

Sugarmade, Inc.
Form 10-Q
May 20, 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: March 31, 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

94-3008888

(State or jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

167 N. Sunset Avenue

City of Industry, CA

91744

(Address and of principal executive offices) (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

Edgar Filing: Sugarmade, Inc. - Form 10-Q

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
Non-accelerated filer

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 May 15, 2015 there were 157,586,441 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 March 31, 2014

TABLE OF CONTENTS

PART I : Financial Information

Item 1	<u>Financial Statements</u>	4
	<u>Condensed Consolidated Balance Sheets (unaudited) as of March 31, 2014 and June 30, 2013</u>	4
	<u>Condensed Consolidated Statements of Operations (unaudited) for the nine and three months ended March 31, 2014 and 2013</u>	5
	<u>Condensed Consolidated Statements of Cash Flows (unaudited) for the nine months ended March 31, 2014 and 2013</u>	6
	<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	7
Item 2	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	28
Item 3	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	33
Item 4	<u>Controls and Procedures</u>	33

PART II : Other Information

Item 1	<u>Risk Factors</u>	34
Item 2	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	34
Item 3	<u>Defaults upon Senior Securities</u>	34
Item 4	<u>Mine Safety Disclosures</u>	34
Item 5	<u>Other Information</u>	34
Item 6	<u>Exhibits</u>	34

Signatures

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 those 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 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 I : Financial Information****Item 1**

Sugarmade, Inc. and Subsidiary
 Condensed Consolidated Balance Sheets
 March 31, 2014 (Unaudited) and June 30, 2013

	March 31, 2014	June 30, 2013
Assets		
Current assets:		
Cash	0	159,381
Accounts receivable, net	14,513	42,249
Inventory, net	71,088	159,255
Other current assets	0	20,057
Total current assets	85,601	380,942
Equipment, net	490	3,299
Other assets	10,727	4,705
	96,818	388,946
Liabilities and Stockholders' Deficiency		
Current liabilities:		
Note payable due to bank	25,982	150,000
Accounts payable and accrued liabilities	949,688	390,138
Accrued interest	177,182	87,275
Notes payable due to shareholder	186,000	186,000
Accrued compensation and personnel related payables	373,455	527,544
Production line of credit	324,000	274,000
Convertible notes payable, net	525,000	525,000
Derivative liabilities	258,000	326,452
Total liabilities	2,819,306	2,466,409
Stockholders' deficiency:		
Preferred stock (\$0.001 par value, 10,000,000 shares authorized, none issued and outstanding)	0	0
Common stock (\$0.001 par value, 300,000,000 shares authorized, 10,538,526 shares issued and outstanding; 10,288,526 at June 30, 2012)	10,539	10,539
Additional paid-in capital	8,322,406	8,317,406
Accumulated deficit	(11,055,432)	(10,405,408)
Total stockholders' deficiency	(2,722,487)	(2,077,463)
	96,818	388,946

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

(table of contents)

Sugarmade, Inc. and Subsidiary
Condensed Consolidated Statements of Operations
For the Nine and Three Months ended March 31, 2014 and 2013

(Unaudited)

	For three months ended March 31,		For nine months ended March 31,	
	2014	2013	2014	2013
Revenues, net	3,025	51,645	73,776	165,569
Cost of goods sold:				
Materials and freight costs	2,026	36,161	89,583	111,162
Provision for inventory obsolescence				40,851
Total cost of goods sold	2,026	36,161	89,583	152,013
Gross margin	999	15,484	(15,807)	13,556
Operating expenses:				
Sales and marketing				
Selling, general and administrative expenses	82,187	327,870	611,633	1,442,549
Total operating expenses	82,187	327,870	611,633	1,442,549
Loss from operations	(81,188)	(312,386)	(627,439)	(1,428,993)
Non-operating income (expense):				
Interest expense:	(29,205)	(80,033)	(91,087)	(134,472)
Interest income:		124	50	390
Change in fair value of derivative liabilities	(86,000)		68,452	
Total non-operating income (expense)	(115,205)	(79,909)	(22,585)	(134,082)
Net loss	(196,393)	(392,295)	(650,024)	(1,563,075)
Basic and diluted net loss per share	(0.02)	(0.04)	(0.06)	(0.15)
Basic and diluted weighted average common shares outstanding used in computing net loss per share	10,538,526	10,538,526	10,538,526	10,538,526

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

(table of contents)

Sugarmade, Inc. and Subsidiary
Condensed Consolidated Statements of Cash Flows
For the Nine Months ended March 31, 2014 and 2013

(Unaudited)

	For nine months ended 2014	2013
Operating activities:		
Net loss	(650,024)	(1,563,075)
Adjustments to reconcile net loss to cash flows from operating activities:		
Depreciation expense	2,809	1,469
Share based compensation		142,191
Issuance of common stock for services		98,545
Issuance of warrants with convertible notes		96,543
Allowance for doubtful accounts	41,186	
Provision for inventory obsolescence	39,306	
Changes in fair value of derivative liability	(68,452)	
Changes in operating assets and liabilities:		
Accounts receivable	(13,452)	(10,120)
Inventory	48,860	(173,634)
Other assets	14,035	25,995
Accounts payable and accrued liabilities	563,498	140,778
Accrued interest	89,906	55,892
Accrued compensation and personnel related payables	(153,037)	299,617
Net cash flows used in operating activities	(85,362)	(885,799)

Financing activities:		
Borrowings from production line of credit		284,000
Payment of bank note	(124,018)	
Proceeds from issuance of convertible notes payable		363,413
Proceeds from issuance of convertible notes payable to related parties		118,621
Proceeds from increase of production line of credit	50,000	
Issuance of notes payable to shareholders		86,000
Net cash flows from financing activities	(74,019)	852,034
Net change in cash	(159,381)	(33,765)
Cash, beginning of period	159,381	192,100
Cash, end of period	0	158,335
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	121	25,003
Income taxes	0	0

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

(table of contents)

Sugarmade, Inc. and Subsidiary

Notes to Unaudited Condensed Consolidated Financial Statements

March 31, 2014 (Unaudited) and June 30, 2013

1. Nature of Business

We are a distributor of paper products that are 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.

