

Sugarmade, Inc.
Form 10-K/A
August 09, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K/A

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Commission file number 000-23446

SUGARMADE, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

94-3008888

(I.R.S. Employer Identification No.)

167 N. Sunset Avenue

City of Industry, CA 91744

(Address of principal executive offices)

91744

(Zip Code)

(888) 747-6233

(Registrant's telephone number, including area code)

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act: None

Edgar Filing: Sugarmade, Inc. - Form 10-K/A

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined by Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

The aggregate market value of the voting and non-voting common equity on June 30, 2016, (the last business day of the registrant's most recently completed quarter) based on the most recent closing trade, which occurred on July 8, 2016 was \$0.088 with implied market cap of approximately \$15,724,314.

At August 9, 2016 there were 178,685,388 shares outstanding of the issuer's common, the only class of common equity.

EXPLANATORY NOTE

We are filing this Amendment No. 1 on Form 10-K/A (this “Amendment”) to our annual report on Form 10-K for the fiscal year ended June 30, 2015 (the “Original Filing” or “Form 10-K”), which was originally filed with the Securities and Exchange Commission (the “SEC”) on August 4, 2016, to include the Report of Independent Registered Public Accounts.

As required by Rule 12b-15 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), we are also filing new certifications of our principal executive officer and principal financial officer as exhibits to this Amendment.

Table of Contents	Page
PART I	1
Item 1. <u>Business</u>	1
Item 1A. <u>Risk Factors</u>	2
Item 1B. <u>Unresolved Staff Comments</u>	3
Item 2. <u>Properties</u>	3
Item 3. <u>Legal Proceedings</u>	3
PART II	7
Item 4. <u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	4
Item 5. <u>Selected Financial Data</u>	5
Item 6. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	5
Item 6A. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	14
Item 7. <u>Financial Statements and Supplementary Data</u>	15
Item 8. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	40
Item 8A. <u>Controls and Procedures</u>	41
Item 8B. <u>Other Information</u>	42
PART III	51
Item 9. <u>Directors, Executive Officers and Corporate Governance</u>	42
Item 10. <u>Executive Compensation</u>	43
Item 11. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	44
Item 12. <u>Certain Relationships and Related Party Transactions and Director Independence</u>	45
Item 13. <u>Principal Accountant Fees and Services</u>	47
PART IV	59
Item 14. <u>Exhibits, Financial Statement Schedules</u>	48
SIGNATURES	49

PART I

SPECIAL NOTE OF CAUTION REGARDING FORWARD-LOOKING STATEMENTS

CERTAIN STATEMENTS IN THIS REPORT, INCLUDING STATEMENTS IN THE FOLLOWING DISCUSSION, ARE WHAT ARE KNOWN AS “FORWARD LOOKING STATEMENTS”, WHICH ARE BASICALLY STATEMENTS ABOUT THE FUTURE. FOR THAT REASON, THESE STATEMENTS INVOLVE RISK AND UNCERTAINTY SINCE NO ONE CAN ACCURATELY PREDICT THE FUTURE. WORDS SUCH AS “PLANS,” “INTENDS,” “WILL,” “HOPES,” “SEEKS,” “ANTICIPATES,” “EXPECTS” AND THE LIKE OFTEN IDENTIFY SUCH FORWARD LOOKING STATEMENTS, BUT ARE NOT THE ONLY INDICATION THAT A STATEMENT IS A FORWARD LOOKING STATEMENT. SUCH FORWARD LOOKING STATEMENTS INCLUDE STATEMENTS CONCERNING OUR PLANS AND OBJECTIVES WITH RESPECT TO THE PRESENT AND FUTURE OPERATIONS OF THE COMPANY, AND STATEMENTS WHICH EXPRESS OR IMPLY THAT SUCH PRESENT AND FUTURE OPERATIONS WILL OR MAY PRODUCE REVENUES, INCOME OR PROFITS. NUMEROUS FACTORS AND FUTURE EVENTS COULD CAUSE THE COMPANY TO CHANGE SUCH PLANS AND OBJECTIVES OR FAIL TO SUCCESSFULLY IMPLEMENT SUCH PLANS OR ACHIEVE SUCH OBJECTIVES, OR CAUSE SUCH PRESENT AND FUTURE OPERATIONS TO FAIL TO PRODUCE REVENUES, INCOME OR PROFITS. THEREFORE, THE READER IS ADVISED THAT THE FOLLOWING DISCUSSION SHOULD BE CONSIDERED IN LIGHT OF THE DISCUSSION OF RISKS AND OTHER FACTORS CONTAINED IN THIS REPORT ON FORM 10-K AND IN THE COMPANY’S OTHER FILINGS WITH THE SECURITIES AND EXCHANGE COMMISSION. NO STATEMENTS CONTAINED IN THE FOLLOWING DISCUSSION SHOULD BE CONSTRUED AS A GUARANTEE OR ASSURANCE OF FUTURE PERFORMANCE OR FUTURE RESULTS.

Item 1. Business

As used in this annual report, the terms “we”, “us”, “our”, and the “Company” means Sugarmade Inc., a Delaware corporation or their management.

General

Sugarmade, Inc. (hereinafter referred to as “we”, “us” or “the/our Company”) is a publicly traded company incorporated in state of Delaware. Our previous legal name was Diversified Opportunities, Inc. Our Company, Sugarmade, Inc. operates through our subsidiary, Sugarmade, Inc., a California corporation (“SWC Group, Inc., - CA”). As of the end of the reporting period, March 31, 2015, we were involved in several businesses including the supply of products to the quick service restaurant sub-sector of the restaurant industry and as a distributor of paper products derived from non-wood sources. We are headquartered in City of Industry, California, a suburb of Los Angeles, with two additional warehouse locations in Southern California. As of date of this filing, we employ 21 full and part-time workers and contractors.

(table of contents)

Our main business operation, CarryOutSupplies.com, is a producer and wholesaler of custom printed and generic supplies and has served more than 3,000 quick service restaurants. Our products include double poly paper cups for cold beverage; disposable, clear, plastic cold cups, paper coffee cups, yogurt cups, ice cream cups, cup lids, cup sleeves, food containers, soup containers, plastic spoons and many other similar products for this market sector. CarryOutSupplies.com was founded in 2009 when the founders gained first-hand experience within the restaurant industry of the difficulty for restaurant owners to acquire custom printed supplies at a reasonable cost. Many quick service restaurants wish to acquire custom printed products, such as those embossed with logos, but the minimum order size for such customization had been cost prohibitive. With that in mind, carry out supplies was founded to provide products to this underserved section of the market. Since that time, the company has become a key supplier to many popular U.S. franchises, particularly in the frozen dessert segments. The company estimates it holds approximately 40% market share of generic and printed products within the take out frozen yogurt and ice cream industries. We also hold a product supply and licensing agreement FreeHand® ThumbTray™ for the western part of the United States.

We are also a distributor of paper made from 100% reclaimed sugarcane fiber, enhanced with bamboo. Sugarcane fiber, called bagasse, is a discarded byproduct of sugarcane production. Sugarmade, Inc. was founded in 2010. As is explained below, in 2014, CarryOutSupplies.com was acquired by Sugarmade, Inc., creating the Company as it is today. Relative to Sugarmade Paper, our third-party contract manufacturer uses bagasse and bamboo, as opposed to wood products significantly reducing 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. Our primary focus for this business unit as of filing of this report is the organization and administration of fundraisers and paper drives for schools, non-profits and other institutions.

Employees and Consultants

As of June 30, 2015, the Company had approximately 25 full time or part-time employees and consultants.

Available Information

We file annual, quarterly and current reports, information statements and other information with the Securities and Exchange Commission (the "SEC"). The public may obtain information by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The address of that site is www.sec.gov. For quarterly and annual reports, only those reports that were required to be filed through June 30, 2015 are available as of the date of this report.

