of hardware is recognized when the product is complete and the buyer has accepted delivery. Provisions for discounts and rebates to customers, estimated returns and allowances, and other adjustments are provided for in the same period the related sales are recorded.

Cost of Revenue

Cost of revenue in respect to sale of hardware consists of costs associated with manufacturing of 3D displays, Kiosk machine, transportation, and other costs that are directly related to a revenue-generating. Such expenses are classified as cost of revenue in the corresponding period in which the revenue is recognized in the accompanying income statement.

Depreciation and Amortization

The Company depreciates its property and equipment using the straight-line method with estimated useful lives from three to seven years. For federal income tax purposes, depreciation is computed using an accelerated method.

Shipping and Handling Costs

The Company’s policy is to classify shipping and handling costs as a component of Costs of Revenues in the Statement of Operations.

Unearned Revenue

The Company bills customers in advance for certain of its services. If the customer makes payment before the service is rendered to the customer, the Company records the payment in a liability account entitled customer prepayments and recognizes the revenue related to the services when the customer receives and utilizes that service, at which time the earnings process is complete. The Company recorded \$2,057,607 and \$3,419,616 as of December 31, 2016 and June 30, 2016, respectively as deferred revenue.

Significant Customers

During the three and six months ended December 31, 2016 the Company had one customer which accounted for more than 10% of the Company's revenues (82% and 82%, respectively). During the three and six months ended December 31, 2015 the Company had one customer which accounted for more than 10% of the Company's revenues (98% and 99%, respectively).

Research and Development Costs

The Company charges all research and development costs to expense when incurred. Manufacturing costs associated with the development of a new process or a new product are expensed until such times as these processes or products are proven through final testing and initial acceptance by the customer.

For the three months ended December 31, 2016 and 2015, the Company incurred \$69,772 and \$64,830, respectively for research and development expense which are included in the unaudited condensed consolidated statements of operations. For the six months ended December 31, 2016 and 2015, the Company incurred \$219,904 and \$96,899, respectively for research and development expense which are included in the unaudited condensed consolidated statements of operations.

Fair Value of Financial Instruments

Fair value estimates discussed herein are based upon certain market assumptions and pertinent information available to management as of December 31, 2016 and June 30, 2016. The respective carrying value of certain on-balance-sheet financial instruments, approximate their fair values. These financial instruments include cash, accounts receivable, accounts payable, accrued expenses and notes payable. Fair values were assumed to approximate carrying values for these financial instruments because they are short term in nature and their carrying amounts approximate fair values or they are receivable or payable on demand.

The Company uses fair value measurements under the three-level valuation hierarchy for disclosures of fair value measurement and enhances disclosure for fair value measures. The three levels are defined as follows:

- Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the assets or liability, either directly or indirectly, for substantially the full term of the financial instruments.
- Level 3 inputs to the valuation methodology are unobservable and significant to the fair value.

	Carrying Value	Fair Value Measurements Using Fair Value Hierarchy		
		Level 1	Level 2	Level 3
Convertible notes (net of discount) – December 31, 2016	\$ 6,179,725	\$ -	\$ -	\$ 6,179,725
Convertible notes (net of discount) – June 30, 2016	\$ 6,415,371	\$ -	\$ -	\$ 6,415,371
Derivative liability – December 31, 2016	\$ -	\$ -	\$ -	\$ -
Derivative liability – June 30, 2016	\$ 188,128	\$ -	\$ -	\$ 188,128

The following table provides a summary of the changes in fair value of the Company's Promissory Notes, which are both Level 3 liabilities as of December 31, 2016:

Balance at June 30, 2016	\$ 6,415,371
Accretion of debt and warrant discount and prepaid financing costs	979,684
Issuance of shares of common stock for convertible debt	(1,215,330)
Balance December 31, 2016	<u>\$ 6,179,725</u>

The Company determined the value of its convertible notes using a market interest rate and the value of the warrants and beneficial conversion feature issued at the time of the transaction less the accretion. There is no active market for the debt and the value was based on the delayed payment terms in addition to other facts and circumstances at the end of December 31, 2016 and June 30, 2016.