At the end this reporting period, March 31, 2014, the Company had minimal operations pending restructuring. Our company is now focusing on fundraising and acquisition opportunities.

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.

Effective October 26, 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.

-7-

(table of contents)

Sugarmade, Inc. and Subsidiary

Notes to Unaudited Condensed Consolidated Financial Statements

March 31, 2014 (Unaudited) and June 30, 2013

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, 2013, 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, 2013. The interim results for the period ended March 31, 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 March 31, 2014 and for the fiscal year ended June 30, 2013. 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

March 31, 2014 (Unaudited) and June 30, 2013

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 year ended June 30, 2012, we became aware of quality issues surrounding our copy paper products. We were able to trace the reported problems with paper quality back to manufacturing issues with our third party contract manufacturer. Our Company has since implemented additional quality assurance procedures both during and at the completion of the production processes. During the nine months ended March 31, 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 nine months ended March 31, 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.

-9-

(table of contents)

Sugarmade, Inc. and Subsidiary

Notes to Unaudited Condensed Consolidated Financial Statements

March 31, 2014 (Unaudited) and June 30, 2013

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. Since we cannot necessarily predict future changes in the financial stability of our customers, we cannot guarantee that our allowance for doubtful accounts will be adequate.

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. During the fourth quarter of fiscal 2012, our Company became aware of quality issues surrounding its copy paper products. As a result of these quality issues, we determined that the historical inventory values were not realizable and we recorded a reserve for inventory obsolescence. We completed our review of impacted inventory during the second quarter of fiscal 2013, and recorded additional reserves at that time. During the fiscal year ended June 30, 2013, we continued to dispose of reserved inventory either through sales to a third party liquidator or where it was impractical to sell the inventory; we donated the product to third party charitable organizations. As of March 31, 2014 and June 30, 2013, the balance for the inventory totaled \$71,088 and \$159,255, respectively.

Equipment

The Company owned equipment valued at \$490 as of March 31, 2014 and \$3,299 as of June 30, 2013.

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.

-10-

(table of contents)

Sugarmade, Inc. and Subsidiary

Notes to Unaudited Condensed Consolidated Financial Statements

March 31, 2014 (Unaudited) and June 30, 2013

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 March 31, 2014.

Stock based compensation

Stock based compensation cost 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 comparable public company data among other information to estimate the expected price volatility and the expected forfeiture rate. Non-employee stock grant costs are measured and recognized upon completion of performance and tied to the contractual obligations of the parties we transact with.

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.

-11-

(table of contents)

Sugarmade, Inc. and Subsidiary

Notes to Unaudited Condensed Consolidated Financial Statements

March 31, 2014 (Unaudited) and June 30, 2013

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.

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.

Recent developed accounting pronouncements

Effective January 2013, we adopted FASB ASU No. 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities (ASU 2011-11). The amendments in ASU 2011-11 require the disclosure of information on offsetting and related arrangements for financial and derivative instruments to enable users of its financial statements to understand the effect of those arrangements on its financial position. Amendments under ASU 2011-11 will be applied retrospectively for fiscal years, and interim periods within those years, beginning after January 1, 2013. The adoption of this update did not have a material impact on the consolidated financial statements.

(table of contents)

Sugarmade, Inc. and Subsidiary

Notes to Unaudited Condensed Consolidated Financial Statements

March 31, 2014 (Unaudited) and June 30, 2013

Effective January 2013, we adopted FASB ASU No. 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive (ASU 2013-02). This guidance is the culmination of the FASB's deliberation on reporting reclassification adjustments from accumulated other comprehensive income (AOCI). The amendments in ASU 2013-02 do not change the current requirements for reporting net income or other comprehensive income. However, the amendments require disclosure of amounts reclassified out of AOCI in its entirety, by component, on the face of the statement of operations or in the notes thereto. Amounts that are not required to be reclassified in their entirety to net income must be cross-referenced to other disclosures that provide additional detail. This standard is effective prospectively for annual and interim reporting periods beginning after December 15, 2012. The adoption of this update did not have a material impact on the consolidated financial statements.

New accounting pronouncements not yet adopted

In April 2013, the FASB issued ASU No. 2013-07, Presentation of Financial Statements (Top 205): Liquidation Basis of Accounting. The objective of ASU No. 2013-07 is to clarify when an entity should apply the liquidation basis of accounting and to provide principles for the measurement of assets and liabilities under the liquidation basis of accounting, as well as any required disclosures. The amendments in this standard is effective prospectively for entities that determine liquidation is imminent during annual reporting periods beginning after December 15, 2013, and interim reporting periods therein. We are evaluating the effect, if any, adoption of ASU No. 2013-07 will have on our consolidated financial statements.

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 in 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 related 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 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 consolidated financial statements.

(table of contents)

Sugarmade, Inc. and Subsidiary

Notes to Unaudited Condensed Consolidated Financial Statements

March 31, 2014 (Unaudited) and June 30, 2013

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 consolidated financial statements.

In February 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis. The amendments in ASY 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 consolidated financial statements.

3. Concentration

Customers

For the nine months ended March 31, 2014, our Company earned net revenues of \$73,776. A significant portion of our Company's revenue is derived from a small number of customers. For the nine months ended March 31, 2014, sales to one of our Company's customers accounted for more than 75% of net sales. For the three months ended March 31, 2014, sales to one of our Company's customers accounted for 100% of net sales. For the nine months ended March 31, 2013, sales to three of our Company's customers accounted for 13%, 19%, and 48% of net sales, respectively.