Item 1A. 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.

-2-

(table of contents)

The Company, as of the end of the 2015 fiscal year (June) was at a stage where it required 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 1B. Unresolved Staff Comments

Not Applicable.

Item 2. Properties

As of the date of this Form 10-K, the Company has no properties and instead leases several office and warehouse locations in the Southern California area.

Item 3. Legal Proceedings

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 date of this filing, there were no legal claims currently pending or threatened against us that in the opinion of our management would be likely to have a material adverse effect on our financial position, results of operations or cash flows. However, as of the date of this filing, we were involved in the following legal proceedings.

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. On October 28, 2014, the Company entered into a settlement agreement, which was effective October 28, 2014, to resolve a judgment against the Company via the issuance of 502,533 restricted shares and a \$30,000 cash payment.

On December 11, 2013, the Company was served with a complaint from two Convertible Note Holders (with a total of \$75,000 in convertible notes) 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.

(table of contents)**PART II****Item 4. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

Our Company is a reporting public company (a public company that is fully subject to the Securities and Exchange Commission's reporting requirements). On June 24, 2011, we changed the legal name of our Company to Sugarmade, Inc. and as of the date hereof our common stock trades under the symbol "SGMD" on the OTC Markets Quotation System. The OTC Markets Quotation System is quotation service that display real-time quotes, last-sale prices and volume information in over-the-counter equity securities. The market is limited for our stock and any prices quoted may not be a reliable indication of the value of our common stock. The following **Table 1** sets forth the high and low bid prices per share of our common stock by both the OTC Bulletin Board and OTC Markets for the periods indicated.

For the year ended June 30, 2014	High	Low
Fourth Quarter	\$0.07	\$0.01
Third Quarter	\$0.16	\$0.02
Second Quarter	\$0.72	\$0.07
First Quarter	\$0.90	\$0.35

For the year ended June 30, 2015	High	Low
Fourth Quarter	\$0.10	\$0.05
Third Quarter	\$0.10	\$0.04
Second Quarter	\$0.11	\$0.04
First Quarter	\$0.71	\$0.01

As of the close of trading on the date of this filing, July 12, 2016, the shares traded at \$0.088 with a total of 0 shares traded.

Holders of Record

As of June 30, 2015, we had 157,745,198 shares of our common stock issued and outstanding held by approximately 253 shareholders of record. As of May 27, 2016, we have approximately 178,685,388 shares of our common stock issued and outstanding held by approximately 253 shareholders of record.

Transfer Agent

Our transfer agent is West Coast Stock Transfer, Inc. of Encinitas, California; Telephone (619) 664-4780.

Dividends

We have never declared or paid any cash dividends on our common stock. For the foreseeable future, we do not anticipate paying any cash dividends on our common stock. Any future determination to pay dividends will be at the

discretion of our Board of Directors.

-4-

(table of contents)

Item 5. Selected Financial Data

Disclosure not required as a result of our Company's status as a smaller reporting company.

Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis is intended as a review of significant factors affecting our financial condition and results of operations for the periods indicated. The discussion should be read in conjunction with our consolidated financial statements and the notes presented herein. In addition to historical information, the following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. Our actual results could differ significantly from those anticipated in these forward-looking statements as a result of certain factors discussed in this annual report.

Overview and Financial Condition

Discussions with respect to our Company's operations refer to our operating subsidiary, Sugarmade –CA. Our Company purchased Sugarmade-CA on May 9, 2011. As of the end of the 2015 (June) fiscal year we had no 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

-

Our company increased its net loss to \$10,230,524 for the period end June 30, 2015 from a loss \$755,610 for period ending June 30, 2014. The increase in net loss compared to the prior year period was due to the Company incurring significant cost associated with its restructuring and due to an increase in unprofitable business activities relating to its acquisition of SWC. Of the \$10,230,524 net loss for the period end June 30, 2015, \$5,765,486 was attributed to one-time extinguishments of debt relating to restructuring.

Revenue

Our revenue, net for the year ended June 30, 2015 was \$2,908,407 compared to \$70,751 for the year ended June 30, 2014. The increase was attributable to acquisition of SWC, which contributed the majority of revenue during the

period ending June 30, 2015.

Cost of Goods Sold

-

Total cost of goods for the period ending June 30, 2015 increased to \$2,045,592 for the year ended June 30, 2015 compared to \$89,936 for the year ended June 30, 2014. The increase in cost of goods sold was a result of the Company's acquisition of SWC and the increase in revenue that resulted during the reporting period.

Gross Margin

Gross margin for the period ending June 30, 2015 was \$862,815 compared to gross loss of \$(19,185) for the period ending June 30, 2014. The increase was primarily due to the increase in revenue and cost of goods sold relating to the acquisition of SWC.

-5-

(table of contents)

Selling, General, and Administrative Expenses

Selling, general, and administrative expenses (SG&A) totaled \$5,192,203 and \$706,845 for the years ended June 30, 2015 and 2014, respectively. The increase in SG&A was due to the higher costs associated with operation of the SWC business, which was acquired during the period and due to costs of restructuring the combined business operation.

Interest Expense and Interest Income

Interest expense totaled \$64,136 for the year ended June 30, 2015 as compared to \$120,292 for the year ended June 30, 2014. Interest expense in fiscal 2015 resulted primarily from expenses incurred in connection with promissory notes payable and convertible notes payable from related and third parties. The reduction in interest expenses during the year ended June 30, 2015 was mainly a result of the Company reducing its level of debt through settlement agreements with various non-convertible debt holders and a reduction in other interest expenses due to the Company curtailing some operations relating to its sales of tree-free paper. Interest income totaled \$0 and \$50 during the years ended June 30, 2015 and 2014, respectively.

Change in Fair Value of Derivative Liability

For the year ended June 30, 2015, derivative liabilities were \$304,000 compared to \$228,237 for the year ended June 30, 2014. Derivative liabilities for both fiscal years are primarily related to convertible promissory notes from related and third parties. The increase in the derivative liability amount between June 30, 2015 and June 30, 2014 was mainly a function of the change in the fair value of our common stock during the year ended June 30, 2015 and to a lesser extent the reduction in the balance owed on the convertible notes.

Net Loss

Net loss totaled \$10,230,524 for the period end June 30, 2015 compared to a loss \$755,610 for period ending June 30, 2014. The increase in net loss compared to the prior year period was due to the Company incurring significant costs associated with its restructuring and due to an increase in unprofitable business activities relating to its acquisition of SWC.

Outstanding Litigations

Edgar Filing: Sugarmade, Inc. - Form 10-K/A

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. On October 28, 2014, the Company entered into a settlement agreement, which was effective October 28, 2014, to resolve a judgment against the Company via the issuance of 502,533 restricted shares and a \$30,000 cash payment.

(table of contents)

On December 11, 2013, the Company was served with a complaint from two Convertible Note Holders (with a total of \$75,000 in convertible notes) 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.

Related Party Transactions

On December 23, 2014, the Board approved the issuance of 10,492,460 shares as part of a management and employees retention stock award program. The stock price was \$0.04 on the approval day. The Company recorded \$541,668 stock compensation expense for the six months ended December 31, 2014.

On October 28, 2014, the Company converted \$275,000 of short-term debt into 15,277,778 common shares at fair value of \$1,665,078 with a loss of \$1,390,078. The holder of the debt was LMK CAPITAL LLC, DBA PREMIER PAPER & PLASTIC INTERNATIONAL ("LMK"), a Company in which our CEO, Jimmy Chan, is currently employed as an independent consultant.

On October 28, 2014, the Company converted \$75,000 of short-term debt into 4,166,666 common shares at fair value of \$452,239 with a loss of \$377,239. 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.

