Sugarmade, Inc.
Form 10-Q
November 27, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended: September 30, 2014

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from N/A to N/A
Commission file number: 000-23446

SUGARMADE, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**94-3008888** (I.R.S. Employer Identification No.)
167 N. Sunset Avenue, City of Industry, CA (Address of principal executive offices)	**91744** (Zip Code)

(626) 961-8619
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T 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 registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer	
	Smaller reporting company
(Do not check if a 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

At November 5, 2015 there were 177,987,658 shares outstanding of the issuer's common, the only class of common equity.

Transitional Small Business Disclosure Format (Check one): Yes No

SUGARMADE, INC.

FORM 10-Q

FOR THE PERIOD ENDED SEPTEMBER 30, 2014

TABLE OF CONTENTS

PART I : Financial Information

Item 1	Financial Statements	4
	Condensed Consolidated Balance Sheets as of September 30, 2014 (unaudited) and June 30, 2014 (audited)	4
	Condensed Consolidated Statements of Operations for three months ended September 30, 2014 and 2013 (unaudited)	5
	Condensed Consolidated Statements of Cash Flows for the three months ended September 30, 2014 and 2013 (unaudited)	6
	Notes to Unaudited Condensed Consolidated Financial Statements	7
Item 2	Management's Discussion and Analysis of Financial Condition and Results of Operations	24
Item 3	Quantitative and Qualitative Disclosures about Market Risk	28
Item 4	Controls and Procedures	28

PART II : Other Information

Item 1	Risk Factors	29
Item 2	Unregistered Sales of Equity Securities and Use of Proceeds	29
Item 3	Defaults upon Senior Securities	30
Item 4	Mine Safety Disclosures	30
Item 5	Other Information	30
Item 6	Exhibits	31

Signatures

(table of contents)

SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

In addition to historical information, this Quarterly Report on Form 10-Q includes forward-looking statements. Forward-looking statements are those that predict or describe future events or trends and that do not relate solely to historical matters. You can generally identify forward-looking statements as statements containing the words "believe," "expect," "will," "anticipate," "intend," "estimate," "project," "plan," "assume" or other similar expressions, or negatives of th expressions, although not all forward-looking statements contain these identifying words. All statements contained or incorporated by reference in this quarterly report regarding our future strategy, future operations, projected financial position, estimated future revenues, projected costs, future prospects, the future of our industry and results that might be obtained by pursuing management's current plans and objectives are forward-looking statements.

You should not place undue reliance on our forward-looking statements because the matters they describe are subject to known and unknown risks, uncertainties and other unpredictable factors, many of which are beyond our control. Our forward-looking statements are based on the information currently available to us and speak only as of the date on the cover of this quarterly report, or, in the case of forward-looking statements in documents incorporated by reference, as of the date of the date of the filing of the document that includes the statement. New risks and uncertainties arise from time to time, and it is impossible for us to predict these matters or how they may affect us. Over time, our actual results, performance or achievements will likely differ from the anticipated results, performance or achievements that are expressed or implied by our forward-looking statements, and such difference might be significant and materially adverse to our security holders. We do not undertake and specifically decline any obligation to update any forward-looking statements or to publicly announce the results of any revisions to any statements to reflect new information or future events or developments.

We have identified some of the important factors that could cause future events to differ from our current expectations and they are described in this quarterly report under the caption "Risk Factors," below, and elsewhere in this quarterly report, which you should review carefully. Please consider our forward-looking statements in light of those risks as you read this quarterly report.

(table of contents)

PART 1: Financial Information

Item I

Sugarmade, Inc. and Subsidiary

Condensed Consolidated Balance Sheets

	September 30, 2014 (Unaudited)	June 30, 2014 (Audited)
Assets		
Current assets:		
Cash	$503	$—
Accounts receivable, net	4,284	11,487
Inventory, net	67,994	69,319
Other current assets	167,083	—
Total current assets	239,864	80,806
Other assets	10,500	10,500
Total assets	$250,364	$91,306
Liabilities and Stockholders' Deficiency		
Current liabilities:		
Accounts payable and accrued liabilities	$270,126	$1,042,766
Accrued interest	141,125	206,386
Accrued compensation and personnel related payables	373,455	373,455
Production line of credit	—	324,000
Derivative liabilities	358,000	228,237
Total current liabilities	1,142,706	2,174,844
Long term liabilities		
Convertible notes payable, net	425,000	525,000
Notes and loan payable due to shareholder	86,000	186,000
Note payable due to bank	25,982	25,982
Total long term liabilities	536,982	736,982
Total liabilities	1,679,688	2,911,826
Stockholders' deficiency:		
Common Stock Payable	837,674	
Preferred stock ($0.001 par value, 10,000,000 shares authorized, none issued and outstanding)	—	—
	38,771	10,539

Common stock ($0.001 par value, 300,000,000 shares authorized, 38,770,473 shares issued and outstanding at September 30, 2014; 10,583,555 at June 30, 2014)		
Additional paid-in capital	14,715,574	8,329,959
Accumulated deficit	(17,021,343)	(11,161,019)
Total stockholders' deficit	(1,429,324)	(2,820,520)
Total liabilities and stockholders' deficit	$250,364	$91,306

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

-4-

(table of contents)

Sugarmade, Inc. and Subsidiary

Condensed Consolidated Statements of Operations

For the three months ended September 30, 2014 and 2013

(Unaudited)

	For the three months ended September 30, 2014	September 30, 2013
Revenues, net	$2,664	$47,402
Cost of goods sold:		
Materials and freight costs	1,325	73,471
Total cost of goods sold	1,325	73,471
Gross profit (loss)	1,339	(26,069)
Operating expenses:		
Selling, general and administrative expenses	2,283,512	503,762
Total operating expenses	2,283,512	503,762
Loss from operations	(2,282,173)	(529,831)
Non-operating income (expense):		
Interest expense	(10,849)	(32,556)
Interest income	—	50
Change in fair value of derivative liabilities	(136,737)	93,452
Loss on extinguishment of debt	(3,430,565)	—
Total non-operating income (expense)	(3,578,151)	60,946
Net loss	$(5,860,324)	$(468,884)
Basic and diluted net loss per share	$(0.23)	$(0.04)
Basic and diluted weighted average common shares outstanding used in computing net loss per share	25,564,268	10,538,526

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

(table of contents)

Sugarmade, Inc. and Subsidiary

Condensed Consolidated Statements of Cash Flows

For the three months ended September 30, 2014 and 2013

(Unaudited)

	2014	2013
Cash flows from operating activities:		
Net loss	$(5,860,324)	$(468,884)
Adjustments to reconcile net loss to cash flows used in operating activities:		
Loss on extinguishment of debt	3,430,566	—
Fair value change in derivative debt	136,737	(93,452)
Stock compensation expense	10,417	—
Issuance of common stock for service fee	1,750,000	—
Depreciation expense	—	490
Allowance for doubtful accounts	—	41,187
Provision for inventory obsolescence	—	39,306
Decrease in current assets:		
Accounts receivable	7,203	(10,027)
Inventory	1,325	34,077
Other assets	—	14,035
Accrued interest	10,849	31,496
Accrued compensation and personnel related payables	—	(144,192)
Changes in current liabilities:		
Accounts payable and accrued liabilities	378,730	470,890
Net cash used in operating activities	$(134,497)	$(85,075)
Cash flows from financing activities:		
Payment of bank note	$—	$(124,018)
Proceeds from increase of production line of credit	—	50,000
Proceeds from issuance of common stock	135,000	—
Net cash provided used in financing activities	$135,000	$(74,018)
Net increase (decrease) in cash	$503	$(159,093)
Cash, beginning of period	—	159,381
Cash, end of period	$503	$288
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$—	$—

Income taxes	$—	$—

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

(table of contents)

Sugarmade, Inc. and Subsidiary

Notes to Unaudited Condensed Consolidated Financial Statements

1. Nature of Business

As of the end of the reporting period, September 30, 2014, we were a distributor of paper products derived from non-wood sources. Our third party contract manufacturer use of agricultural residuals, namely bagasse (derived from sugar cane) and bamboo, as opposed to wood products, significantly reduces its manufacturing carbon footprint, energy consumption, and attendant water pollution during the manufacture of its products. This allows us to offer our unique, exclusive, tree-free paper products at price-parity equal to or less than current recycled fiber products already on the market. Our products are unique and we believe offer an ideal solution for those consumers (both corporate and individual) seeking to meet their sustainability mandates or personal environmentally conscious goals, at a price that is equal to or less than current recycled products. As of September 30, 2014, the Company had minimal operations pending restructuring.