Suppliers

For the three and nine month periods ended March 31, 2014 and 2013, all of our tree free paper products were purchased from SCPC and their contract manufacturers.

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 March 31, 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 proceeding.

-14-

(table of contents)

Sugarmade, Inc. and Subsidiary

Notes to Unaudited Condensed Consolidated Financial Statements

March 31, 2014 (Unaudited) and June 30, 2013

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. On June 30, 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 plans to vigorously defend against such claims. No changes have occurred as of the filing date of this report.

5. Board of Directors

On September 18, 2013, Leung who is our CEO and a Director, agreed to a compensation package for CEO services for 2,500,000 common shares. Sugarcane Paper Company, for which Leung is a major shareholder, agreed on September 18, 2013 to convert \$284,000 of outstanding debt and then outstanding interest to 2,840,000 common shares. On this same date, Sugarcane Paper Company also agreed to cancel the Company's production credit line resulting in a zero balance on this credit line in exchange for the issuance of 2,840,000 common shares to Sugarcane Paper Company. Sugarcane Company also agreed to convert \$143,740 of outstanding debt in exchange for 900,000 common shares.

On September 18, 2013, our Board approved the issuance of 1,057,534 common shares to our CEO, Leung, pursuant to a settlement agreement dated September 20, 2013, allowing for the conversion of the \$100,000 promissory note balance and \$5,753.43 interest due at a rate of \$0.10 per share. Leung is also a Director of the Company. On this date, Sugarcane Paper Company and Leung also agreed to accept 1,057,534 common shares for the conversion of a promissory note with an outstanding balance of \$105,753.

(table of contents)

Sugarmade, Inc. and Subsidiary

Notes to Unaudited Condensed Consolidated Financial Statements

March 31, 2014 (Unaudited) and June 30, 2013

On September 18, 2013, our Board approved the appointment of Leung as of July 19, 2013, as CEO. Leung is also a Director of our Company. The services contract, which has a term of six months and is renewable at the discretion of our Board, calls for no monthly or annual salary and compensation in the form of 2,500,000 restricted common shares for the contract period. Leung is also CEO of Sugarcane Paper Company, which is the sole supplier of paper to the Company. He also holds a controlling interest in Sugarcane Paper Company.

On November 30, 2012, our Company issued a convertible promissory note in the amount of \$100,000 to Jonathan Leong, one of our directors, as part of a financing involving eleven accredited investors. The convertible promissory note must be repaid by our Company within 9 months from the date of issuance; accrues interest at the rate of 14%; and is convertible at the election of the note holder at such time as our Company has raised a minimum of \$500,000 in equity in a subsequent equity financing, at the conversion price which is the lower of 80% of the per share purchase price paid for the securities by the investors in the subsequent financing, or \$.50 per share. Unless this promissory note is converted or repaid earlier, our Company must pay the note holder the amount of the then accrued interest on the three month anniversary, nine month anniversary, and nine month anniversary of the issue date. In connection with the issuance of the promissory notes, Mr. Leong received two-year warrants to purchase 15,000 shares of common stock at \$.50 per share, and two-year warrants to purchase 25,000 shares of common stock at \$.01 per share. Mr. Leong converted the promissory note and cancelled the warrants on September 18, 2013.

On September 18, 2013, our Board approved the modification of the Convertible Promissory Note dated November 27, 2012 held in the name of Leong to allow for conversion of the outstanding principal and interest due at a rate of Ten US Cents (\$0.10) per share. Leong is a Director and Secretary of the Company. Leong, agreed such conversion of converting a convertible note for \$100,000 into 1,113,918 common shares.

6. Convertible Notes (also see Note 9)

Between August 17, 2012 and March 31, 2013, our Company issued a total of \$525,000 in convertible promissory notes to eleven accredited investors, one of which is a member of our Board and another was a former member of our Board. 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 June 30, 2013, the Company extended the maturity date of the notes to one year from the date of issuance.

(table of contents)

Sugarmade, Inc. and Subsidiary

Notes to Unaudited Condensed Consolidated Financial Statements

March 31, 2014 (Unaudited) and June 30, 2013

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.

On various dates during June 2014 and July 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, 60,000 warrants at \$0.50 and 60,000 “Bonus Warrants at \$0.01 were cancelled.

- Note dated August 17, 2012 for \$25,000
- Note dated August 24, 2012 for \$25,000
- Note dated September 9, 2012 for \$40,000
- Note dated September 13, 2012 for \$50,000
- Note dated October 5, 2012 for \$10,000
- Note dated October 25, 2012 for \$25,000
- Note dated December 21, 2012 for \$100,000
- Note dated January 31, 2013 for \$25,000
- Note dated November 27, 2012 for \$100,000

7. 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). This borrowing facility is renewed annually and our Company is required to maintain a separate demand deposit account with HSBC with a minimum balance equal to the outstanding borrowing. 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 March 31, 2014, the loan balance was \$25,982.

(table of contents)

Sugarmade, Inc. and Subsidiary

Notes to Unaudited Condensed Consolidated Financial Statements

March 31, 2014 (Unaudited) and June 30, 2013

8. 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 will initially be 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. The same repayment terms will remain in effect. As of March 31, 2014, the balance on the credit line totaled \$324,000.

9. Derivative Liabilities

Between August 17, 2012 and March 31, 2013, our Company issued a total of \$525,000 in convertible promissory notes to eleven accredited investors, one of which is a member of our Board and another was a former member of our Board. 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 June 30, 2013, the Company extended the maturity date of the notes to one year from the date of issuance.

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 to purchase 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. The Company recognized the conversion feature, the \$0.01 warrant to purchase common stock and \$0.50 warrant to purchase common stock were derivative liabilities.