In addition, at June 30, 2015, the Company had outstanding balance of \$114,179 from two of its directors, and \$12,583 from one major shareholder's family member for its working capital needs. These borrowings bore no interest, and were payable upon demand.

Change in Directors

On April 23, 2015, The Board received notification that the majority stockholders approved the appointing of Jimmy Chan, Waylon Huang and Er Wang Directors by written consent in lieu of the meeting of shareholders.

On December 31, 2014, The Company's Board elected Mr. Er Wang as Audit Committee Chair, to serve until his successor is duly elected and qualified. Mr. Wang will serve as the sole member of the Audit Committee until

additional qualified Directors can be nominated and ratified for service on the Board and/or Audit Committee.

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

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

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

(table of contents)

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

Income Taxes

The NOL carryforwards will expire after 20 years beginning from the year it occurred if not utilized, 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 June 30, 2014. 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.

Net deferred tax assets consist of the following components as of June 30, 2015 and 2014:

	2015	2014
Deferred tax assets:		
NOL carryover	\$9,140,022	\$4,792,710
Valuation allowance	(9,140,022)	(4,792,710)
Net deferred tax asset	\$—	\$—

The income tax provision is summarized as follows:

	2015	2014
Federal income tax benefit, net of state	\$(3,145,246)	\$(234,197)
State income tax benefit	(897,064)	(66,796)
Valuation allowance	4,042,310	300,993
	\$—	\$—

At June 30, 2015, the Company had net operating loss carry forwards of approximately \$21 million that may be offset against future taxable income through 2035. No tax benefit has been reported in the June 30, 2015 and 2014 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.

(table of contents)

Leverage Ratio

-

Due to net losses from the previous years, the company's insolvency is a result of their stockholder's deficiency. Total liabilities amounted to \$3,995,584 where the company experienced a stockholder's deficiency total of a negative \$2,882,182 resulting in a Debt to Equity ratio of -1.39:1.

Going Concern

The Company sustained continued operating losses during the years ended June 30, 2015 and 2014. The Company's continuation as a going concern is dependent on its ability to generate sufficient cash flows from operations to meet its obligations, in which it has not been successful, and/or obtaining additional financing from its shareholders or other sources, as may be required.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern; however, the above condition raises substantial doubt about the Company's ability to do so. The 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, if 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.

Liquidity and Capital Resources

-

We have primarily financed our operations through the sale of unregistered equity, warrants and convertible notes payable. As of June 30, 2015, our Company had cash totaling \$58,260, current assets totaling \$958,657 and total assets of \$1,113,402. We had total liabilities of \$3,995,584 (all current) and Stockholders' equity reflected a deficit of \$2,882,182.

Net cash used by operating activities was \$1,815,022 for the year ended June 30, 2015, and \$85,363 for the year ended June 30, 2014. The increase in net cash used by operating activities was related the increase in business activity that resulted for the acquisition of SWC during the period.

We had \$217,628 in net cash flows from investing activities for the year ended June 30, 2015 and \$0 net cash flows from investing activities during the year ended June 30, 2014. The increase was due to loan received and cash acquired from the acquisition of SWC.

-9-

(table of contents)

Net cash provided by financing activities totaled \$1,655,654 for the year ended June 30, 2015 as compared to negative \$74,018 for the year ended June 30, 2014. The net cash provided by financing activities for the year ended June 30, 2015 was primarily attributed to the proceeds from EB-5 investments and issuances of common stock.

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.

Based on our need to raise additional funds to implement our business plans for the next twelve months, we will be required in the near future to issue debt or sell our Company's equity securities in order to raise additional cash. 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.

Critical Accounting Policies Involving Management Estimates and Assumptions

Use of Fair Value

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.

Use of Estimates

-

The preparation of our consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ 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 one 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 received in connection with the sales of our products prior to their being recognized as revenue is recorded as deferred revenue.

(table of contents)

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 inventories using the weighted average costing method (approximate FIFO costing method). 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.

Valuation of Long-lived Assets

We evaluate long-lived assets for impairment whenever events or changes in circumstances indicate their net book value may not be recoverable. When such factors and circumstances exist, we compare the projected undiscounted future cash flows associated with the related asset or group of assets over their estimated useful lives against their respective carrying amount. Impairment, if any, is based on the excess of the carrying amount over the fair value, based on market value when available, or discounted expected cash flows, of those assets and is recorded in the period in which the determination is made. For the year ended June 30, 2014, our Company had no impairment expense related to our long-lived assets.

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.

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.

(table of contents)

Net Loss Per Share

We calculate basic earnings 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 income or 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.

Recent Accounting Pronouncements

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.

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.

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

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.

(table of contents)

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

Acquisition of SWC Group

On July 16, 2014 the Company entered into an agreement to acquire City of Industry, California based SWC Group (“SWC”), 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. All of the 71,000,000 shares had been issued to the owners of CarryOutSupplies.com.

CarryOutSupplies.com is a producer and wholesaler of custom printed and generic takeout supplies. CarryOutSupplies.com, which services more than 3,000 takeout establishments, restaurants and other food service operators, is headquartered at 167 N Sunset Ave, City of Industry, CA 91744, with two additional warehouse locations in Southern California.

The combined Company is now undergoing the process of rolling out three new verticals under the corporate umbrella; 1) state side manufacturing and printing, 2) ad support products, and 3) online restaurant supplies catalogue. All of which is leveraging the strength of Sugarmade’s core business. Additionally, the Company is contemplating additional revenue growth via acquisitions.

Business Strategy

Edgar Filing: Sugarmade, Inc. - Form 10-K/A

Sugarmade, Inc. was founded in 2010 as a manufacturer and distributor of tree free copy and printer paper products, made from sugarcane waste (bagasse) and bamboo. In 2014, CarryOutSupplies.com and Sugarmade were merged under the Sugarmade, Inc. corporate entity, creating the Company as it is today. We continue to market our tree free paper product focusing on school donation and fundraisers for both public and private schools. We are in progress of expanding these operations.

-13-

(table of contents)

Carryoutsupplies.com markets custom and generic printed supplies for the quick service segment of the restaurant industry. The overall market for the sector in which the Company is engaged, often referred to as the food service disposable industry, which includes packaging containers, cups, bowls, plates, bags, utensils, napkins, etc., is valued at approximately \$16.5 billion per year. Cups and lids make up the largest component of this subsector, currently valued at approximately \$8.1 billion per year with the projected growth rate over the next several years of just over 4% annually. Sugarmade plans to expand this business operation through the introduction of new products, expansion of the customer base and possibility through acquisition at a later date.

Item 6A. Quantitative and Qualitative Disclosures about Market Risk

Disclosure not required as a result of our Company's status as a smaller reporting company.

Off-Balance Sheet Arrangements

We did not have any off-balance sheet arrangements at June 30, 2015 or 2014 nor at any time during the years then ended or through the date of this report.

(table of contents)

Item 7. Financial Statements and Supplementary Data

<u>Reports of Independent Registered Public Accountants</u>	16
<u>Consolidated Balance Sheets as of June 30, 2015 and 2014</u>	17
<u>Consolidated Statements of Operations for the years ended June 30, 2015 and 2014</u>	18
<u>Consolidated Statements of Changes in Stockholders' Deficiency for the years ended June 30, 2015 and 2014</u>	19
<u>Consolidated Statements of Cash Flows for the years ended June 30, 2015 and 2014</u>	20
<u>Notes to Consolidated Financial Statements</u>	21

(table of contents)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders' of

Sugarmade, Inc.

We have audited the accompanying consolidated balance sheet of Sugarmade, Inc. (the "Company") as of June 30, 2015, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the year ended June 30, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company was not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of June 30, 2015, and the results of its operations, changes in stockholders' equity and its cash flows for the year ended June 30, 2015, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, these conditions raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result should the Company be unable to continue as a going concern.