On July 16, 2014, the Company entered into an agreement to acquire City of Industry, California based SWC Group, Inc., a California Corporation, a related party, which does business as CarryOutSupplies.com.

Effective October 28, 2014, the Board of Directors of the Company executed the final Acquisition and Share Exchange Agreement (the “Share Exchange Agreement”) ratifying the Pending Acquisition. Under the terms of the Share Exchange Agreement the Company will issue Thirty Five Million (35,000,000) common shares of the Company to the holders of CarryOutSupplies.com in exchange for all of the outstanding shares in CarryOutSupplies.com. The number of Company shares exchanged shall be modified to Forty Million (40,000,000) shares Thirty (30) days after the effective date of this Share Exchange Agreement should CarryOutSupplies.com demonstrate revenues for the three (3) month period ending June 30, 2014 did not fall below a level equal to 70% of the revenues for the three (3) month period ending June 30, 2013. The number of shares exchanged shall be modified to Seventy One Million (71,000,000) Seventy Five (75) days after the effective date of this Share Exchange Agreement should CarryOutSupplies.com demonstrate revenues for the three (3) month period ending September 30, 2014 did not fall below a level equal to 70% of the revenues for the three (3) month period ending September 30, 2013. As of the date of this filing all of the 71,000,000 shares had been issued to the owners of CarryOutSupplies.com.

CarryOutSupplies.com is a producer and wholesaler of custom printed and generic takeout supplies. CarryOutSupplies.com, which services more than 2,000 takeout establishments, restaurants and other food service operators, is headquartered in City of Industry, California, with two additional warehouse locations in Southern California. As of date of this filing, the combined Company employs 28 full and part-time workers.

(table of contents)

Sugarmade, Inc. and Subsidiary

Notes to Unaudited Condensed Consolidated Financial Statements

2. Summary of Significant Accounting Policies

Basis of presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules and regulations of the United States Securities and Exchange Commission for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes necessary for a comprehensive presentation of financial position, results of operations, or cash flows. It is management's opinion however, that all material adjustments (consisting of normal recurring adjustments) have been made which are necessary for a fair financial statement presentation. The results for the interim period are not necessarily indicative of the results to be expected for the full year.

These interim condensed consolidated financial statements should be read in conjunction with our Company's Annual Report on Form 10-K for the year ended June 30, 2014, which contains our audited consolidated financial statements and notes thereto, together with the Management's Discussion and Analysis of Financial Condition and Results of Operation, for the period ended June 30, 2014. The interim results for the period ended September 30, 2014 are not necessarily indicative of the results for the full fiscal year.

Principles of consolidation

The condensed consolidated unaudited financial statements include the accounts of our Company and its wholly-owned subsidiary, Sugarmade-CA. All significant intercompany transactions and balances have been eliminated in consolidation.

Going concern

The Company sustained continued operating losses during the three months ended September 30, 2014 and for the fiscal year ended June 30, 2014. The Company's continuation as a going concern is dependent on its ability to generate sufficient cash flows from operations to meet its obligations, in which it has not been successful, and/or obtaining additional financing from its shareholders or other sources, as may be required.

Our condensed consolidated financial statements have been prepared assuming that we will continue as a going concern. Such assumption contemplates the realization of assets and satisfaction of liabilities in the normal course of business. These condensed consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result should the Company be unable to continue as a going concern.

Management is endeavoring to increase revenue generating operations. While priority is on generating cash from operations through the sale of the Company’s products, management is also seeking to raise additional working capital through various financing sources, including the sale of the Company’s equity and/or debt securities, which may not be available on commercially reasonable terms to our Company, or which may not be available at all. If such financing is not available on satisfactory terms, we may be unable to continue our business as desired and our operating results will be adversely affected. In addition, any financing arrangement may have potentially adverse effects on us and/or our stockholders. Debt financing (if available and undertaken) will increase expenses, must be repaid regardless of operating results and may involve restrictions limiting our operating flexibility. If we issue equity securities to raise additional funds, the percentage ownership of our existing stockholders will be reduced and the new equity securities may have rights, preferences or privileges senior to those of the current holders of our common stock.

(table of contents)

Sugarmade, Inc. and Subsidiary

Notes to Unaudited Condensed Consolidated Financial Statements

Use of estimates

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

Revenue recognition

We recognize revenue in accordance with Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") No. 605, Revenue Recognition. Revenue is recognized when we have evidence of an arrangement, a determinable fee, and when collection is considered to be probable and products are delivered. This generally occurs upon shipment of the merchandise, which is when legal transfer of title occurs. In the event that final acceptance of our product by the customer is uncertain, revenue is deferred until all acceptance criteria have been met. We currently have a consignment arrangement with two of our customers. We record revenue on consignment goods when the consigned goods are sold by the consignee and all other above mentioned revenue recognition criteria have been satisfied. Cash deposits received in connection with the sales of our products prior to their being delivered or acceptance if applicable is recorded as deferred revenue.

During the three months ended September 30, 2014, our Company had limited sales as we continued producing and delivering replacement product, in addition to disposing of the product containing the quality issues. For the three months ended September 30, 2014, we sold the remaining sub-quality paper to a third party wholesaler specializing in the liquidation of excess inventory. This sale represented approximately 18% of our revenue for the quarter. As we had recorded an inventory reserve for this product, we recognized revenue with no corresponding cost of goods sold.

Cash

Cash and cash equivalents consist of amounts held as bank deposits and highly liquid debt instruments purchased with an original maturity of three months or less.

From time to time, we may maintain bank balances in interest bearing accounts in excess of the $250,000 currently insured by the Federal Deposit Insurance Corporation for interest bearing accounts (there is currently no insurance limit for deposits in noninterest bearing accounts). We have not experienced any losses with respect to cash. Management believes our Company is not exposed to any significant credit risk with respect to its cash.

Accounts receivable

Accounts receivable are carried at their estimated collectible amounts, net of any estimated allowances for doubtful accounts. We grant unsecured credit to our customer's deemed credit worthy. Ongoing credit evaluations are performed and potential credit losses estimated by management are charged to operations on a regular basis. At the time any particular account receivable is deemed uncollectible, the balance is charged to the allowance for doubtful accounts.

(table of contents)

Sugarmade, Inc. and Subsidiary

Notes to Unaudited Condensed Consolidated Financial Statements

Inventory

Inventory consists of finished goods paper and paper-based products ready for sale and is stated at the lower of cost or market. We value our inventory using the weighted average costing method. Our Company's policy is to include as a part of inventory any freight incurred to ship the product from our contract manufactures to our warehouses. Outbound freights costs related to shipping costs to our customers are considered period costs and reflected in selling, general and administrative expenses. We regularly review inventory and consider forecasts of future demand, market conditions and product obsolescence.

If the estimated realizable value of our inventory is less than cost, we make provisions in order to reduce its carrying value to its estimated market value. As of September 30, 2014 and June 30, 2014, the balance for the inventory totaled $67,994 and $69,319, respectively.

Income taxes

We account for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their perspective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are recorded, when necessary, to reduce deferred tax assets to the amount expected to be realized.