Edgar Filing: Sugarmade, Inc. - Form 10-Q

As of March 31, 2014, the derivative liabilities were valued using the weighted-average Black-Scholes-Merton option pricing model using the assumptions detailed below. The Company recorded \$68,452 income from changes in derivative liability during the nine months ended March 31, 2014. The results of year--end valuation were summarized as follows:

-18-

[\(table of contents\)](#)**Sugarmade, Inc. and Subsidiary****Notes to Unaudited Condensed Consolidated Financial Statements****March 31, 2014 (Unaudited) and June 30, 2013**

Grant Date	Derivative Liabilities	Dividend Yield	Expected Volatility	Risk Free Rate	Expected Term	Fair Value as of 03/31/14
8 /17/2012	Conversion Feature	0 %	217 %	0.19 %	2.25	17,000
	\$0.01 Warrant	0 %	217 %	0.19 %	0.38	2,000
	\$0.50 Warrant	0 %	217 %	0.19 %	0.38	0
8 /24/2012	Conversion Feature	0 %	207 %	0.19 %	2.25	16,000
	\$0.01 Warrant	0 %	207 %	0.19 %	0.40	2,000
	\$0.50 Warrant	0 %	207 %	0.19 %	0.40	0
9 /9/2012	Conversion Feature	0 %	195 %	0.19 %	2.25	25,000
	\$0.01 Warrant	0 %	195 %	0.19 %	0.44	6,000
	\$0.50 Warrant	0 %	195 %	0.19 %	0.44	1,000
9 /13/2012	Conversion Feature	0 %	196 %	0.19 %	2.25	32,000
	\$0.01 Warrant	0 %	196 %	0.19 %	0.38	4,000
	\$0.50 Warrant	0 %	196 %	0.19 %	0.38	1,000
9 /18/2012	Conversion Feature	0 %	194 %	0.19 %	0.22	5,000
	\$0.01 Warrant	0 %	194 %	0.19 %	0.47	2,000
	\$0.50 Warrant	0 %	194 %	0.19 %	0.47	0
9 /18/2012	Conversion Feature	0 %	194 %	0.19 %	0.22	5,000
	\$0.01 Warrant	0 %	194 %	0.19 %	0.47	2,000
	\$0.50 Warrant	0 %	194 %	0.19 %	0.47	0
9 /18/2012	Conversion Feature	0 %	194 %	0.19 %	0.22	5,000
	\$0.01 Warrant	0 %	194 %	0.19 %	0.47	2,000
	\$0.50 Warrant	0 %	194 %	0.19 %	0.47	0
9 /27/2012	Conversion Feature	0 %	187 %	0.19 %	0.46	7,000
	\$0.01 Warrant	0 %	187 %	0.19 %	0.49	3,000
	\$0.50 Warrant	0 %	187 %	0.19 %	0.49	1,000
10/5/2012	Conversion Feature	0 %	188 %	0.19 %	0.10	1,000
	\$0.01 Warrant	0 %	188 %	0.19 %	0.52	1,000
	\$0.50 Warrant	0 %	188 %	0.19 %	0.52	0
10/25/2012	Conversion Feature	0 %	157 %	0.19 %	0.15	3,000
	\$0.01 Warrant	0 %	157 %	0.19 %	0.57	4,000
	\$0.50 Warrant	0 %	157 %	0.19 %	0.57	1,000
10/31/2012	Conversion Feature	0 %	217 %	0.19 %	0.84	12,000
	\$0.01 Warrant	0 %	217 %	0.19 %	0.59	5,000
	\$0.50 Warrant	0 %	217 %	0.19 %	0.59	2,000
11/27/2012	Conversion Feature	0 %	217 %	0.19 %	0.84	12,000
	\$0.01 Warrant	0 %	217 %	0.19 %	2.25	5,000
	\$0.50 Warrant	0 %	217 %	0.19 %	2.25	3,000
12/21/2012	Conversion Feature	0 %	152 %	0.19 %	0.16	10,000
	\$0.01 Warrant	0 %	152 %	0.19 %	0.66	7,000
	\$0.50 Warrant	0 %	152 %	0.19 %	0.66	1,000
1 /31/2013	Conversion Feature	0 %	136 %	0.19 %	0.22	12,000
	\$0.01 Warrant	0 %	136 %	0.19 %	0.73	18,000

Edgar Filing: Sugarmade, Inc. - Form 10-Q

	\$0.50 Warrant	0 %	136 %	0.19%	0.73	6,000
8 /24/2012	\$0.50 Warrant	0 %	136 %	0.19%	2.40	17,000
					Total fair value	\$258,000

-19-

[\(table of contents\)](#)**Sugarmade, Inc. and Subsidiary****Notes to Unaudited Condensed Consolidated Financial Statements****March 31, 2014 (Unaudited) and June 30, 2013**

As of June 30, 2013, the derivative liabilities were valued using the weighted-average Black-Scholes-Merton option pricing model using the assumptions detailed below. The results of year--end valuation were summarized as follows:

Grant Date	Derivative Liabilities	Dividend Yield	Expected Volatility	Risk Free Rate	Expected Term	Fair Value as of 06/30/13
8 /17/2012	Conversion Feature	0 %	88 %	0.15 %	0.88	\$ 12,500
	\$0.01 Warrant	0 %	232 %	0.15 %	1.13	2,313
	\$0.50 Warrant	0 %	232 %	0.15 %	1.13	1,088
8 /24/2012	Conversion Feature	0 %	65 %	0.15 %	0.65	7,000
	\$0.01 Warrant	0 %	251 %	0.15 %	1.15	2,313
	\$0.50 Warrant	0 %	251 %	0.15 %	1.15	1,125
9 /9/2012	Conversion Feature	0 %	94 %	0.15 %	0.94	20,000
	\$0.01 Warrant	0 %	248 %	0.15 %	1.19	3,700
	\$0.50 Warrant	0 %	248 %	0.15 %	1.19	1,800
9 /13/2012	Conversion Feature	0 %	71 %	0.15 %	0.71	16,000
	\$0.01 Warrant	0 %	232 %	0.15 %	1.13	4,625
	\$0.50 Warrant	0 %	232 %	0.15 %	1.13	2,175
9 /18/2012	Conversion Feature	0 %	97 %	0.15 %	0.97	13,000
	\$0.01 Warrant	0 %	245 %	0.15 %	1.22	2,313
	\$0.50 Warrant	0 %	245 %	0.15 %	1.22	1,125
9 /18/2012	Conversion Feature	0 %	97 %	0.15 %	0.97	13,000
	\$0.01 Warrant	0 %	245 %	0.15 %	1.22	2,313
	\$0.50 Warrant	0 %	245 %	0.15 %	1.22	1,125
9 /18/2012	Conversion Feature	0 %	97 %	0.15 %	0.97	13,000
	\$0.01 Warrant	0 %	245 %	0.15 %	1.22	2,313
	\$0.50 Warrant	0 %	245 %	0.15 %	1.22	1,125
9 /27/2012	Conversion Feature	0 %	121 %	0.15 %	1.21	15,000
	\$0.01 Warrant	0 %	244 %	0.15 %	1.24	2,313
	\$0.50 Warrant	0 %	244 %	0.15 %	1.24	1,125
10/5/2012	Conversion Feature	0 %	85 %	0.15 %	0.85	4,600
	\$0.01 Warrant	0 %	243 %	0.15 %	1.27	925
	\$0.50 Warrant	0 %	243 %	0.15 %	1.27	465
10/25/2012	Conversion Feature	0 %	90 %	0.15 %	0.90	12,500
	\$0.01 Warrant	0 %	245 %	0.15 %	1.32	2,313
	\$0.50 Warrant	0 %	245 %	0.15 %	1.32	1,163
10/31/2012	Conversion Feature	0 %	84 %	0.15 %	0.84	11,500
	\$0.01 Warrant	0 %	244 %	0.15 %	1.34	2,313
	\$0.50 Warrant	0 %	244 %	0.15 %	1.34	1,163
11/27/2012	Conversion Feature	0 %	91 %	0.15 %	0.91	50,000

Edgar Filing: Sugarmade, Inc. - Form 10-Q

	\$0.01 Warrant	0 %	240 %	0.15 %	1.41	9,250
	\$0.50 Warrant	0 %	240 %	0.15 %	1.41	4,650
12/21/2012	Conversion Feature	0 %	98 %	0.15 %	0.98	52,000
	\$0.01 Warrant	0 %	237 %	0.15 %	1.48	9,250
	\$0.50 Warrant	0 %	237 %	0.15 %	1.48	4,650
1 /31/2013	Conversion Feature	0 %	108 %	0.15 %	1.08	14,000
	\$0.01 Warrant	0 %	224 %	0.15 %	1.08	2,313
	\$0.50 Warrant	0 %	224 %	0.15 %	1.08	1,013
					Total fair value	\$ 326,452

(table of contents)

Sugarmade, Inc. and Subsidiary

Notes to Unaudited Condensed Consolidated Financial Statements

March 31, 2014 (Unaudited) and June 30, 2013

10. Related party transaction

During the fourth quarter of Fiscal 2013, we advanced a series of small loans to DPG to act as advances to the DPG for assistance in their sales efforts for us. The total of these advances amounted to \$10,500 and remained outstanding as of March 31, 2014.

On June 14, 2013, our Company sold one container of paper to DPG, a company in which our past Chairman of the Board, Pinto has an ownership interest. DPG acted as broker in a transaction to resell the paper to one of its customers. The total value of the product sold totaled \$28,000. This amount remained outstanding as of June 30, 2013 and was fully reserved as this date as we had not received the funds as of the date of this filing.

On April 22, 2013, our Company issued a promissory note in the amount of \$100,000 to Tat Auyeung, for long term financing. The note has a term of 2 years and bears interest at a rate of 14% per annum, with 5% payable in cash and the remaining 9% per annum payable in stock at the conversion rate of \$0.7 per share. On September 20, 2013, an agreement was made in which the principal balance of \$100,000 and interest in the amount of \$5,753.43 will both be settled by the issuance of shares.

On February 22, 2013, our Company issued two promissory notes each in the amount of \$25,000 to Sandy Salzberg, one of our past Directors, and Joseph Abrams for short term financing. The note has a term of 30 days and bears interest at a rate of 25% per annum. As of March 31, 2014, the notes remained outstanding and had accrued interest totaling \$13,819.

11. Stock Based Compensation

Stock options

As of June 30, 2013, we had a total of 1,245,962 incentive and nonqualified stock options granted and outstanding under the Plan. All of our outstanding options have terms of between five and ten years. During nine and three months ended March 31, 2014 and 2013, we recognized share based compensation expense totaling \$0. During the nine and three months ended March 31, 2013, we recognized share based compensation expense totaling \$105,797 and

\$32,105, respectively. As of March 31, 2014, there were no outstanding stock options.

For purposes of accounting for stock based compensation, the fair value of each option and warrant award is estimated on the date of grant using the Black-Scholes-Merton option pricing formula. The following weighted average assumptions were used for the calculations of the options.

Expected Term	4.96	
	years	
Weighted average volatility	121.93	%
Forfeiture rate	20.00	%
Risk-free interest rate	2.02	%
Expected dividend rate	0	

The weighted average expected option and warrant term for director and employee stock options granted reflects the application of the simplified method set out in SEC Staff Accounting Bulletin No. 110. The simplified method defines the life as the average of the contractual term of the options and the weighted average vesting period for all options. We utilized this approach as our historical share option exercise experience does not provide a reasonable basis upon which to estimate an expected term. Expected volatilities are based on the historical volatility of our stock as well as those of a peer group. We estimated the forfeiture rate based on our expectation for future forfeitures and we currently expect substantially all options and warrants to vest. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield in effect at or near the time of grant. We have never declared or paid dividends and have no plans to do so in the foreseeable future.