/s/ Anton Chia, LLP

Newport Beach, California

August 9, 2016

-16-

(table of contents)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders' of:

Sugarmade, Inc. and subsidiary

We have audited the accompanying consolidated balance sheet of Sugarmade, Inc. and subsidiary (collectively the "Company") as of June 30, 2014 and the related statements of income, stockholders' deficit, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the entity's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sugarmade, Inc. and subsidiary as of June 30, 2014, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the entity will continue as a going concern. As discussed in Note 1 to the financial statements, the entity has suffered recurring losses from operations and negative cash flow since inception and has financed its working capital requirements through issuance of common stock and convertible notes payable from related and third parties. Management's plans in regard to these matters are also described in Note 1. These consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ MJF & Associates, APC

Los Angeles, CA

August 9, 2016

(table of contents)Sugarmade, Inc. and Subsidiary
Consolidated Balance Sheets

	June 30, 2015	2014
Assets		
Current assets:		
Cash	\$58,260	\$—
Accounts receivable, net	85,958	11,487
Inventory, net	617,557	69,319
Loan receivables	144,050	—
Other current assets	52,832	—
Total current assets	958,657	80,806
Equipment, net	119,150	—
Intangible assets	1,814	—
Other assets	33,781	10,500
Total assets	\$1,113,402	\$91,306
Liabilities and Stockholders' Deficiency		
Current liabilities:		
Bank overdraft	\$65,243	\$—
Note payable due to bank	25,982	25,982
Accounts payable and accrued liabilities	1,891,152	1,042,766
Customer deposits	243,087	—
Accrued interest	241,513	206,387
Accrued compensation and personnel related payables	11,403	373,455
Production line of credit	—	324,000
Notes payable due to others	273,000	186,000
Loans payable	521,037	—
Convertible notes payable, net	419,167	525,000
Derivative liabilities	304,000	228,237
Total liabilities	3,995,584	2,911,827
Stockholders' deficiency:		
Preferred stock (\$0.001 par value, 10,000,000 shares authorized, none issued and outstanding)	—	—
Common stock (\$0.001 par value, 300,000,000 shares authorized, 157,745,198 and 10,538,555 shares issued and outstanding at June 30, 2015 and 2014, respectively)	157,746	10,539
Additional paid-in capital	16,389,946	8,329,959
Shares to be issued	1,961,668	—
Accumulated deficit	(21,391,542)	(11,161,018)
Total stockholders' deficiency	(2,882,182)	(2,820,520)
Total liabilities and stockholders' deficiency	\$1,113,402	\$91,306

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

-18-

(table of contents)Sugarmade, Inc. and Subsidiary
Consolidated Statements of Operations

	For the years ended June 30,	
	2015	2014
Revenues, net	\$2,908,407	\$70,751
Cost of goods sold:		
Materials and freight costs	2,045,592	50,630
Provision for inventory obsolescence	—	39,306
Total cost of goods sold	2,045,592	89,936
Gross profit (loss)	862,815	(19,185)
Operating expenses:		
Selling, general and administrative expenses	5,192,203	706,845
Total operating expenses	5,192,203	706,845
Loss from operations	(4,329,388)	(726,030)
Non-operating income (expense):		
Interest expense	(64,136)	(120,292)
Interest income	—	50
Change in fair value of derivative liabilities	(82,737)	90,662
Commission	10,263	—
Loss on extinguishment of debt	(5,765,486)	—
Other income	960	—
Total non-operating expense	(5,901,136)	(29,580)
Net loss	\$(10,230,524)	\$(755,610)
Basic net loss per share	\$(0.11)	\$(0.07)
Diluted net loss per share	\$(0.11)	\$(0.07)
Basic weighted average common shares outstanding	95,878,436	10,538,526
Diluted weighted average common shares outstanding *	95,878,436	10,538,526

* Shares issuable upon conversion of convertible debts and exercising of warrants were excluded in calculating diluted loss per share due to the fact the issuance of the shares is anti-dilutive.

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

[\(table of contents\)](#)**Sugarmade, Inc. and Subsidiary****Consolidated Statements of Changes in Stockholder's Equity****Years Ended June 30, 2015 and 2014**

	Common stock		Additional paid-in capital	Shares to be issued	Accumulated deficit	Total
	Shares	Amount				
Balance at July 1, 2013	10,538,526	\$ 10,539	\$ 8,317,406	\$—	\$(10,405,408)	\$(2,077,463)
Changes in fair value of derivative liability	—	—	12,553	—	—	12,553
Net loss	—	—	—	—	(755,610)	(755,610)
Balance at June 30, 2014	10,538,526	10,539	8,329,959	—	(11,161,018)	(2,820,520)
Shares issued for debts settlement	53,515,941	53,516	8,589,334	—	—	8,642,850
Shares issued for services	6,500,000	6,500	1,883,500	—	—	1,890,000
Shares issued for equity financing	15,150,000	15,150	274,850	—	—	290,000
Shares issued for employee compensation	1,040,731	1,041	40,589	—	—	41,630
Change in fair value of derivative liability	—	—	6,974	—	—	6,974
Shares to be issued	—	—	—	1,961,668	—	1,961,668
Shares issued for acquisition of SWC	71,000,000	71,000	(2,735,260)	—	—	(2,664,260)
Net loss	—	—	—	—	(10,230,524)	(10,230,524)
Balance at June 30, 2015	157,745,198	\$ 157,746	\$ 16,389,946	\$ 1,961,668	\$(21,391,542)	\$(2,882,182)

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

(table of contents)SUGARMADE,
INC. AND
SUBSIDIARY
Consolidated
Statements of
Cash Flows

	For the years ended June 30,	
	2015	2014
Cash flows from operating activities:		
Net loss	\$(10,230,524)	\$(755,610)
Adjustments to reconcile net loss to cash flows from operating activities:		
Bad debt expense	104,548	—
Loss on extinguishment of liability	5,765,486	—
Change in fair value of derivative liability	82,737	(90,662)
Stock compensation expense	681,668	—
Issuance of common stock for services	2,155,000	—
Depreciation and amortization	57,549	3,299
Changes in operating assets and liabilities		
Accounts receivable	166,615	30,762
Inventory	17,050	89,936
Undeposited funds	(7,925)	—
Employee advance	(2,216)	—
Prepaid expense	18,842	—
Other assets	(135,000)	14,232
Bank overdraft	65,243	—
Accounts payable and accrued liabilities	(576,883)	657,657
Company credit card	(79,906)	—
Customer deposits	8,890	—
Payroll liabilities	30,134	—
Sales tax payable	(1,358)	—
Accrued compensation and personnel related payables	—	(154,089)
Accrued interest	65,028	119,112
Net cash used in operating activities	(1,815,022)	(85,363)
Cash flows from investing activities:		
Loan receivables	39,972	—
Payment for acquisition of property and equipment	(31,558)	—
Cash acquired from acquisition of SWC	209,214	—
Net cash provided by investing activities	217,628	—
Cash flows from financing activities:		
Proceeds from issuance of common stock	290,000	—
Proceeds from (Payments for) loan	12,654	(124,018)
Payments for note payable	(147,000)	—
Proceeds from EB-5 investment	1,500,000	—

Edgar Filing: Sugarmade, Inc. - Form 10-K/A

Proceeds from production line of credit	—	50,000
Net cash provided by (used in) financing activities	1,655,654	(74,018)
Net increase (decrease) in cash	58,260	(159,381)
Cash, beginning of period	—	159,381
Cash, end of period	\$58,260	\$—

Supplemental disclosure of cash flow information:

Cash paid during the period for:

Interest	\$—	\$558
Income taxes	\$—	\$—

Supplemental disclosure of non-cash financing activities

Debts settled through shares issuance	\$1,845,736	\$—
---------------------------------------	-------------	-----

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

(table of contents)

Notes To Consolidated Financial Statements

1. **Summary of significant accounting policies**

1. Nature of Business

Sugarmade, Inc. (hereinafter referred to as “we”, “us” or “the/our Company”) is a publicly traded company incorporated in state of Delaware. Our previous legal name was Diversified Opportunities, Inc. Our Company, Sugarmade, Inc. operates through our subsidiary, Sugarmade, Inc., a California corporation (“SWC Group, Inc., - CA”). As of the end of the reporting period, March 31, 2015, we were involved in several businesses including the supply of products to the quick service restaurant sub-sector of the restaurant industry and as a distributor of paper products derived from non-wood sources. We are headquartered in City of Industry, California, a suburb of Los Angeles, with two additional warehouse locations in Southern California. As of date of this filing, we employ 21 full and part-time workers and contractors.