As a result of the implementation of certain provisions of ASC 740, Income Taxes ("ASC 740"), which clarifies the accounting and disclosure for uncertainty in tax position, as defined, ASC 740 seeks to reduce the diversity in practice associated with certain aspect of the recognition and measurement related to accounting for income taxes. We adopted the provisions of ASC 740 as of October 2, 2008, and have analyzed filing positions in each of the federal and state jurisdictions where we are required to file income tax returns, as well as open tax years in these jurisdictions. We have identified the U.S. federal and California as our "major" tax jurisdictions and generally, we remain subject to Internal Revenue Service examination of our 2013 U.S. federal income tax returns. However, we have certain tax attribute carryforwards, which will remain subject to review and adjustment by the relevant tax authorities until the statute of limitations closes with respect to the year in which such attributes are utilized.

We believe that our income tax filing positions and deductions will be sustained on audit and do not anticipate any adjustments that will result in a material change to our financial position. Therefore, no reserves for uncertain income tax positions have been recorded pursuant to ASC 740. In addition, we did not record a cumulative effect adjustment related to the adoption of ASC 740. Our policy for recording interest and penalties associated with income-based tax audits is to record such items as a component of income taxes. We have no interest or penalties as of September 30, 2014.

(table of contents)

Sugarmade, Inc. and Subsidiary

Notes to Unaudited Condensed Consolidated Financial Statements

Stock based compensation

Stock based compensation cost to employee is measured at the date of grant, based on the calculated fair value of the stock-based award, and will be recognized as expense over the employee's requisite service period (generally the vesting period of the award). We estimate the fair value of employee stock options granted using the Black-Scholes-Merton Option Pricing Model. Key assumptions used to estimate the fair value of stock options will include the exercise price of the award, the fair value of our common stock on the date of grant, the expected option term, the risk free interest rate at the date of grant, the expected volatility and the expected annual dividend yield on our common stock. We use our company's own data among other information to estimate the expected price volatility and the expected forfeiture rate. Share-based compensation awards issued to non-employees for services rendered are recorded at either the fair value of the services rendered or the fair value of the share-based payment, whichever is more readily determinable.

Loss per share

We calculate basic loss per share ("EPS") by dividing our net loss by the weighted average number of common shares outstanding for the period, without considering common stock equivalents. Diluted EPS is computed by dividing net loss by the weighted average number of common shares outstanding for the period and the weighted average number of dilutive common stock equivalents, such as options and warrants. Options and warrants are only included in the calculation of diluted EPS when their effect is dilutive. Basic and diluted net loss per share for September 30, 2014 and September 30, 2013 was (0.23) and (0.04), respectively.

Fair value of financial instruments

ASC Topic 820 defines fair value, establishes a framework for measuring fair value, establishes a three-level valuation hierarchy for disclosure of fair value measurement and enhances disclosure requirements for fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 - observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - include other inputs that are directly or indirectly observable in the marketplace.

Level 3 - unobservable inputs which are supported by little or no market activity.

(table of contents)

Sugarmade, Inc. and Subsidiary

Notes to Unaudited Condensed Consolidated Financial Statements

The Company used Level 2 inputs for its valuation methodology for the derivative liabilities in determining the fair value using the Black-Scholes option-pricing model with the following assumption inputs:

	September 30, 2014	
Annual dividend yield	—	
Expected life (years)	1.69	
Risk-free interest rate	0.55	%
Expected volatility	431	%

	Carrying Value As of September 30, 2014	Fair Value Measurements at September 30, 2014 Using Fair Value Hierarchy		
		Level	Level 2	Level 3
Liabilities				
Derivative liabilities	$ 358,000	$ —	$ 358,000	$ —
Total	$ 358,000	$ —	$ 358,000	$ —

Derivative instruments

The fair value of derivative instruments is recorded and shown separately under current liabilities. Changes in the fair value of derivatives liability are recorded in the consolidated statement of operations under non-operating income (expense).

Our Company evaluates all of its financial instruments to determine if such instruments are derivatives or contain features that qualify as embedded derivatives. For derivative financial instruments that are accounted for as liabilities, the derivative 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 consolidated statements of operations. For stock-based derivative financial instruments, the Company uses a weighted average Black-Scholes-Merton option pricing model to value the derivative instruments at inception and on subsequent valuation dates. The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is evaluated at the end of each reporting period. Derivative instrument liabilities are classified in the balance sheet as current or non-current based on whether or not net-cash settlement of the derivative instrument could be required within 12 months of the balance sheet date. Refer to note 6 for details.

New accounting pronouncements not yet adopted

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements-Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. The amendments is ASU 2014-15 are intended to define management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide elated footnote disclosures. The amendments in this standard are effective for annual periods ending after December 15, 2016, and interim periods within annual periods beginning after December 15, 2016. We are evaluating the effect, if any; adoption of ASU No. 2014-15 will have on our condensed consolidated financial statements.

(table of contents)

Sugarmade, Inc. and Subsidiary

Notes to Unaudited Condensed Consolidated Financial Statements

In November 2014, the FASB issued ASU 2014-16, Derivatives and Hedging (Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity. The amendments in ASU 2014-16 clarifies how current U.S. GAAP should be interpreted in evaluating the economic characteristics and risks of a host contract in a hybrid financial instrument that is issued in the form of a share. The amendments clarify that an entity should consider all relevant terms and features, including the embedded derivative feature being evaluated for bifurcation, in evaluating the nature of the host contract. The amendments in this standard are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. We are evaluating the effect, if any; adoption of ASU No. 2014-16 will have on our condensed consolidated financial statements.

In November 2014, the FASB issued ASU No. 2014-17, Business Combinations (Topic 805): Pushdown Accounting. The amendments in ASU 2014-17 provide an acquired entity with an option to apply pushdown accounting in its separate financial statements upon occurrence of an event in which an acquirer obtains control of the acquired entity. The amendment in this standard is effective on November 18, 2014. After the effective date, an acquired entity can make an election to apply the guidance to future change-in-control events or to its most recent change-in-control event. We are evaluating the effect, if any; adoption of ASU No. 2014-17 will have on our condensed consolidated financial statements.

In February 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis. The amendments in ASU 2015-02 are intended to improve targeted areas of consolidation guidance for legal entities such as limited partnerships, limited liability corporations, and securitization structures. The amendment in this standard is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. We are evaluating the effect, if any, adoption of ASU No. 2015-02 will have on our condensed consolidated financial statements.

3. Concentration

Customers

For the three months ended September 30, 2014, our Company earned revenues of $2,664. A significant portion of our Company's revenue is derived from a small number of customers. For the three months ended September 30, 2014, sales to one of our Company's customers accounted for 100% of sales. For the three months ended September 30, 2013, our Company earned net revenues of $47,402. A significant portion of our Company's revenue is derived from a small number of customers. For the months ended September 30, 2013, sales to three of our Company's customers accounted for over 75% of net sales. The reduction in sales was due to the preparation in the acquisition.

Suppliers

For the three months ended September 30, 2013, all of our tree free paper products were purchased from SCPC and their contract manufacturers. Although there were no additional purchases for the three months ended September 30, 2014, the company will maintain to utilize SCPC as a supplier while continuing to search for additional suppliers.

4. Litigation

From time to time and in the course of business, we may become involved in various legal proceedings seeking monetary damages and other relief. The amount of the ultimate liability, if any, from such claims cannot be determined. As of September 30, 2014, there were no legal claims currently pending or threatened against us that in the opinion of our management would be likely to have a material adverse effect on our financial position, results of operations or cash flows. However, as of the date of this filing, we were involved in the following legal proceedings.

(table of contents)

Sugarmade, Inc. and Subsidiary

Notes to Unaudited Condensed Consolidated Financial Statements

As of the date of this filing, the Company is a plaintiff, in Contra Costa County, California, in a suit alleging breach of fiduciary duty, conspiracy to commit breach of fiduciary duty, fraud, conspiracy to commit fraud, conversion, breach of contract, and interference with contractual relations against, Diversified Products Group Inc. (DPG), Stephen Pinto, Lewis Cohen and Heidi Estiva, who were former sales agents for the Company. Pinto is the Company's former Chairman of the board of directors. The Company plans to actively pursue this case. During November of 2014, the Company received notice that a cross complaint had been filed against the Company. The complaint alleges the parties were induced to make a series of investments in the Company by the material misrepresentations and omissions made by the Company. The Company believes the allegations are without merit. The Company plans to vigorously defend against such claims. No changes have occurred as of the filing date of this report.