Derivative Financial Instruments

The Company evaluates our financial instruments to determine if such instruments are derivatives or contain features that qualify as embedded derivatives. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported in the statements of operations. For stock-based derivative financial instruments, the Company uses the Black-Scholes-Merton pricing model to value the derivative instruments. The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is evaluated at the end of each reporting period. Derivative instrument liabilities are classified in the balance sheet as current or non-current based on whether or not net-cash settlement of the derivative instrument could be required within 12 months of the balance sheet date.

Certain of the Company's embedded conversion features on debt and outstanding warrants are treated as derivative liabilities for accounting purposes under ASC 815 due to insufficient authorized shares to settle these outstanding contracts, or due to other rights connected with these contracts, such as registration rights. In the case of insufficient authorized share capital available to fully settle outstanding contracts, the Company utilizes the latest maturity date sequencing method to reclassify outstanding contracts as derivative instruments. These contracts are recognized currently in earnings until such time as the warrants are exercised, expire, the related rights have been waived and/or the authorized share capital has been amended to accommodate settlement of these contracts. These instruments do not trade in an active securities market.

The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is re-assessed at the end of each reporting period. Derivative instruments that become subject to reclassification are reclassified at the fair value of the instrument on the reclassification date. Derivative instrument liabilities will be classified in the balance sheet as current or non-current based on whether or not settlement of the derivative instrument is expected within 12 months of the balance sheet date.

The Company estimates the fair value of these instruments using the Black-Scholes option pricing model and the intrinsic value if the convertible notes are due on demand.

We have determined that certain convertible debt instruments outstanding as of the date of these financial statements include an exercise price "reset" adjustment that qualifies as derivative financial instruments under the provisions of ASC 815-40, Derivatives and Hedging - Contracts in an Entity's Own Stock ("ASC 815-40"). Certain of the convertible debentures have a variable exercise price, thus are convertible into an indeterminate number of shares for which we cannot determine if we have sufficient authorized shares to settle the transaction with. Accordingly, the embedded conversion option is a derivative liability and is marked to market through earnings at the end of each reporting period. Any change in fair value during the period recorded in earnings as "Other income (expense) - gain (loss) on change in derivative liabilities."

The following table represents the Company's derivative liability activity for the period ended:

Balance at June 30, 2016	\$ 188,128
Derivative liability reclass into additional paid in capital upon notes conversion	(125,710)
Change in fair value of derivative at period end	(62,418)
Balance December 31, 2016	<u>\$ -</u>

Commitments and Contingencies:

In the normal course of business, the Company is subject to loss contingencies, such as legal proceedings and claims arising out of its business, that cover a wide range of matters, including, among others, government investigations, environment liability and tax matters. An accrual for a loss contingency is recognized when it is probable that an asset had been impaired or a liability had been incurred and the amount of loss can be reasonably estimated.

Basic and Diluted Income (Loss) per Share

Basic income (loss) per common share is computed by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding. Diluted income (loss) per common share is computed similar to basic income per common share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. As of December 31, 2016, the Company had debt instruments, options and warrants outstanding that can potentially be converted into approximately 105,215,698 shares of common stock.

Anti-dilutive securities not included in diluted loss per share relating to:

Warrants outstanding	5,746,133
Options vested and outstanding	-
Convertible debt and notes payable including accrued interest	<u>63,810,242</u>

Material Equity Instruments

The Company evaluates stock options, stock warrants and other contracts (convertible promissory note payable) to determine if those contracts or embedded components of those contracts qualify as derivative financial instruments to be separately accounted for under the relevant sections of *ASC 815-40, Derivative Instruments and Hedging: Contracts in Entity's Own Equity ("ASC 815")*. The result of this accounting treatment could be that the fair value of a financial instrument is classified as a derivative financial instrument and is marked-to-market at each balance sheet date and recorded as a liability. In the event that the fair value is recorded as a liability, the change in fair value is recorded in the statement of operations as other income or other expense. Upon conversion or exercise of a derivative financial instrument, the instrument is marked to fair value at the conversion date and then that fair value is reclassified to equity. Financial instruments that are initially classified as equity that become subject to reclassification under ASC 815 are reclassified to a liability account at the fair value of the instrument on the reclassification date.