Our main business operation, CarryOutSupplies.com, is a producer and wholesaler of custom printed and generic supplies servicing more than 3,000 quick service restaurants. Our products include double poly paper cups for cold beverage; disposable, clear, plastic cold cups, paper coffee cups, yogurt cups, ice cream cups, cup lids, cup sleeves, food containers, soup containers, plastic spoons and many other similar products for this market sector. CarryOutSupplies.com was founded in 2009 when the founders gained first-hand experience within the restaurant industry of the difficulty for restaurant owners to acquire custom printed supplies at a reasonable cost. Many quick service restaurants wish to acquire custom printed products, such as those embossed with logos, but the minimum order size for such customization had been cost prohibitive. With that in mind, carry out supplies was founded to provide products to this underserved section of the market. Since that time, the company has become a key supplier to many popular U.S. franchises, particularly in the frozen dessert segments. The company estimates it holds approximately 40% market share of generic and printed products within the take out frozen yogurt and ice cream industries. We also hold a product supply and licensing agreement FreeHand® ThumbTray™ for the western part of the United States.

We are also a distributor of paper made from 100% reclaimed sugarcane fiber, enhanced with bamboo. Sugarcane fiber, called bagasse, is a discarded byproduct of sugarcane production. Sugarmade, Inc. was founded in 2010. As is explained below, in 2014, CarryOutSupplies.com was acquired by Sugarmade, Inc., creating the Company as it is today. Relative to Sugarmade Paper, our third-party contract manufacturer uses bagasse and bamboo, as opposed to wood products significantly reducing 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. Our primary focus for this business unit as of filing of this report is the organization and administration of fundraisers and paper drives for schools, non-profits and other institutions.

2. Summary of Significant Accounting Policies

Basis of presentation

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles (“GAAP”) as promulgated in the United States of America.

-22-

(table of contents)

Principles of consolidation

These consolidated 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 years ended June 30, 2015 and 2014. The Company's continuation as a going concern is dependent on its ability to generate sufficient cash flows from operations to meet its obligations, in which it has not been successful, and/or obtaining additional financing from its shareholders or other sources, as may be required.

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

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

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 an arrangement and a determinable fee occur, and when collection is considered to be probable and products are delivered or title has been transferred. 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.

(table of contents)

Cash

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

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

Accounts receivable

Accounts receivable are carried at their estimated collectible amounts, net of any estimated allowances for doubtful accounts. We grant unsecured credit to our customer's deemed credit worthy. Ongoing credit evaluations are performed and potential credit losses estimated by management are charged to operations on a regular basis. At the time any particular account receivable is deemed uncollectible, the balance is charged to the allowance for doubtful accounts. The Company had allowances of accounts receivable of \$70,772 as of June 30, 2015 and 2014.

During July 2013, the Company entered into an accounts receivable factoring arrangement with a non-related third party financial institution (the "Factor"). Pursuant to the terms of the arrangement, the Company, from time to time, shall sell to the Factor certain of its accounts receivable balances on a recourse basis for credit approved accounts. At sole discretion of the Factor, the Factor remits 80% of the accounts receivable balance (less any sales tax) to the Company, with the remaining balance, less fees, to be forwarded to the Company once the Factor collects the full accounts receivable balance from the customer. An administrative and processing fee of 1.15% is charged on the gross amount of accounts receivables factored, plus factoring commission ranging from 0.5% to 1.15% of the gross face amount factored depending on the days outstanding for the accounts. The total amount of accounts receivable factored was \$0 and \$20,553 at December 31, 2015 and 2014, respectively.

Equipment

Equipment is stated at cost, less accumulated depreciation. ciation. was plus factoring commission raare charged to expense as incurred. incurred. ion. ciation. was plus factoring commisare capitalized and depreciated on a straight-line basis over their estimated useful lives ranging from 3-7 years.

Inventory

Inventory consists of finished goods paper and paper-based products such as paper cups and food containers 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 manufacturers 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. On a consolidated basis, as of June 30, 2015 and 2014, the balance for the inventory totaled \$528,566 and \$69,319, respectively. No amounts were recognized as an obsolescence reserve at June 30, 2015 and 2014.

(table of contents)

Income taxes

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

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

We believe that our income tax filing positions and deductions will be sustained on audit and do not anticipate any adjustments that will result in a material change to our financial position. Therefore, no reserves for uncertain income tax positions have been recorded pursuant to ASC 740. In addition, we did not record a cumulative effect adjustment related to the adoption of ASC 740. Our policy for recording interest and penalties associated with income-based tax audits is to record such items as a component of income taxes. We have no interest or penalties as of June 30, 2015.

Stock based compensation

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

(table of contents)

Loss per share

Basic Earnings (loss) per share is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted EPS is computed similar to basic EPS except that the denominator is increased to include the number of additional common shares that would have been outstanding if all the potential common shares, warrants and stock options had been issued and if the additional common shares were dilutive. Diluted EPS is based on the assumption that all dilutive convertible shares and stock options and warrants were converted or exercised. Dilution is computed by applying the treasury stock method for the outstanding options and warrants, and the if-converted method for the outstanding convertible instruments. Under the treasury stock method, options and warrants are assumed to be exercised at the beginning of the period (or at the time of issuance, if later) and as if funds obtained thereby were used to purchase common stock at the average market price during the period. Under the if-converted method, outstanding convertible instruments are assumed to be converted into common stock at the beginning of the period (or at the time of issuance, if later). 994,587 potential shares issuable upon conversion of convertible debts and 73,364 potential shares issuable upon exercising of warrants were excluded in calculating diluted loss per share for the year ended June 30, 2015 due to the fact that issuance of the shares is anti-dilutive as a result of the Company's net loss.

Fair value of financial instruments

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

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

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

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

(table of contents)

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

	June 30, 2015
Annual dividend yield	—
Expected life (years)	0.99
Risk-free interest rate	0.27%
Expected volatility	377%

	Carrying Value As of June 30, 2015	Fair Value Measurements at June 30, 2015 Using Fair Value Hierarchy		
		Level 1	Level 2	Level 3
Liabilities				
Derivative liabilities	\$ 304,000	\$ —	\$ 304,000	\$ —
Total	\$ 304,000	\$ —	\$ 304,000	\$ —

	June 30, 2014
Annual dividend yield	—
Expected life (years)	1.29
Risk-free interest rate	0.16%
Expected volatility	109%

	Carrying Value As of June 30, 2014	Fair Value Measurements at June 30, 2014 Using Fair Value Hierarchy		
		Level 1	Level 2	Level 3
Liabilities				
Derivative liabilities	\$ 228,237	\$ —	\$ 228,237	\$ —
Total	\$ 228,237	\$ —	\$ 228,237	\$ —

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.

(table of contents)

Segment Reporting

FASB ASC Topic 280, “Segment Reporting”, requires use of the “management approach” model for segment reporting. The management approach model is based on the way a company’s management organizes segments within the Company for making operating decisions and assessing performance. Reportable segments are based on products and services, geography, legal structure, management structure, or any other manner in which management disaggregates a company.