On May 24, 2014, the Labor Commissioner, State of California issued an Order, Decision or Award of the Labor Commissioner against the Company in the amount of $56,365. The Company is in the process of settling this claim and believes any amount of settlement paid would not be likely to have a material adverse effect on our financial position, results of operations or cash flows as the amount was previously accrued by the Company.

On October 28, 2014, the Company entered into a settlement agreement, which was effective October 28, 2014, to resolve a judgment against the Company via the issuance of 502,533, and restricted shares a $30,000 cash payment. No changes have occurred as of the filing date of this report.

On December 11, 2013, the Company was served with a complaint from two Convertible Note Holders and investors in the Company, Lovitt & Hannan, Inc. Salary Deferral Plan FBO J. Thomas Hannan, Attorney at Law 401K Plan and Trust, and Kevin M. Kearney. The Company's former CEO, Scott Lantz, was also named in the suit. The complaint alleges Hannan was induced to make a series of investments in the Company by the material misrepresentations and omissions made by the Company. The Company believes the allegations are without merit. The Company still continues to vigorously defend against such claims. No changes have occurred as of the filing date of this report.

5. Convertible Notes

As of September 30, 2014 and June 30, 2014 the balance owing on convertible notes was $425,000 and $525,000 respectively. The convertible promissory notes must be repaid by our Company within six months from the date of issuance; accrue interest at the rate of 14%; and are subject to conversion at the election of the investors at such time as our Company has raised a minimum of $500,000 in a subsequent equity financing. The conversion price will be the lower of 80% of the per share purchase price paid for by the new investors in the subsequent financing, or $0.50 per share. Unless these promissory notes are converted or repaid earlier, our Company must pay the note-holders the amount of the then accrued interest on the three, six, and nine month anniversaries of the issue date. As of September 30, 2014, one convertible promissory note, in the amount of $100,000, was converted to restricted common shares.

(table of contents)

Sugarmade, Inc. and Subsidiary

Notes to Unaudited Condensed Consolidated Financial Statements

Note Type and Investor		As of September 30, 2014		
14% Notes Convertible at $0.50	Due Date	Balance	Discount	Carrying Value
Convertible Note	7 /1/2016	$25,000	$ —	$25,000
Convertible Note	7 /1/2016	25,000	—	25,000
Convertible Note	7 /1/2016	40,000	—	40,000
Convertible Note	7 /1/2016	50,000	—	50,000
Convertible Note	7 /1/2016	25,000	—	25,000
Convertible Note	6 /18/2014	25,000	—	25,000
Convertible Note	6 /18/2014	25,000	—	25,000
Convertible Note	12/28/2014	25,000	—	25,000
Convertible Note	7 /1/2016	10,000	—	10,000
Convertible Note	7 /1/2016	25,000	—	25,000
Convertible Note	7 /31/2014	25,000	—	25,000
Convertible Note	7 /1/2016	25,000	—	25,000
Convertible Note	7 /1/2016	100,000	—	100,000
Total Convertible Promissory Notes		$425,000		$425,000

6. Derivative liabilities

The derivative liabilities is derived from the conversion features in note 5 and stock warrant in note 7. All were valued using the weighted-average Black-Scholes-Merton option pricing model using the assumptions detailed below. As of September 30, 2014 and June 30, 2014, the derivative liabilities was $358,000 and $228,237, respectively. The Company recorded $136,737 loss from changes in derivative liability during the nine months ended September 30, 2014. The Black-Scholes model with the following assumption inputs:

	September 30, 2014	
Annual dividend yield	—	
Expected life (years)	1.69	
Risk-free interest rate	0.55	%
Expected volatility	431	%

7. Stock warrants

In connection with the issuance of the promissory notes, the investors in the aggregate received two-year warrants to purchase up to a total of 78,750 shares of common stock at $0.50 per share, and two-year warrants purchasing up to a total of 131,250 shares of common stock at $0.01 per share. For purposes of accounting for the detachable warrants issued in connection with the convertible notes, the fair value of the warrants was estimated using the Black-Scholes-Merton option pricing formula. The value of all warrants granted at the date of issuance totaled $508,413 and was recorded as a discount to the notes payable. The amount will be amortized over the nine month term of the respective convertible note as additional interest expense.

(table of contents)

Sugarmade, Inc. and Subsidiary

Notes to Unaudited Condensed Consolidated Financial Statements

On various dates during June 2014 and September 2014 the Company and holders of certain convertible notes agreed to cancel warrants to purchase common shares in the company and to extend the due dates on the Notes to July 1, 2016. $0.50 warrants and “Bonus Warrants” priced at $0.01, as defined in the original Convertible Note Purchase Agreements we cancelled pertaining to the Note and warrants acquired on the following dates for the following Convertible Notes and amounts. In total, 13,750 warrants at $0.50 and 25,000 “Bonus Warrants at $0.01 were cancelled.

	Number of Shares	Weighted Average Exercise Price
Outstanding at June 30, 2014	$ 180,000	$ 0.20
Granted	-	-
Exercised	-	-
Forfeited	38,750	0.09
Outstanding at September 30, 2014	$ 141,250	$ -

Following is a summary of the status of warrants outstanding at September 30, 2014:

Date Issued	Exercise Price		Number of Shares	Expiration Date
8/17/12	$	0.01	6,250	7/1/2016
8/20/12	$	0.01	6,250	7/1/2016
9/10/12	$	0.01	10,000	7/1/2016
9/13/12	$	0.01	12,500	7/1/2016
9/18/12	$	0.01	6,250	7/1/2016
10/5/12	$	0.01	2,500	7/1/2016
10/25/12	$	0.01	6,250	7/1/2016
10/31/12	$	0.01	6,250	10/31/2014
1/31/13	$	0.01	6,250	7/1/2016
10/22/12	$	0.01	25,000	7/1/2016
10/31/12	$	0.50	3,750	10/31/2014
8/24/12	$	0.50	50,000	8/24/2016
Total warrants as of September 30, 2014			141,250	

8. Note payable to bank

During October 2011, we entered into a revolving demand note (line of credit) arrangement with HSBC Bank USA, with a revolving borrowing limit of $150,000. The line of credit bears a variable interest rate of one quarter percent (0.25%) above the prime rate (3.25% as of September 30, 2013). In the event the deposit account is not established or minimum balance maintained, HSBC can charge a higher rate of interest of up to 4.0% above prime rate. As of September 30, 2014 and June 30, 2014, the loan balance was $25,982.

(table of contents)

Sugarmade, Inc. and Subsidiary

Notes to Unaudited Condensed Consolidated Financial Statements

9. Production line of credit

As part of our agreement with SCPC for a production line of credit, SCPC has provided our Company with access to a portion of the overall credit line to allow us to purchase product for inventory purposes, without the need for customer purchase orders as a requirement to order product from its contract manufacturer. This portion production line of credit was initially set at $300,000, bear interest at 5% interest per quarter and a 4% usage charge, and require payment 30 days after receipt of funds from our customer. As of September 30, 2014 and June 30, 2014, the balances of production line of credit were $0 and 324,000 respectively. The ability to borrow on the facility had been cancelled in the three months ended September 30, 2014 due to minimal activity. There was no interest expense for the production line of credit for the three months ended September 30, 2014 and September 30, 2013.

10. Debt settlement

During the quarter ended September 30, 2014, the Company resolved a debt of $105,753 with the issuance of 1,057,534 at fair market value of $105,753 and incurred loss in settlement of $634,520 restricted common shares, the shares was not issued until December 19, 2014.

During the quarter ended September 30, the Company resolved a debt of $26,000 with the issuance of 520,000 at fair market value of $62,400 and incurred loss in settlement of $36,400 restricted common shares, the share was not issued until December 19, 2014.