Certain of the Company's embedded conversion features on debt and outstanding warrants are treated as derivative liabilities for accounting purposes under ASC 815-40 due to insufficient authorized shares to settle these outstanding contracts. Pursuant to SEC staff guidance that permits a sequencing approach based on the use of ASC 840-15-25 which provides guidance for contracts that permit partial net share settlement. The sequencing approach may be applied in one of two ways: contracts may be evaluated based on (1) earliest issuance date or (2) latest maturity date. In the case of insufficient authorized share capital available to fully settle outstanding contracts, the Company utilizes the earliest maturity date sequencing method to reclassify outstanding contracts as derivative instruments. These contracts are recognized currently in earnings until such time as the convertible notes or warrants are exercised, expire, the related rights have been waived and/or the authorized share capital has been amended to accommodate settlement of these contracts. These instruments do not trade in an active securities market.

Recent Accounting Pronouncements

In January 2016, the FASB issued an accounting standard update which requires, among other things, that entities measure equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) at fair value, with changes in fair value recognized in earnings. Under the standard, entities will no longer be able to recognize unrealized holding gains and losses on equity securities classified today as available for sale as a component of other comprehensive income. For equity investments without readily determinable fair values the cost method of accounting is also eliminated, however subject to certain exceptions, entities will be able to elect to record equity investments without readily determinable fair values at cost, less impairment and plus or minus adjustments for observable price changes, with all such changes recognized in earnings. This new standard does not change the guidance for classifying and measuring investments in debt securities and loans. The standard is effective for us on July 1, 2018 (the first quarter of our 2019 fiscal year). The Company is currently evaluating the anticipated impact of this standard on our financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Topic 842 affects any entity that enters into a lease, with some specified scope exemptions. The guidance in this Update supersedes Topic 840, *Leases*. The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from leases. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For public companies, the amendments in this Update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. We are currently evaluating the impact of adopting ASU No. 2016-02 on our consolidated financial statements.

In March 2016, the FASB issued ASU 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)* that clarifies how to apply revenue recognition guidance related to whether an entity is a principal or an agent. ASU 2016-08 clarifies that the analysis must focus on whether the entity has control of the goods or services before they are transferred to the customer and provides additional guidance about how to apply the control principle when services are provided and when goods or services are combined with other goods or services. The effective date for ASU 2016-08 is the same as the effective date of ASU 2014-09 as amended by ASU 2015-14, for annual reporting periods beginning after December 15, 2017, including interim periods within those years. The Company has not yet determined the impact of ASU 2016-08 on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Compensation – Stock Compensation, or ASU No. 2016-09. The areas for simplification in this Update involve several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. For public entities, the amendments in this Update are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted in any interim or annual period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. Amendments related to the timing of when excess tax benefits are recognized, minimum statutory withholding requirements, forfeitures, and intrinsic value should be applied using a modified retrospective transition method by means of a cumulative-effect adjustment to equity as of the beginning of the period in which the guidance is adopted. Amendments related to the presentation of employee taxes paid on the statement of cash flows when an employer withholds shares to meet the minimum statutory withholding requirement should be applied retrospectively. Amendments requiring recognition of excess tax benefits and tax deficiencies in the income statement and the practical expedient for estimating expected term should be applied prospectively. An entity may elect to apply the amendments related to the presentation of excess tax benefits on the statement of cash flows using either a prospective transition method or a retrospective transition method. We are currently evaluating the impact of adopting ASU No. 2016-09 on our consolidated financial statements.

In April 2016, the FASB issued ASU 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*, which provides further guidance on identifying performance obligations and improves the operability and understandability of licensing implementation guidance. The effective date for ASU 2016-10 is the same as the effective date of ASU 2014-09 as amended by ASU 2015-14, for annual reporting periods beginning after December 15, 2017, including interim periods within those years. The Company has not yet determined the impact of ASU 2016-10 on its consolidated financial statements.

In June 2016, the FASB Issued ASU 2016-12, “Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients” and clarifies the objective of the collectability criterion, presentation of taxes collected from customers, non-cash consideration, contract modifications at transition, completed contracts at transition and how guidance in Topic 606 is retrospectively applied. The amendments do not change the core principle of the guidance in Topic 606. The effective dates are the same as those for Topic 606. The Company has not yet determined the impact of ASU 2016-12 on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, in an effort to reduce the diversity of how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments of this ASU are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. The Company has not yet determined the impact of ASU 2016-15 on its consolidated financial statements.