FASB ASC Topic 280 has no effect on the Company’s financial statements as substantially all of its operations are conducted in one industry segment – paper and paper-based products such as paper cups, cup lids, food containers, etc.

New accounting pronouncements not yet adopted

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements-Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern. The amendments 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 condensed consolidated financial statements.

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

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

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

(table of contents)

3. Concentration

Customers

For the year ended June 30, 2015, our Company earned net revenues of \$2.91 million. The vast majority of these revenues were derived from a large number of customers. No customers accounted for over 10% of the Company's total revenues for the year ended June 30, 2015.

For the year ended June 30, 2014, our Company had earned net revenues of \$70,751. A significant portion of our Company's revenue was derived from a small number of customers. For the year ended June 30, 2014, sales to one of our Company's customers accounted for 50% of net sales. The revenues only reflected prior to the acquisition of SWC, and were revenues from Sugarmade, Inc.

Suppliers

For the year ended June 30, 2015, we purchased products for sale by CarryOutSupplies from several contract manufacturers located in Asia. A substantial portion of the Company's inventory was purchased from one supplier that functioned as an independent foreign procurement agent. Two suppliers accounted for 62% and 15% of the Company's total inventory purchase in the year ended June 30, 2015, respectively.

For the year ended June 30, 2014, all of our tree free paper products were purchased from Sugarcane Paper Company (SCPC) and their contract manufacturers. SCPC is a company controlled by the Company's former CEO, Clifton Leung. Mr. Leung was also a former director of the Company. We were presently diversifying our manufacturing and process management options to include other third party contract manufacturers for current and future production needs.

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 June 30, 2015, there were no legal claims currently pending or threatened against us that in the opinion of our management would be likely to have a material adverse effect on our financial position, results of operations or cash flows. However, as of the date of this filing, we were involved in the following legal proceedings.

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. On October 28, 2014, the Company entered into a settlement agreement, which was effective October 28, 2014, to resolve a judgment against the Company via the issuance of 502,533 restricted shares and a \$30,000 cash payment.

(table of contents)

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

5. Convertible Notes

As of June 30, 2015 and 2014 the balance owing on convertible notes was \$419,167 and \$525,000 respectively.

On various dates during June 2014 and July 2014, the Company and holders of certain convertible notes 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%. As of June 30, 2014, the Company extended, seven of the convertible notes totaling \$275,000 for two years until July 1, 2016. The remaining \$250,000 convertible notes have reached maturity and the Company was in the process of negotiating a settlement.

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, 2015, one convertible promissory note, in the amount of \$100,000, was converted to restricted common shares.

As of June 30, 2015, the Company's convertible notes consisted of following:

Note Type and Investor	Due Date	Balance	As of June 30, 2015	
			Discount	Carrying Value
Convertible Note	7/1/2016	\$25,000	\$—	\$25,000
Convertible Note	7/1/2016	25,000	—	25,000
Convertible Note	7/1/2016	40,000	—	40,000
Convertible Note	7/1/2016	50,000	—	50,000

Edgar Filing: Sugarmade, Inc. - Form 10-K/A

Convertible Note	7/1/2016	25,000	—	25,000
Convertible Note	6/18/2014	25,000	—	25,000
Convertible Note	6/18/2014	25,000	—	25,000
Convertible Note	12/28/2014	25,000	—	25,000
Convertible Note	7/1/2016	8,333	—	8,333
Convertible Note	7/1/2016	20,834	—	20,834
Convertible Note	7/31/2014	25,000	—	25,000
Convertible Note	7/1/2016	25,000	—	25,000
Convertible Note	7/1/2016	100,000	—	100,000
 Total Convertible Promissory Notes		 \$419,167		 \$419,167

-30-

(table of contents)**6. Derivative liabilities**

The derivative liability is derived from the conversion features in note 5 and stock warrant in note 7. All were valued using the weighted-average Black-Scholes-Merton option pricing model using the assumptions detailed below. As of June 30, 2015 and 2014, the derivative liability was \$304,000 and \$228,237, respectively. The Company recorded \$82,737 loss and \$90,662 gain from changes in derivative liability during the years ended June 30, 2015 and 2014, respectively. The Black-Scholes model with the following assumption inputs:

	June 30, 2015	June 30, 2014
Annual dividend yield	—	-
Expected life (years)	0.99	0.41 – 2.15
Risk-free interest rate	0.27%	0.14% - 0.19%
Expected volatility	377%	66% - 147%

7. Stock warrants

In connection with the issuance of the promissory notes, the investors in the aggregate received two-year warrants to purchase up to a total of 50,000 shares of common stock at \$0.50 per share, and two-year warrants purchasing up to a total of 81,250 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 December 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, 48,750 warrants at \$0.50 and 25,000 “Bonus Warrants at \$0.01 were cancelled.

	Number of Shares	Weighted Average Exercise Price
Outstanding at June 30, 2014	\$ 180,000	\$ 0.20
Granted	—	—
Exercised	—	—

Edgar Filing: Sugarmade, Inc. - Form 10-K/A

Forfeited September 30, 2014	38,750	0.09
Forfeited December 31, 2014	10,000	0.04
Outstanding at June 30, 2015	\$ 131,250	\$ 0.04

-31-

(table of contents)

Following is a summary of the status of warrants outstanding at June 30, 2015:

Date Issued	Exercise Price	Number of Shares	Expiration Date
8/17/12	\$ 0.01	6,250	7/1/2016
8/20/12	\$ 0.01	6,250	7/1/2016
9/10/12	\$ 0.01	10,000	7/1/2016
9/13/12	\$ 0.01	12,500	7/1/2016
9/18/12	\$ 0.01	6,250	7/1/2016
10/5/12	\$ 0.01	2,500	7/1/2016
10/25/12	\$ 0.01	6,250	7/1/2016
1/31/13	\$ 0.01	6,250	7/1/2016
10/22/12	\$ 0.01	25,000	7/1/2016
8/24/12	\$ 0.50	50,000	8/24/2016

Total warrants as of June 30, 2015 131,250

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

Date Issued	Exercise Price	Number of Shares	Expiration Date
8 /17/12	\$ 0.01	6,250	7 /1/2016
8 /20/12	\$ 0.01	6,250	7 /1/2016
9 /10/12	\$ 0.01	10,000	7 /1/2016
9 /13/12	\$ 0.01	12,500	7 /1/2016
9 /18/12	\$ 0.01	6,250	7 /1/2016
10 /5/12	\$ 0.01	2,500	7 /1/2016
10 /25/12	\$ 0.01	6,250	7 /1/2016
1 /31/13	\$ 0.01	6,250	7 /1/2016
10 /22/12	\$ 0.01	25,000	7 /1/2016
8 /24/12	\$ 0.50	50,000	8 /24/2016
9/18/12 – 10/31/12	\$ 0.50	48,750	9/18/2014 – 10/31/2014
		180,000	

Total warrants as of June 30, 2014

8. Note payable

Note payable due to bank

During October 2011, we entered into a revolving demand note (line of credit) arrangement with HSBC Bank USA, with a revolving borrowing limit of \$150,000. The line of credit bears a variable interest rate of one quarter percent (0.25%) above the prime rate (3.25% as of September 30, 2013). In the event the deposit account is not established or minimum balance maintained, HSBC can charge a higher rate of interest of up to 4.0% above prime rate. As of June 30, 2015 and 2014, the loan principal balance was \$25,982.

Note payable to others

On January 23, 2013, the Company entered into a promissory note with Mira Ablaza (a former employee of the Company owns less than 5% of the Company's stock). The original principal amount was \$40,000 and the note bore no interest. The note was payable upon demand. As of June 30, 2015, this note had a balance of \$25,000.