The following is required disclosure in connection with stock options and warrants (which resulted in share based compensation charges) as of June 30, 2013: 1) weighted average exercise price - \$0.81; 2) weighted average remaining contractual term vested and outstanding options 74 months, respectively; 3) aggregate intrinsic value of outstanding and exercisable options and warrants - \$0.00 and \$0.00, respectively; 4) weighted average grant date fair value of options and warrants granted - \$1.14 per share; and 5) weighted average fair value of options and warrants vested - \$1.48 per share.

[\(table of contents\)](#)**Sugarmade, Inc. and Subsidiary****Notes to Unaudited Condensed Consolidated Financial Statements****March 31, 2014 (Unaudited) and June 30, 2013**

The exercise prices for options and warrants granted and outstanding which resulted in stock based compensation charges was as follows at June 30, 2013:

Exercise Price Range	Number of options or warrants
\$0.25 - \$0.50	100,000
\$0.51 - \$0.75	1,297,000
\$0.76 - \$1.00	—
\$1.01 - \$1.25	624,000
\$1.26 - \$2.00	32,500
\$2.01 - \$3.00	—
\$3.01 - \$4.00	1,462
\$4.01 above	—
	2,054,962

As of March 31, 2014, all employee and contractor-related options and warrants had expired unexercised. A summary of the status of our non-vested options and warrants as of March 31, 2014 and June 30, 2013, and changes during the periods then ended is as follows:

	Shares
Non-vested outstanding, July 1, 2012	624,173
Granted	152,000
Vested	(420,518)
Cancelled	0
Non-vested outstanding, June 31, 2013	355,655
Granted	0
Vested	0
Cancelled	(355,655)
Non-vested outstanding, June 31, 2014	0

Common shares reserved for future issuance

The following table summarizes shares of our common stock reserved for future issuance at March 31, 2014:

Stock based compensation:	
Stock options outstanding	0
Stock warrants outstanding	0
Common shares to be issued under conversion feature	1,050,000
Common shares to be issued under \$0.01 warrants	131,250
Common shares to be issued under \$0.50 warrants	65,000
Total common shares reserved for future issuance	1,246,250

12. Income Taxes

Our NOL will begin to expire in 2024 for federal and state purposes and could be limited for use under IRC Section 382. We have recorded a valuation allowance against the entire net deferred tax asset balance due because we believe there exists a substantial doubt that we will be able to realize the benefits due to our lack of a history of earnings and due to possible limitations under IRC Section 382.

We file income tax returns in the U.S. and in the state of California with varying statutes of limitations. Our policy is to recognize interest expense and penalties related to income tax matters as a component of our provision for income taxes. There were no accrued interest and penalties associated with uncertain tax positions as of March 31, 2014 and June 30, 2013. All operations are in California and the Company believes it has no tax positions which could more-likely-than not be challenged by tax authorities. We have no unrecognized tax benefits and thus no interest or penalties included in the financial statements.

(table of contents)**Sugarmade, Inc. and Subsidiary****Notes to Unaudited Condensed Consolidated Financial Statements****March 31, 2014 (Unaudited) and June 30, 2013**

Net deferred tax assets consist of the following components as of:

	March 31 2014	June 30, 2013
Deferred tax assets:		
NOL carryover	\$ 11,055,432	\$ 10,405,408
Valuation allowance	(11,055,432)	(10,405,408)
Net deferred tax asset	\$—	\$—

At March 31, 2014, the Company had net operating loss carry forwards of approximately \$10.5 million that may be offset against future taxable income through 2024. No tax benefit has been reported in the June 30, 2013 and 2012 consolidated financial statements since the potential tax benefit is offset by a valuation allowance of the same amount.

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 position have been recorded pursuant to ASC 740.

13. Commitments and Contingencies

As of March 31, 2014, our Company leased its corporate office located at 2280 Lincoln Avenue, Suite 200, San Jose CA 95125 under a lease with a term beginning on February 1, 2011 and extending through April 2014. Future annual lease amounts due under our lease agreement for our fiscal year ended June 30, 2014 total: \$43,920. Of the date of this filing, this obligation has been satisfied.

14. Issuance of Common Stock for Services

On September 20, 2012, our Company issued 250,000 shares to a third party consultant in consideration for its services under the terms of a consulting agreement for investor relations and public communications services. For the three months ended September 30, 2012, we recorded noncash charges totaling \$85,000 in connection with this stock

issuance based on previous day's closing price for our common stock, which is deemed the fair market value as of that date.

On July 2, 2013, the Company granted 1,057,000 shares of common stock to a consultant for business restructure and investment relation services for a period of six months. The fair value of 1,057,000 shares were \$401,660 on the grand date.

15. Subsequent events

On various dates during June 2014 and July 2014 the Company and holders of certain convertible notes, the dates for which are outlined below, agreed to 1) cancel \$0.50 warrants and retained the \$0.01 warrant, as defined in the original Convertible Note Purchase Agreements warrants to purchase common shares in the Company, 2) extend the due dates on the Notes to July 1, 2016, and 3) reduce the interest on the notes to 10% from 14%. In total, 300,000 warrants at \$0.50 were cancelled. The original dates for the notes and the amounts of the notes affected by these agreements are listed below. Notes dated otherwise retained the original terms.