11. Related party transactions

On July 17, 2014, the Company sold 4,500,000 shares of restricted common stock to an accredited investor for $50,000 pursuant to an exemption from registration relying on Section 4(a)(2) and Rule 506b of Regulation D, under the Securities Act of 1933, as amended. The purchasing entity was LMK CAPITAL LLC, DBA PREMIER PAPER & PLASTIC INTER NATIONAL (“LMK”), a Company in which our CEO, Jimmy Chan, is a consultant.

On August 7, 2014, the Company lent funds in the amount of $135,000 to SWC Group, a company under common control that would later be acquired by Sugarmade Inc., to aid in debt restructuring.

On August 7, 2014, the Company issued 900,000 shares of restricted common stock to settle all debt with debtor at fair market value of 630,000 and incurred loss in settlement of 377,294, pursuant to an exemption from registration relying on Section 4(a)(2) and Rule 506b of Regulation D, under the Securities Act of 1933, as amended.

On August 7, 2014, the Company issued 2,500,000 shares of restricted common stock to an accredited investor for their services pursuant to an exemption from registration relying on Section 4(a)(2) and Rule 506b of Regulation D, under the Securities Act of 1933, as amended.

(table of contents)

Sugarmade, Inc. and Subsidiary

Notes to Unaudited Condensed Consolidated Financial Statements

On August 7, 2014, the Company issued 2,840,000 shares of restricted common stock to settle balance owed on line of credit at fair market value of $1,988,000 and incurred loss in settlement of $1,714,000, pursuant to an exemption from registration relying on Section 4(a)(2) and Rule 506b of Regulation D, under the Securities Act of 1933, as amended.

On August 7, 2014, the Company issued 1,113,918 shares of restricted common stock at fair market value of $779,743 to an accredited investor to settle debt and incurred loss in settlement of $668,351, pursuant to an exemption from registration relying on Section 4(a)(2) and Rule 506b of Regulation D, under the Securities Act of 1933, as amended.

12. Common shares reserved for future issuances

The following table summarizes shares of our common stock reserved for future issuance at September 30, 2014:

Common shares to be issued under conversion feature	4,001,170
Common shares to be issued under $0.01 warrants	87,500
Common shares to be issued under $0.50 warrants	53,750
Total common shares reserved for future issuance	4,142,420

13. Commitments and contingencies

Outstanding annual lease amounts due under our lease agreement for our fiscal year ended June 30, 2014 for the 12 months is $39,000.

14. Subsequent events

On October 15, 2015, the Company sold 833,333 shares of restricted common stock to an accredited investor for $25,000 pursuant to an exemption from registration relying on Section 4(a)(2) and Rule 506b of Regulation D, under the Securities Act of 1933, as amended.

On October 7, 2015, the Company sold 1,250,000 shares of restricted common stock to an accredited investor for $25,000 pursuant to an exemption from registration relying on Section 4(a)(2) and Rule 506b of Regulation D, under the Securities Act of 1933, as amended.

On October 2, 2015, the Company sold 1,000,000 shares of restricted common stock to an accredited investor for $30,000 pursuant to an exemption from registration relying on Section 4(a)(2) and Rule 506b of Regulation D, under the Securities Act of 1933, as amended.

On August 27, 2015, the Company sold 2,500,000 shares of restricted common stock to an accredited investor for $50,000 pursuant to an exemption from registration relying on Section 4(a)(2) and Rule 506b of Regulation D, under the Securities Act of 1933, as amended.

(table of contents)

Sugarmade, Inc. and Subsidiary

Notes to Unaudited Condensed Consolidated Financial Statements

On July 22, 2015, the Company sold 2,500,000 shares of restricted common stock to an accredited investor for $50,000 pursuant to an exemption from registration relying on Section 4(a)(2) and Rule 506b of Regulation D, under the Securities Act of 1933, as amended.

On July 20, 2015, the Company entered in a Memorandum of Understanding (MOU) to acquire Bao Coc International Paper and Plastic Company Limited a manufacture of high-grade post consumer paper products, including napkins, for the U.S. food industry. Under the terms of the non-binding MOU, the Company will acquire 100% of Bao Coc International Paper and Plastic Company Limited in exchange for a combination of cash, restricted common shares of the Company and a long-term profit sharing incentive to the management team of Bao Coc International Paper and Plastic Company Limited.

On July 14, 2015, the Company sold 1,666,667 shares of restricted common stock to an accredited investor for $50,000 pursuant to an exemption from registration relying on Section 4(a)(2) and Rule 506b of Regulation D, under the Securities Act of 1933, as amended.

On July 1, 2015, the Company granted a consultant, Katherine Zuniga and/or K Marie Marketing, LLC, 3,000,000 restricted shares for marketing and sales related consulting services.

On July 1, 2015, the Company entered into a consulting agreement with Katherine Zuniga and/or K Marie Marketing, LLC, providing for compensation of 3,000,000 restricted shares for marketing and sales related services as of October 1, 2015 and 2,000,000 restricted shares services as of January 1, 2016.

On May 20, 2015, the Company announced the signing of a product supply and licensing agreement with FreeHand Trays, LLC of Golden Valley, MN. Under the terms of the agreement, the Company becomes a major distributor of the FreeHand ThumbTray, a unique food service and advertising product. The Company has begun marketing and manufacturing of the product.

On October 23, 2014, The Board approved a resolution reappointing directors to the Company’s Board and ratified the approval by the majority stockholders pointing directors by written consent in lieu of the meeting of shareholders.

On October 23, 2014, The Board received notification that the majority stockholders approved the appointing of directors by written consent in lieu of the meeting of shareholders. The following table sets forth the name, age, and current position of the directors elected by the Written Consent:

Name	Age	Position
Jimmy Chan	K5	Chairman, CEO, CFO and Secretary
Waylon Huang	K2	Director
Er Wang	J8	Director

The appointments will become effective when the company files the required documents with the Secretary of State of the State of Delaware twenty (20) days after the Preliminary Definitive Information Statement is filed on Form 14-C with the U.S. Securities & Exchange Commission and mailed to Stockholders of Record. The Company is in process of preparing and filing Form 14-C.

(table of contents)

Sugarmade, Inc. and Subsidiary

Notes to Unaudited Condensed Consolidated Financial Statements

On July 30, 2015, the Company completed a series of transactions receiving proceeds of $2,000,000 for sales of Series B Convertible Preferred Stock, par value $0.001 per share (the “Series B Preferred Stock”). The offering was made pursuant to SEC Rule 506 Section 4(2), which provides exemption from registration for transactions, which are not public offerings. The funds received were used for general working capital purposes and to accelerate order deliveries to customers.

On July 30, 2015, the Company issued 500,000 of Serie B Convertible Preferred Stock for $500,000.

On April 1, 2015, the Company completed a series of transactions and amended its Articles of Incorporation creating a series of preferred stock of 10,000,000 shares, which shall be designated Series B Convertible Preferred Stock, par value $0.001 per share (the “Series B Preferred Stock”). Series B will not be eligible for dividends. Five years from the date of issue (the "Conversion Date"), assuming the Series B investor is approved for l-526 under the U.S Government’s EB-5 Investment Program, each Preferred Share will automatically convert into that number of Common Shares having a "fair market value" of the Initial Investment plus a five (5) percent annualized return on Initial Investment. Fair market value will be determined by averaging the closing sale price of a Common Share for the 40 trading days immediately preceding the date of conversion on the U.S. stock exchange on which Common Shares are publicly traded.

On February 25, 2015, the Company the Company sold 1,000,000 shares of restricted common stock to an accredited investor for $20,000 pursuant to an exemption from registration relying on Section 4(a)(2) and Rule 506b of Regulation D, under the Securities Act of 1933, as amended.

On February 20, 2015, the Company issued 500,000 of Serie B Convertible Preferred Stock for $500,000.