On January 28, 2013, the Company entered into a promissory note with David Troung (a former employee of the Company, whom owns less than 5% of the Company's stock). The principal amount was \$150,000 and the interest rate on the note was 10%. The note was due on December 31, 2015 and became payable upon demand after December 31, 2015. As of June 30, 2015, this note was paid in full.

On December 31, 2013, the Company entered into a promissory note with Calvin Kwong (an employee of the Company, whom owns less than 5% of the Company's stock). The principal amount was \$20,000 and the interest rate on the note was 10%. The note had a term of six months. However, this note was now payable upon demand per the oral agreement with the lender. As of June 30, 2015, this note had a balance of \$20,000.

On January 3, 2014, the Company entered into a promissory note with David Troung (a former employee of the Company, whom owns less than 5% of the Company's stock). The principal amount was \$70,000 and the interest rate on the note was 10%. The note was due on December 31, 2015 and became payable upon demand after December 31, 2015. As of June 30, 2015, this note had a balance of \$50,000.

(table of contents)

On January 13, 2014, the Company entered into a promissory note with Tsz Ming Wong (an employee of the Company, whom owns less than 5% of the Company's stock). The principal amount was \$25,000 and the note bore no interest. The note had a term of 24 months and was due on January 13, 2016, and became payable upon demand after January 13, 2016. As of June 30, 2015, this note had a balance of \$25,000.

On January 13, 2014, the Company entered into a promissory note with Michael Yeh (an employee of the Company, whom owns less than 5% of the Company's stock). The principal amount was \$30,000 and the note bore no interest. The note had a term of 24 months and was due on January 13, 2016, and became payable upon demand after January 13, 2016. As of June 30, 2015, this note had a balance of \$23,000.

On January 14, 2015, the Company entered into a promissory note with Richard Ko (an employee of the Company, whom owns less than 5% of the Company's stock). The principle amount was \$30,000 and the note bore no interest. The note had a term of one year and was due on January 14, 2016, and became payable upon demand after January 14, 2016. As of June 30, 2015, this note had a balance of \$30,000.

On May 1, 2015, the Company entered into a promissory note with Dung Tran (a former employee of the Company, whom owns less than 5% of the Company's stock). The principal amount was \$89,000 and the repayment amount will be \$100,000 with interest of \$11,000. The note had a term of 3 months and is due on July 31, 2015. As of June 30, 2015, this note had a balance of \$100,000.

9. Debt settlements

On August 7, 2014, the Company resolved a debt from line of credit of \$274,000 through the issuance of 2,840,000 restricted common shares at fair value of \$343,640 with a loss of \$1,714,000.

On August 7, 2014, the Company resolved a debt of \$47,500 through the issuance of 3,000,000 restricted common shares at fair value of \$363,000 with no gain or loss recognized.

On August 7, 2014, the Company resolved a debt of \$111,392 through the issuance of 1,113,918 restricted common shares at fair value of \$779,743 with a loss of \$668,351.

On August 7, 2014, the Company resolved a debt of \$252,706 through the issuance of 900,000 restricted common shares at fair value of \$108,900 with a loss of \$377,295.

On October 28, 2014, the Company resolved a debt of \$28,528 through the issuance of 570,556 restricted common shares at fair value of \$11,411 with a gain of \$17,117.

On October 28, 2014, the Company resolved a debt of \$13,274 through the issuance of 265,480 restricted common shares at fair value of \$5,310 with a gain of \$7,965.

On October 28, 2014, the Company converted \$275,000 of short-term debt into 15,277,778 common shares at fair value of \$1,665,078 with a loss of \$1,390,078. The holder of the debt was LMK CAPITAL LLC, DBA PREMIER PAPER & PLASTIC INTERNATIONAL (“LMK”), a Company in which our CEO, Jimmy Chan, is currently employed as an independent consultant.

On October 28, 2014, the Company converted \$75,000 of short-term debt into 4,166,666 common shares at fair value of \$452,239 with a loss of \$377,239. 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)

On October 28, 2014, the Company resolved debts related to former employees and/or contractors through the issuance of 4,841,901 restricted common shares at fair value of \$532,609 with a loss of \$268,622. Shares were issued December 19, 2014.

On October 28, 2014, a note holder converted \$200,000 of short-term debt into 10,000,000 common shares at fair value of \$1,089,245 with a loss of \$900,000.

On November 28, 2014, the Company resolved debts related to consulting services through the issuance of 2,500,000 restricted common shares at fair value of \$150,000 with no gain or loss recognized.

On December 5, 2014, the Company resolved a debt of \$30,000 with the issuance of 1,000,000 restricted common shares at fair value of \$80,000 with no gain or loss recognized.

On December 19, 2014, the Company resolved a debt of \$105,753 through the issuance of 1,057,534 restricted common shares at fair value of \$116,329 with a loss of \$10,575.

On December 19, 2014, the Company resolved a debt of \$33,373 through the issuance of 667,466 restricted common shares at fair value of \$73,421 with a loss of \$40,048.

On December 19, 2014, the Company resolved a debt of \$393 through the issuance of 7,855 restricted common shares at fair value of \$157 with a gain of \$236.

On December 19, 2014, the Company resolved a debt of \$26,000 through the issuance of 520,000 restricted common shares at fair value of \$39,000 with a loss of \$36,400.

On June 1, 2015, Adam Levy signed a note conversion request to convert a convertible note into 46,466 restricted shares to settle a debt of \$2,248. The Company recorded \$2,399 loss on this conversion and issued the shares on June 4, 2015.

On June 1, 2015, Nathan Financial, LLC signed a note conversion request to convert a convertible note into 112,291 restricted shares to settle a debt of \$5,432. The Company recorded \$5,797 loss on this conversion and issued the shares on June 4, 2015.

10. Shares issued for services

On March 19, 2015, the Board approved the issuance of 1,000,000 restricted common shares as the compensation for EB5-program consulting services. Total fees for the consulting service is \$20,000 cash and \$30,000 worth of the Company's stock at the rate of \$0.03 per share, equivalent to 1,000,000 restricted shares of common stock of the Company. The Company recorded \$30,000 stock compensation expense for the year ended June 30, 2015.

On February 1, 2015, the Company entered another EB5-program consulting service agreement with an individual for the issuance of 1,000,000 restricted common shares as the compensation for its consulting service. Total fees for the consulting service is \$20,000 cash and \$30,000 worth of the Company's stock at the rate of \$0.03 per share, equivalent to 1,000,000 shares of common stock of the Company. The Company recorded \$30,000 stock compensation expense for the year ended June 30, 2015.

On January 1, 2015, the Company entered a consulting and marketing agreement with a consulting firm for the issuance of 2,000,000 restricted common shares in exchange for the marketing and sales related services. The stock price was \$0.04 on the approval day. The Company recorded \$80,000 stock compensation expense for the year ended June 30, 2015.

(table of contents)

On December 23, 2014, the Board approved the issuance of 10,492,460 shares as part of a management and employees retention stock award program. The stock price was \$0.04 on the approval day. The Company recorded \$541,668 stock compensation expense for the year ended June 30, 2015.

On January 15, 2014, the Company entered a consulting service agreement with an individual for the issuance of 1,500,000 restricted common shares as the compensation for its consulting service. The stock price was \$0.07 on the approval day. The Company recorded \$405,000 stock compensation expense for the year ended June 30, 2015.

On September 18, 2013, the Board approved the issuance of 2,500,000 restricted common shares as the compensation for management service. On November 11, 2014, the Company and the consultant entered an amendment to the management agreement and both party agreed the 2,500,000 shares would be rewarded to the consult at his resignation date. The stock price was \$0.7 on the approval day. The Company recorded \$1,750,000 stock compensation expense for the year ended June 30, 2015.