(table of contents)

Sugarmade, Inc. and Subsidiary

Notes to Unaudited Condensed Consolidated Financial Statements

March 31, 2014 (Unaudited) and June 30, 2013

Note dated August 16, 2012 for \$25,000

•

Note dated August 24, 2012 for \$25,000

•Note dated September 8, 2012 for \$40,000

Note dated September 12, 2012 for \$50,000

•

Note dated September 18, 2012 for \$25,000

•Note dated October 5, 2012 for \$10,000

•Note dated October 24, 2012 for \$25,000

•Note dated December 21, 2012 for \$100,000

•Note dated July 31, 2012 for \$25,000

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(2) and Rule 506 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 currently employed as an independent consultant.

On July 14, 2014, the Company sold 450,000 shares of restricted common stock to an accredited investor for \$5,000 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(2) and Rule 506 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(2) and Rule 506 of Regulation D, under the Securities Act of 1933, as amended.

On July 23, 2014, the Company entered to an agreement with a debtor settling a debt of \$65,000 in exchange for 520,000 restricted common shares and a cash payment of \$39,000.

Edgar Filing: Sugarmade, Inc. - Form 10-Q

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(2) and Rule 506 of Regulation D, under the Securities Act of 1933, as amended.

August 7, 2014, the Company sold 900,000 shares of restricted common stock to an accredited investor for \$10,000 pursuant to an exemption from registration relying on Section 4(2) and Rule 506 of Regulation D, under the Securities Act of 1933, as amended.

On August 12, 2014, the Company approved the conversion of \$350,000 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 August 12, 2014, the Company approved the conversion of \$200,000 of short-term debt into 10,000,000 common shares. The shares were issued to Weihao LLC on December 19, 2014.

On August 12, 2014, the Company approved the conversion of \$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 September 12, 2014, the Company approved the conversion of \$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.

(table of contents)

Sugarmade, Inc. and Subsidiary

Notes to Unaudited Condensed Consolidated Financial Statements

March 31, 2014 (Unaudited) and June 30, 2013

On October 28, 2014, the Company resolved debts related to former employees and/or contractors through the issuance of 4,239,368 restricted common shares. Shares were issued December 19, 2014.

On December 23, 2014, the Board approved the issuance of 2,696,494 options to purchase common shares at \$0.001. The options have expiration date of December 31, 2016 and were awarded to non-executive employees, as part of employee retention plan.

On December 23, 2014, the Board approved the issuance of 5,500,000 shares with option price @ \$0.001 with an expiration date of December 31, 2016, to executives as part of the plan of retaining experienced talents.

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 14, 2014, the Company resolved a debt of \$30,000 with the issuance of 1,000,000 restricted common shares.

On February 20, 2015, 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 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 1-526 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 April 9, 2015, the Company completed a series of transactions receiving proceeds of \$1,500,000 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 April 14, 2015, the Company notified its transfer agents that 6,446,000 shares had been repurchased and will be retired to treasury. The transactions, which were effective January 11, 2015, called for the Company to repurchase the 6,446,000 shares for a price of \$20,000, which was paid to the holder.

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 (“CarryOut”).

[\(table of contents\)](#)**Sugarmade, Inc. and Subsidiary****Notes to Unaudited Condensed Consolidated Financial Statements****March 31, 2014 (Unaudited) and June 30, 2013**

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. The fair value of 71,000,000 shares was \$7,810,000 on October 28, 2014.

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 this 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 a business combination in accordance with ASC Topic 805 "Business Combination." The fair values of the assets acquired and liabilities assumed at acquisition closing date were used for the purpose of purchase price allocation. 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. Under the acquisition method of accounting, the total purchase price is allocated to tangible assets and intangible assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition with the excess recorded as goodwill. Goodwill represents the synergies expected from SWC Group's business with the Company's existing operations. Goodwill is expected to be deductible for tax purposes over a period of 15 years. The following table summarizes the fair values of the assets acquired and liabilities assumed at the date of acquisition, and is a preliminary purchase price allocation based on unaudited financial statements of CarryOut:

Cash	\$39,925
------	----------

Edgar Filing: Sugarmade, Inc. - Form 10-Q

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
Goodwill	8,912,679
Accounts payable	(1,489,757)
Credit card payable	(438,972)
Loans payable	(443,584)
Other payables	(362,203)
Long term notes payables	(460,000)
Purchase price	\$7,810,000

The following unaudited pro forma consolidated results of operations of the Company and SWC Group for the nine months ended March 31, 2014 and 2013, presents the operations of the Company and SEC Group as if the acquisition of SWC Group occurred on July 1, 2013 and 2012, 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.

[\(table of contents\)](#)**Sugarmade, Inc. and Subsidiary****Notes to Unaudited Condensed Consolidated Financial Statements****March 31, 2014 (Unaudited) and June 30, 2013**

	For Nine Months ended March 31, 2014 2013 (Unaudited)	
Net sales	\$6,128,665	\$7,612,007
Net income	\$(1,258,722)	\$(1,146,912)
Basic and diluted weighted average shares outstanding	81,538,526	81,538,526
Basic and diluted net earnings per share	\$(0.02)	\$(0.01)

The following unaudited pro forma consolidated results of operations of the Company and SWC Group for the three months ended March 31, 2014 and 2013, respectively.

	For Three Months ended September 30, 2014 2013 (Unaudited)	
Net sales	\$1,379,551	\$1,579,402
Net income	\$(685,669)	\$(852,306)
Basic and diluted weighted average shares outstanding	81,538,526	81,538,526
Basic and diluted net earnings per share	\$(0.02)	\$(0.02)

(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.

We are 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.

Effective October 26, 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.

(table of contents)

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 this 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.

Stateside Manufacturing and Printing

We want to go back to the root of our initial success and cater to the industry's underserved, independent small restaurants in the United States by offering small order custom printing and packaging for takeout supplies. These small businesses feel that custom printing and branding is out of reach and have been overlooked by the major players in the industry. 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 time and accommodating for smaller quantity orders, which is ideal for smaller businesses. At the same time, this dramatically reduces our ocean freight costs and margins on these smaller orders will be much higher than its overseas custom printing operation. We will work with these businesses and grow with them to new heights.