On February 20, 2015, the Company resolved a debt of $30,000 with the issuance of 1,000,000 restricted common shares. (These shares were issued to Brian Fang on 2/20/2015 for EB5 consulting for Li Yin Lin)

On January 23, 2015, the Company issued 500,000 of Serie B Convertible Preferred Stock for $500,000.

On January 23, 2015, the Company resolved a debt of $30,000 with the issuance of 1,000,000 restricted common shares.

On January 1, 2015, the Company granted a consultant, Katherine Zuniga and/or K Marie Marketing, LLC 2,000,000 restricted shares for marketing-related consulting services.

On December 5, 2014, the Company issued 500,000 of Serie B Convertible Preferred Stock for $500,000.

On December 5, 2014, the Company resolved a debt of $30,000 with the issuance of 1,000,000 restricted common shares. (These shares were issued to Nancy Kwong for EB5 consulting for Zheng zhao)

On October 28, 2014, the Company resolved a debt of $28,528 through the issuance of 570,556 restricted common shares.

On October 28, 2014, the Company resolved a debt of $13,274 through the issuance of 256,480 restricted common shares.

(table of contents)

Sugarmade, Inc. and Subsidiary

Notes to Unaudited Condensed Consolidated Financial Statements

On December 31, 2014, the Company elected Mr. Er Wang as Audit Committee Chair, to serve until his successor is duly elected and qualified. Mr. Wang will serve as the sole member of the Audit Committee until additional qualified Directors can be nominated and ratified for service on the Board and/or Audit Committee.

On December 31, 2014 the Company resolved a debt of $41,629 through the issuance of 1,040,731 shares of common stock, pursuant to the terms of a promissory note dated July 11, 2012 where the creditor provided $36,000 of financing to the Company.

On December 23, 2014, the Board approved the issuance of 10,492,460 shares as part of a management and employees retention stock award program.

On December 19, 2014, the Company resolved a debt of $30,000 with the issuance of 1,000,000 restricted common shares.

On November 11, 2014, the Company accepted the resignation of CEO and Director Clifton Leung from the position of CEO, a director, and from all other titles at the Company. Jimmy Chan who, is also a director and serves as chairman and secretary, has assumed the position of CEO.

On November 11, 2014, the Board approved the appointment of Er Wang to the Board of Directors. He comes to the Company with a diverse background across management consulting at a Big 4 accounting and audit firm, corporate finance at a major movie studio, and as a co-founder at a loyalty rewards startup. Mr. Wang graduated from the University of California Irvine with a Bachelor of Arts in Business Economics.

On October 28, 2014, the Company resolved debts related to former employees and/or contractors through the issuance of 4,841,901 restricted common shares. Shares were issued December 19, 2014.

On October 28, 2014, the Company converted $275,000 of short-term debt into 15,277,778 common shares. The holder of the debt was LMK CAPITAL LLC, DBA PREMIER PAPER & PLASTIC INTERNATIONAL (“LMK”), a Company in which our CEO, Jimmy Chan, is currently employed as an independent consultant.

On October 28, 2014, the Company converted $75,000 of short-term debt into 4,166,666 common shares. The holder of the debt was LMK CAPITAL LLC, DBA PREMIER PAPER & PLASTIC INTERNATIONAL (“LMK”), a Company in which our CEO, Jimmy Chan, is currently employed as an independent consultant.

On October 28, 2014, the Company converted $200,000 of short-term debt into 10,000,000 common shares.

Effective October 28, 2014, the Board of Directors of the Company executed the final Acquisition and Share Exchange Agreement (the “Share Exchange Agreement”) ratifying the Pending Acquisition. Under the terms of the Share Exchange Agreement the Company shall issue 71,000,000 shares 60 days after the effective date of this Share Exchange Agreement should CarryOutSupplies.com demonstrate revenues for the 3 month period ending September 30, 2014 did not fall below a level equal to 70% of the revenues for the 3 month period ending September 30, 2013. As of December 19, 2014, the Company issued 71,000,000 shares at fair value of $7,810,000.

As of October 8, 2014, the Company accepted the resignation of Jonathan Leong. The sole remaining director, Clifton Leung, then appointed two individuals to occupy the open seats on the board of directors, Jimmy Chan, as Chairman, and Waylon Huang. These two individuals will serve until their successors are duly elected and qualified.

On October 6, 2014, the Company accepted the resignation of Dennis Mandell, a director of the Company. Mr. Mandell also served as Chairman of the Board and as the sole member of the Company’s Audit Committee.

(table of contents)

Sugarmade, Inc. and Subsidiary

Notes to Unaudited Condensed Consolidated Financial Statements

15. Acquisition of SWC Group, Inc, dba CarryOutSupplies.com

On July 16, 2014 the Company entered into an agreement to acquire City of Industry, California based SWC Group, Inc., a California Corporation, which does business as CarryOutSupplies.com. CarryOutSupplies.com is a producer and wholesaler of custom printed and generic takeout supplies. CarryOutSupplies.com, which services more than 32,500 takeout establishments, restaurants and other food service operators, is headquartered at 167 N Sunset Ave, City of Industry, CA 91744, with two additional warehouse locations in Southern California. The acquisition closed on October 28, 2014. On this date the Board of Directors of the Company executed the final Acquisition and Share Exchange Agreement (the "Share Exchange Agreement") ratifying the Pending Acquisition. Under the terms of the Share Exchange Agreement the Company will issue Thirty Five Million (35,000,000) common shares of the Company to the holders of CarryOutSupplies.com in exchange for all of the outstanding shares in CarryOutSupplies.com. The number of Company shares exchanged shall be modified to Forty Million (40,000,000) shares Thirty (30) days after the effective date of this Share Exchange Agreement should CarryOutSupplies.com demonstrate revenues for the three (3) month period ending June 30, 2014 did not fall below a level equal to 70% of the revenues for the three (3) month period ending June 30, 2013. The number of shares exchanged shall be modified to Seventy One Million (71,000,000) Seventy Five (75) days after the effective date of this Share Exchange Agreement should CarryOutSupplies.com demonstrate revenues for the three (3) month period ending September 30, 2014 did not fall below a level equal to 70% of the revenues for the three (3) month period ending September 30, 2013. As of the date of this filing, all of the 71,000,000 shares had been issued to the owners of CarryOutSupplies.com.

CarryOutSupplies.com is a producer and wholesaler of custom printed and generic takeout supplies. CarryOutSupplies.com, which services more than 3,000 takeout establishments, restaurants and other food service operators, is headquartered at 167 N Sunset Ave, City of Industry, CA 91744, with two additional warehouse locations in Southern California. With the merger behind the Company now, we are in the process of rolling out three new verticals under the corporate umbrella; state side manufacturing and printing, ad support products, and online restaurant supplies catalogue. All of which is leveraging the strength of Sugarmade's core business.

The acquisition was accounted as transactions between entities under common control in accordance with ASC Topic 805-50-25 since both Sugarmade and CarryOutSupplies.com had one common major shareholder and officer and accounted as pooling of interest. When accounting for a transfer of assets or exchange of shares between entities under common control, the entity that receives the net assets or the equity interests, shall initially measure the recognized assets and liabilities transferred at their carrying amounts in the accounts of the transferring entity at the date of transfer. The acquisition closing date was October 28, 2014, since there were no material transactions from October 28, 2014 to October 31, 2014, and for convenience of reporting the acquisition for accounting purposes, October 31, 2014 has been designated as the acquisition date. The following table summarizes the carrying values of the assets acquired and a liability assumed at the date of acquisition (or transfer):

(table of contents)

Sugarmade, Inc. and Subsidiary

Notes to Unaudited Condensed Consolidated Financial Statements

Cash	$39,925
Accounts receivable	452,112
Inventory	1,008,252
Other current assets	44,052
Loan receivables	302,521
Fixed assets	211,694
Security deposit	33,281
Accounts payable	(1,489,757)
Credit card payable	(438,972)
Loans payable	(443,584)
Other payables	(362,203)
Long term notes payables	(460,000)
Net assets at carrying value:	$(1,102,679)

The following unaudited pro forma consolidated results of operations of the Company and SWC Group for the three months ended September 30, 2014 and 2013, presents the operations of the Company and SWC Group as if the acquisition of SWC Group occurred on July 1, 2013, respectively. The pro forma results are not necessarily indicative of the actual results that would have occurred had the acquisition been completed as of the beginning of the periods presented, nor are they necessarily indicative of future consolidated results.