In October 2016, the FASB issued ASU No 2016-16 - Income Taxes: Intra-Entity Transfers of Assets Other Than Inventory. ASU 2016-16 will require the tax effects of intercompany transactions, other than sales of inventory, to be recognized currently, eliminating an exception under current GAAP in which the tax effects of intra-entity asset transfers are deferred until the transferred asset is sold to a third party or otherwise recovered through use. The guidance will be effective for the first interim period of our 2019 fiscal year, with early adoption permitted. The Company has not yet determined the impact of ASU 2016-16 on its consolidated financial statements.

In January 2017, FASB issued ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business, in an effort to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The amendments of this ASU are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company has not yet determined the impact of ASU 2017-01 on its consolidated financial statements.

ECONOMY AND INFLATION

Except as disclosed herein, we have not experienced any significant cancellation of orders due to the downturn in the economy and only a small number of customers requested delays in delivery or production of orders in process. Our management believes that inflation has not had a material effect on our results of operations.

OFF-BALANCE SHEET AND CONTRACTUAL ARRANGEMENTS

We do not have any off balance sheet or contractual arrangements that are reasonably likely to have a current or future effect on our financial condition, revenues, and results of operations, liquidity or capital expenditures.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of our Company's Principal Executive Officer and Principal Financial Officer, of the design and effectiveness of our "disclosure controls and procedures" (as defined under Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based on this evaluation, our Principal Executive Officer and Principal Financial Officer concluded that, as of the end of the period covered by this report, these disclosure controls and procedures were not effective to provide reasonable assurance that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified by the rules and forms of the SEC and is accumulated and communicated to management, including the Principal Executive Officer and Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

The matters involving internal controls and procedures that the Company's management considered to be material weaknesses under the standards of the Public Company Accounting Oversight Board are as follows: (1) lack of a functioning audit committee and lack of a majority of outside directors on the Company's board of directors, resulting in ineffective oversight in the establishment and monitoring of required internal controls and procedures; (2) inadequate segregation of duties consistent with control objectives; (3) insufficient written policies and procedures for accounting and financial reporting with respect to the requirements and application of US GAAP and SEC disclosure requirements; and (4) ineffective controls over period end financial disclosure and reporting processes. The Company intends to establish policies and procedures that will remediate the related material weaknesses.

Changes in Internal Controls over Financial Reporting

There have been no changes in our internal controls over financial reporting during our last fiscal three months that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In the ordinary course of business, the Company may become a party to various legal proceedings generally involving contractual matters, infringement actions, product liability claims and other matters. There are no material items of litigation at this time.

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

During the six months ended December 31, 2016, the Company issued 2,576,667 shares of common stock in exchange for consulting services valued at \$550,733.

During the six months ended December 31, 2016 the Company issued 12,170,263 shares of its common stock in payment of \$1,240,470 debt and accrued interest.

ITEM 3. DEFAULT UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

31.1	Certification of Chief Executive Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive 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 Extension Schema Document
101.CAL **	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF **	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB **	XBRL Taxonomy Extension Label Linkbase Document
101.PRE **	XBRL Taxonomy Extension Presentation Linkbase Document

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

SIGNATURES

In accordance with the requirements of Section 13 or 15(d) of the Exchange Act, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PROVISION HOLDING, INC.

Dated: February 21, 2017

By: /s/ Curt Thornton

Name: Curt Thornton

Title: Chief Executive Officer
(Principal Executive Officer and
Principal Financial Officer)

CERTIFICATION

I, Curt Thornton, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Provision Holding, Inc.:

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

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

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

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

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

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

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

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

/s/ Curt Thornton

Curt Thornton
Chief Executive Officer
(Principal Executive Officer and
Principal Financial Officer)

Date: February 21, 2017

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

In connection with the Quarterly Report on Form 10-Q of Provision Holding, Inc. (the "Company") for the quarter ended December 31, 2016, as filed with the Securities and Exchange Commission (the "Report"), I, Curt Thornton, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

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

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

/s/ Curt Thornton

Curt Thornton
Chief Executive Officer
(Principal Executive Officer and
Principal Financial Officer)

Date: February 21, 2017