Advertising Supported Products

We are not just competing on prices but are innovating beyond to beat out our competitors. You cannot beat FREE and that is what we will be offering our products for to our eligible business customers. We are in an industry that services a demographic that is very attractive to any advertiser. Our products are seen and used by a demographic with high disposable income and our top product, the yogurt cups, services the most sought after demographic of all; mothers with kids ages 6-14.

We will reach out to brands that best resonate with our customers best and present them an opportunity to sponsor our products and print their campaigns/ads on them. The revenue from the campaign will offset costs associated with their production and sale. These savings will be passed on to our customers. There is a substantial markup on these ad support products. Our network of eligible clients will receive free takeout products to use during the campaign period.

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 9,000 SKU's of restaurant equipment and supplies ranging from heavy duty commercial stoves to cleaning supplies. This will continue our path to servicing the underserved.

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.

[\(table of contents\)](#)***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, 2013, 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 nine months ended March 31, 2014 and 2013. Certain columns may not add due to rounding.

Nine Months ended March 31,	2014	2013
	\$	\$
Net Sales	73,776	165,569
Cost of Goods Sold	89,583	152,013
Gross Profit	(15,807)	13,556
Operating Expenses	611,633	1,442,549
Loss from Operation	(627,439)	(1,428,993)
Other Income (Expenses)	(22,585)	(134,082)
Net Income (Loss)	(650,024)	(1,563,075)

Revenues

For the nine-month periods ending March 31, 2014 and March 31, 2013, revenues were \$73,776 and \$165,569, respectively. The decreases in revenue were due to curtailment of certain operations as the Company prepared for restructuring.

Cost of goods sold

For the nine-month periods ending March 31, 2014 and March 31, 2013, costs of goods sold were \$89,583 and \$152,013, respectively. The decreases in were due to curtailment of certain operations as the Company prepared for restructuring.

Gross margin (loss)

For the nine-month periods ending March 31, 2014 and March 31, 2013, gross margins were (\$15,807) and \$13,556, respectively. The variances were due to curtailment of certain operations as the Company prepared for restructuring.

Selling, general and administrative expenses

For the nine-month periods ending March 31, 2014 and March 31, 2013, selling, general and administrative expenses were \$611,633 and \$1,442,549, 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 other non-operating income (expense) totaling \$(22,585) and \$(134,082) for the nine months ending March 31, 2014 and March 31, 2013, respectively.

Net loss

Net loss totaled \$650,024 and \$1,563,075, respectively, for the nine-month periods end March 31, 2014 and March 31, 2013, respectively. The significant reduction in losses was attributed to the Company ceasing partial operations in order to prepare for restructuring.

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 March 31,	2014	2013
	\$	\$
Net Sales	3,025	51,645
Cost of Goods Sold	2,026	36,161
Gross Profit	999	15,484
Operating Expenses	82,187	611,633
Loss from Operation	(81,188)	(627,439)
Other Income (Expenses)	(115,205)	(22,585)
Net Income (Loss)	(196,393)	(650,024)

Revenues

Our Company had revenues totaling \$3,025 and \$51,645 for the three months ending March 31, 2014 and March 31, 2013, respectively. The decreases in revenue we due to curtailment of certain operations as the Company prepared for restructuring.

Cost of goods sold

Our Company had cost of goods sold totaling \$2,026 and \$36,161 for the three months ending March 31, 2014 and March 31, 2013, respectively. The decreases in were due to curtailment of certain operations as the Company prepared for restructuring.

Gross margin (loss)

The Company had gross margins totaling \$999 and \$15,484 for the three months ending March 31, 2014 and March 31, 2013, respectively. The variances were due to curtailment of certain operations as the Company prepared for restructuring.

Selling, general and administrative expenses

Our Company had selling, general and administrative expenses totaling \$82,187 and \$327,870 for the three months ending March 31, 2014 and March 31, 2013, respectively. The decreases in were due to curtailment of certain operations as the Company prepared for restructuring.

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

-31-

(table of contents)

The Company had other non-operating income (expense) totaling (\$115,205) and (\$79,909) for the three months ending March 31, 2014 and March 31, 2013, respectively.

Net loss

Net loss totaled \$196,393 and \$650,024, respectively, for the three-month periods end March 31, 2014 and March 31, 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 March 31, 2014, our Company had a zero cash balance current assets totaling \$85,601 and total assets of \$96,818. We had current and total liabilities totaling \$2,819,306. Stockholders' equity reflected a deficit of \$2,722,487.

The following is a summary of cash provided by or used in each of the indicated types of activities during the three months ended March 31, 2014 and 2013:

	2014	2013
Cash (used in) provided by:		
Operating activities	(85,362)	(885,799)
Investing activities	—	—
Financing activities	(74,019)	852,034

Net cash used by operating activities was \$85,362 for the nine months ending March 31, 2014, a decrease of \$770,437 from the comparable figure of \$885,799 for the nine months ending March 31, 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.

Net cash provided by financing activities totaled (\$74,019) for the nine-month period ended March 31, 2014. Net cash provided by financing activities totaled \$852,034 for the nine-month period ended March 31, 2013.

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, 2013. 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 March 31, 2014 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

(table of contents)

PART II : Other Information

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

There were no sales of unregistered securities during the period.

ITEM 3 – DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4 – MINE SAFETY DISCLOSURES

None.

ITEM 5 – OTHER INFORMATION

None

ITEM 6 – EXHIBITS

Exhibit No.	Description
31.1	(1) <u>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</u>
31.2	(1) <u>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</u>
32.1	(1) <u>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</u>
32.2	(1) <u>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</u>
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**

May 20, 2015 By: /s/ Jimmy Chan
Jimmy Chan
CEO, CFO, and Director