	Three Months ended Sept 30,	
	2014	**2013**
	(Unaudited)	
Net sales	$729,545	$972,337
Net loss	$(6,101,251)	$(590,457)
Basic and diluted weighted average shares outstanding	109,770,473	109,770,473
Basic and diluted net loss per share	$(0.06)	$(0.01)

-23-

(table of contents)

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

This discussion and analysis may include statements regarding our expectations with respect to our future performance, liquidity, and capital resources. Such statements, along with any other non-historical statements in the discussion, are forward-looking. These forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, the risks and uncertainties described below in Part II, Item 1A and in our June 30, 2012 Annual Report on Form 10-K/A, amendment number 2, as well as those factors listed in other documents we file with the Securities and Exchange Commission (SEC). We do not assume an obligation to update any forward-looking statement. Our actual results may differ materially from those contained in or implied by any of the forward-looking statements in this Form 10-Q. See "SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS" above.

The Company's primary business had been that of a distributor of paper products that are derived from non-wood sources. Our third party contract manufacturer uses agricultural residuals, namely bagasse (derived from sugar cane) and bamboo, as opposed to wood products, significantly reducing the manufacturing carbon footprint, energy consumption, and attendant water pollution during the manufacture of its products. This allows us to offer our unique, exclusive, tree-free paper products at price-parity equal to or less than current recycled fiber products already on the market. Our products are unique and we believe offer an ideal solution for those consumers (both corporate and individual) seeking to meet their sustainability mandates or personal environmentally conscious goals, at a price that is equal to or less than current recycled products.

On July 16, 2014 the Company entered into an agreement to acquire City of Industry, California based SWC Group, Inc., a California Corporation, which does business as CarryOutSupplies.com, which is a producer and wholesaler of custom printed and generic takeout supplies. CarryOutSupplies.com, which services more than 3,000 takeout establishments, restaurants and other food service operators, is headquartered at 167 N Sunset Ave, City of Industry, CA 91744, with two additional warehouse locations in Southern California. The acquisition closed on October 28, 2014.

(table of contents)

With this merger completed, the Company is in process of rolling out three new verticals under the corporate umbrella; 1) state side manufacturing and printing, 2) ad support products, and 3) online restaurant supplies catalogue. All of which leverage the strength of Sugarmade's core business and its extensive customer base.

Stateside manufacturing and printing.

Our core business is providing smaller restaurants and take-out food organizations small order custom printing and packaging. Many of these organizations believe that custom printing and branding is out of reach and the major players in the food service. This untapped market is prime for the taking with over 340,000 establishments throughout the US. By bringing custom printing state side, we are able to be more nimble; reducing turnaround times and accommodating for smaller quantity orders. At the same time, this dramatically reduces our ocean freight costs, thus increasing our margins on these smaller orders compared to orders that involve overseas custom printing operations and international shipping. We believe we will be able to substantial grow our organization by servicing this sector.

Ad supported products

We also believe there is a substantial opportunity for the Company to supply advertising supported products to the above outlined sector. Under this business model we will work in conjunction with advertisers to supply our customers with free products imprinted with advertising. We believe such a business proposition is extremely attractive to our core customer base of the smaller take-out and restaurant organizations as the receipt of free supplies will allow our customers to boost margins and increase profits. We currently service a high percentage of frozen yogurt take out establishments, which typically concentrate on a lucrative demographic, which includes mothers with children between the ages of 6 and 14 years old. This demographic is highly sought after by consumer products companies and advertising agencies. By working in conjunction with companies who wish to advertise to this demographic we believe we can be successful in our ad supported products initiatives. In order to target the sector we will reach out to brands that resonate with our customers and present them an opportunity to sponsor our products and print their campaigns and advertisements on the products we supply to our customers. Thus, we believe we will be able to further expand our customer base via high-margin ad supported initiatives

Online restaurant supply store

We have already established relationships with over 3,000 takeout establishments, restaurants and other food service operators in the United States. We see an opportunity to not limit our services to just custom printed take-out supplies but to expand our services and offerings beyond of that. We plan to start another online website to give our customers a one stop shop to help them run their business. It will be a premier website where customers can find all items unique to their industry. The online restaurant supply store will offer over 20,000 SKU's of restaurant equipment and supplies ranging from heavy duty commercial stoves to cleaning supplies. This will continue our path to servicing the underserviced sector of the takeout and restaurant industries.

Investment in food service industry technology

We will invest in upgrading our technology as well as developing our own in house technology that will bring disruption to an otherwise unchanged industry. We will build mobile applications for our customers so that we can improve the existing experience and create better efficiency. This includes building apps that will allow customers to create custom printed products on their phone and track statuses of their order and allow them to re-order on their mobile phone.

(table of contents)

Employees and consultants

As of the end of Fiscal 2014 the Company had no full or part-time employees, aside from executive management. All work relating to the Company was carried on by the Board and by consultants. As May 1, 2015, the combined Company employs 28 full and part-time workers.

Overview and Financial Condition

Discussions with respect to our Company's operations included herein refer to our operating subsidiary, Sugarmade-CA. Our Company purchased Sugarmade-CA on May 9, 2011. As of September 30, 2014, we had no other operations other than those of Sugarmade-CA. Information with respect to our Company's nominal operations prior to the Sugarmade Acquisition is not included herein.

Results of Operations

The following table sets forth the results of our operations for the three months ended September 30, 2014 and 2013. Certain columns may not add due to rounding.

Three Months ended September 30,		
	2014	2013
Net Sales	$2,664	$47,402
Cost of Goods Sold	1,325	73,471
Gross Profit (Loss)	1,339	(26,069)
Operating Expenses	2,283,512	503,762
Loss from Operation	(2,282,173)	(529,931)
Other Income (Expenses)	(3,578,151)	60,946
Net Loss	(5,860,324)	(468,884)

Revenues

For the three-month periods ending September 30, 2014 and September 30, 2013, revenues were $2,664 and $47,402, respectively. The decreases in revenue was due to curtailment of certain operations as the Company prepared for restructuring.

Cost of goods sold

For the three-month periods ending September 30, 2014 and September 30, 2013, costs of goods sold were $1,325 and $73,471, respectively. The decreases in were due to curtailment of certain operations as the Company prepared for restructuring.

Gross profit (loss)

For the three months period ending September 30, 2014 and September 30, 2013, gross profit were $1,339 and ($26,069), respectively. The variances were due to curtailment of certain operations as the Company prepared for restructuring.

Selling, general and administrative expenses

For the three-month periods ending September 30, 2014 and September 30, 2013, selling, general and administrative expenses were $2,283,512 and $503,762, respectively. The decreases in were due to curtailment of certain operations as the Company prepared for restructuring.

(table of contents)

Other non-operating income (expense) and interest expense and interest income

The Company had total non-operating expense of $3,578,151 and non-operating income $60,946 for the three months ending September 30, 2014 and September 30, 2013, respectively. The change in non-operating expense and income was mainly due to loss from settlement of multiple debts through issuance of restricted common shares.

Net loss

Net loss totaled $5,860,324 and $468,884, respectively, for the three-month periods end September 30, 2014 and September 30, 2013, respectively. The significant reduction in losses was attributed to the Company ceasing partial operations in order to prepare for restructuring.

Liquidity and Capital Resources

We have primarily financed our operations through the sale of unregistered equity and convertible notes payable. As of September 30, 2014, our Company had cash balance of $503, current assets totaling $239,864 and total assets of $250,364. We had current and total liabilities totaling $1,679,688. Stockholders' equity reflected a deficit of $1,429,324.

The following is a summary of cash provided by or used in each of the indicated types of activities during the three months ended September 30, 2014 and 2013:

	2014	2013
Cash (used in) provided by:		
Operating activities	$(134,497)	$(85,075)
Investing activities	$—	$—
Financing activities	$135,000	$(74,018)

Net cash used by operating activities was ($134,497) for the three months ending September 30, 2014, and ($85,075) for the three months ending September 30, 2013. The decrease of net cash flows used in operating activities resulted mainly from the curtailment of certain operations we the Company prepared for restructuring. Sales operated at minimal levels while expenditures increased due to preparation for restructuring.

Net cash provided by financing activities totaled $135,000 for the three-month period ended September 30, 2014. Net cash used in financing activities totaled ($74,018) for the three-month period ended September 30, 2013. The difference in cash used was due to proceeds from issuance of common stock as well a multitude of debts were settled through issuance of shares.

Our capital requirements going forward will consist of financing our operations until we are able to reach a level of revenues and gross margins adequate to equal or exceed our ongoing operating expenses. Other than the notes payable discussed above, borrowings from our bank and the production credit facility with our suppliers, we do not have any credit agreement or source of liquidity immediately available to us.

Given estimates of our Company's future operating results and our credit arrangements with our suppliers, we are currently forecasting that we will need to secure additional financing to obtain adequate financial resources to reach profitability. As of the date of this report, we estimate that the cash necessary to implement our current business plan for the next twelve months is approximately $2,000,000. We also cannot provide any assurances that we will be able to receive additional funds under our production line of credit.

(table of contents)

Based on our need to raise additional funds to implement our business plans for the next twelve months, we have included a discussion concerning the presentation of our financial statements on a going concern basis in the notes to our financial statements and our independent public accountants have included a similar discussion in their opinion on our financial statements through June 30, 2014. We will be required in the near future to issue debt or sell our Company's equity securities in order to raise additional cash, although there are no firm arrangements in place for any such financing at this time. We cannot provide any assurances as to whether we will be able to secure the necessary financing, or the terms of any such financing transaction if one were to occur. The failure to secure such financing could severely curtail our plans for future growth or in more severe scenarios, the continued operations of our Company.

Capital Expenditures

Our current plans do not call for our Company to expend significant amounts for capital expenditures for the foreseeable future beyond relatively insignificant expenditures for office furniture and information technology related equipment as we add employees to our Company. We are however continually evaluating the production processes of our third party contract manufacturers to determine if there are investments we could make in their processes to achieve manufacturing improvements and significant cost savings. Any such desired investments would require additional cash above our current forecast requirements.

Critical Accounting Policies Involving Management Estimates and Assumptions

Please see the notes to our financial statements.

ITEM 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Intentionally omitted pursuant to Item 305(e) of Regulation S-K.

ITEM 4 – CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We maintain disclosure controls and procedures and internal controls that are designed 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 in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures and internal controls, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable, and not absolute, assurance of achieving the desired control objectives. In reaching a reasonable level of assurance, management necessarily was required to apply its judgment in evaluating the cost benefit relationship of possible controls and procedures and internal controls. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives.

As required by the Securities and Exchange Commission Rule 13a-15(e) and Rule 15d-15(e), we carried out an evaluation, under the supervision of and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Controls over Financial Reporting

There have not been any changes in our internal controls over financial reporting during the quarter ended September 30, 2014 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

(table of contents)

ITEM 1 – RISK FACTORS

Investment in our common stock involves a high degree of risk. You should carefully consider the risks described below together with all of the other information included in this herein before making an investment decision. If any of the following risks actually occur, our business, financial condition or results of operations could suffer. In that case, the market price of our common stock could decline, and you may lose all or part of your investment. You should also read the section entitled "Special Notes Regarding Forward-Looking Statements" below for a discussion of what types of statements are forward-looking statements as well as the significance of such statements in the context of this report.

Investment in our common stock involves a high degree of risk. You should carefully consider the risks described below together with all of the other information included in this herein before making an investment decision. If any of the following risks actually occur, our business, financial condition or results of operations could suffer. In that case, the market price of our common stock could decline, and you may lose all or part of your investment.

The Company, as of the end of the 2014 fiscal year (June) was at a stage where it requires external capital to continue with its business. It must obtain additional significant capital in the future to continue its operations. There can be no certainty that the Company can obtain these funds.

ITEM 2 –UNREGISTERED SALES OF SECURITIES AND USE OF PROCEEDS

On August 7, 2014, the Company issued 900,000 shares of restricted common stock to settle all debt with debtor at fair market value of 630,000 and incurred loss in settlement of 337,294, pursuant to an exemption from registration relying on Section 4(a)(2) and Rule 506b of Regulation D, under the Securities Act of 1933, as amended.

On August 7, 2014, the Company issued 2,500,000 shares of restricted common stock to an accredited investor for their services pursuant to an exemption from registration relying on Section 4(a)(2) and Rule 506b of Regulation D, under the Securities Act of 1933, as amended.

On August 7, 2014, the Company issued 2,840,000 shares of restricted common stock to settle balance owed on line of credit at fair market value of $1,988,000 and incurred loss in settlement of $1,714,000, pursuant to an exemption from registration relying on Section 4(a)(2) and Rule 506b of Regulation D, under the Securities Act of 1933, as amended.

August 7, 2014, the Company sold 5,000,000 shares of restricted common stock to an accredited investor for $135,000 pursuant to an exemption from registration relying on Section 4(a)(2) and Rule 506b of Regulation D, under the Securities Act of 1933, as amended.

On July 18, 2014, the Company sold 1,250,000 shares of restricted common stock to an accredited investor for $25,000 pursuant to an exemption from registration relying on Section 4(a)(2) and Rule 506b of Regulation D, under the Securities Ac is ant of 1933, as amended.

(table of contents)

On July 17, 2014, the Company sold 4,500,000 shares of restricted common stock to an accredited investor for $50,000 pursuant to an exemption from registration relying on Section 4(a)(2) and Rule 506b of Regulation D, under the Securities Act of 1933, as amended. The purchasing entity was LMK CAPITAL LLC, DBA PREMIER PAPER & PLASTIC INTERNATIONAL ("LMK"), a Company in which our CEO, Jimmy Chan, is a consultant.

On July 21, 2014, the Company sold 1,250,000 shares of restricted common stock to an accredited investor for $25,000 pursuant to an exemption from registration relying on Section 4(a)(2) and Rule 506b of Regulation D, under the Securities Act of 1933, as amended.

On July 17, 2014, the Company sold 1,250,000 shares of restricted common stock to an accredited investor for $25,000 pursuant to an exemption from registration relying on Section 4(a)(2) and Rule 506b of Regulation D, under the Securities Act of 1933, as amended.

On August 7, 2014, the Company issued 1,113,918 shares of restricted common stock at fair market value of $779,743 to an accredited investor to settle debt and incurred loss in settlement of $668,351, pursuant to an exemption from registration relying on Section 4(a)(2) and Rule 506b of Regulation D, under the Securities Act of 1933, as amended.

ITEM 3 – DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4 – MINE SAFETY DISCLOSURES

None.

ITEM 5 – OTHER INFORMATION

None

(table of contents)

ITEM 6 – EXHIBITS

Exhibit No.		Description
31.1	(1)	Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	(1)	Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	(1)	Certifications 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
32.2	(1)	Certifications of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS*	(1)	XBRL Instance Document
101.SCH*	(1)	XBRL Taxonomy Extension Schema
101.CAL*	(1)	XBRL Taxonomy Extension Calculation Linkbase
101.DEF*	(1)	XBRL Taxonomy Extension Definition Linkbase
101.LAB*	(1)	XBRL Taxonomy Extension Label Linkbase
101.PRE*	(1)	XBRL Taxonomy Extension Presentation Linkbase

(1) Filed as an exhibit to this Report.

(table of contents)

SIGNATURES

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

	Sugarmade, Inc., a Delaware corporation	
November 25, 2015	By:	/s/ Jimmy Chan Jimmy Chan CEO, CFO, and Director

-32-

(table of contents)