11. Common shares issued for equity financing

On August 7, 2014, the Company issued 8,750,000 restricted common shares for equity financing of \$210,000.

On September 9, 2014, the Company issued 4,500,000 restricted common shares for equity financing of \$50,000.

On December 19, 2014, the Company issued 900,000 restricted common shares for equity financing of \$10,000.

On February 25, 2015, the Company issued 1,000,000 restricted common shares for equity financing of \$20,000.

12. Common shares reserved for future issuances

The following table summarizes shares of our common stock reserved for future issuance at June 30, 2015:

Common shares to be issued under conversion feature	5,109,398
Common shares to be issued under \$0.01 warrants	81,250

Common shares to be issued under \$0.50 warrants	50,000
Total common shares reserved for future issuance	5,240,648

13. Related party transactions

On December 23, 2014, the Board approved the issuance of 10,492,460 shares as part of a management and employees retention stock award program. The stock price was \$0.04 on the approval day. The Company recorded \$541,668 stock compensation expense for the six months ended December 31, 2014.

On October 28, 2014, the Company converted \$275,000 of short-term debt into 15,277,778 common shares at fair value of \$1,665,078 with a loss of \$1,390,078. The holder of the debt was LMK CAPITAL LLC, DBA PREMIER PAPER & PLASTIC INTERNATIONAL (“LMK”), a Company in which our CEO, Jimmy Chan, is currently employed as an independent consultant.

On October 28, 2014, the Company converted \$75,000 of short-term debt into 4,166,666 common shares at fair value of \$452,239 with a loss of \$377,239. 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)

In addition, at June 30, 2015, the Company had outstanding balance of \$114,179 from two of its directors, and \$12,583 from one major shareholder's family member for its working capital needs. These borrowings bore no interest, and were payable upon demand.

14. Loans payable

On August 14, 2009, SWC entered a loan agreement with a bank for \$50,000 with maturity on August 14, 2016. The loan had an annual interest rate of 7% with monthly payment of \$755. At June 30, 2015, the outstanding balance under this loan was \$10,816.

On March 1, 2012, SWC entered an equipment loan agreement with a bank with maturity on January 1, 2017. The monthly payment is \$435. At June 30, 2015, the outstanding balance under this loan was \$7,962.

On July 1, 2012, SWC entered an equipment loan agreement with a bank with maturity on June 1, 2017. The monthly payment is \$255. At June 30, 2015, the outstanding balance under this loan was \$5,742.

On March 5, 2013, SWC entered an auto loan agreement with a financial service company for \$32,312. The loan had monthly payment of \$539, bore no interest with maturity on March 5, 2018. At June 30, 2015, the outstanding balance under this loan was \$17,233.

On April 30, 2014, SWC entered a promissory note agreement with a bank for its working capital needs with maturity on August 3, 2015. The principal amount of the loan was \$228,000 and the repayment amount was \$303,240 with daily payment of \$963. At June 30, 2015, the outstanding balance under this loan was \$22,876.

On September 3, 2014, SWC entered an agreement with a lending company for its working capital needs with maturity on March 6, 2015. The principal amount of the loan was \$200,000 and the repayment amount was \$279,800 with daily payment of \$2,332. At June 30, 2015, this loan was paid in full.

On December 18, 2014, SWC entered an agreement with a lending company for its working capital needs with maturity on May 28, 2015. The principal amount of the loan was \$125,000 and the repayment amount was \$174,875 with daily payment of \$1,457. At June 30, 2015, this loan was paid in full.

On April 30, 2015, Sugarmade entered a promissory note agreement with an unrelated private company for its working capital needs with maturity on October 31, 2015. The principal amount of the loan was \$100,000 and the repayment amount will be \$120,000 with interest of \$20,000. At June 30, 2015, the outstanding balance under this loan was \$83,334.

On May 27, 2015, SWC entered an agreement with a lending company for its working capital needs. The loan was payable on the 132nd day from the entering date of the agreement. The principal amount of the loan was \$275,000 and the repayment amount was \$376,750 including interest with daily payment of \$2,854. At June 30, 2016, the outstanding balance under this loan was \$226,312.

In addition, at June 30, 2015, the Company had outstanding balance of \$114,179 borrowed from two of its directors, \$12,583 from one major shareholder's family member and \$20,000 from LMK Capital, LLC. These borrowings bore no interest, and were payable upon demand.

(table of contents)

15. Shares to be issued

In December 2014, the Company was obligated to issue 10,492,460 restricted common shares for employee compensation based on the Employee Retention Stock Award Program with fair value of \$461,668.

At June 30, 2015, the Company was obligated to issue 1,500,000 shares of Series B Convertible Preferred Stock for three EB-5 investments with the total amount of \$1,500,000. The Company received \$1,500,000 proceeds during the year ended June 30, 2015 with fair value of \$1,500,000. On April 1, 2015, the Company completed a series of transactions and amended its Articles of Incorporation creating a series of preferred stock of 10,000,000 shares, which shall be designated Series B Convertible Preferred Stock, par value \$0.001 per share (the "Series B Preferred Stock"). Series B will not be eligible for dividends. Five years from the date of issue (the "Conversion Date"), assuming the Series B investor is approved for I-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. 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.

16. Commitments and contingencies

On April 1, 2010, the Company entered into a lease for general office and warehouse in City of Industry, California with a lease term of three years. The Company renewed the lease to March 31, 2017. Monthly rent was \$11,583 up to March 31, 2015, and increased to \$11,884 from April 1, 2015 to March 31, 2016. Monthly rent increased to \$13,238 from April 1, 2016 to March 31, 2017.

On June 1, 2014, the Company entered into another lease for a warehouse in El Monte, California with a lease term of two years. Monthly rent was \$5,250.

On November 1, 2009, the Company entered into a lease for general office and warehouse in City of Industry, California with a lease term of one year and four months. The Company renewed the lease on a month-to-month basis with monthly rent of \$2,250 after June 1, 2015.

Future minimum annual rental payments required under operating leases as of June 30, 2015 were as below (by year):

2015 \$231,420
Total \$231,420

17. Other events

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

-37-

(table of contents)**18. Acquisition of SWC Group, Inc.**

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

With the merger behind the Company now, we are in the process of rolling out three new verticals under the corporate umbrella; state side manufacturing and printing, ad support products, and online restaurant supplies catalogue. All of which is leveraging the strength of Sugarmade’s core business.

The acquisition was accounted as transactions between entities under common control in accordance with ASC Topic 805-50-25 since both Sugarmade and CarryOutSupplies.com had one common major shareholder and officer. When accounting for a transfer of assets or exchange of shares between entities under common control, the entity that receives the net assets or the equity interests, shall initially measure the recognized assets and liabilities transferred at their carrying amounts in the accounts of the transferring entity at the date of transfer. The following table summarizes the carrying values of the assets acquired and liabilities assumed at the date of acquisition (or transfer):

Cash	\$209,214
Accounts receivable	388,399
Inventory	565,287
Other current assets	44,033
Security deposit	23,281
Loan receivables	312,521
Fixed assets	143,916
Intangible assets	3,039
Accounts payable	(1,727,870)
Credit card payable	(420,773)

Edgar Filing: Sugarmade, Inc. - Form 10-K/A

Due to Sugarmade	(685,000)
Customer deposits	(234,197)
Loans payable	(529,064)
Other payables	(297,047)
Long term notes payables	(460,000)
Net assets at carrying value:	\$(2,664,261)

-38-

(table of contents)

The following pro forma consolidated results of operations of the Company and SWC Group for the years ended June 30, 2015 and 2014, presents the operations of the Company and SWC Group as if the acquisition of SWC Group occurred on July 1, 2014 and 2013, respectively. The pro forma results are not necessarily indicative of the actual results that would have occurred had the acquisition been completed as of the beginning of the periods presented, nor are they necessarily indicative of future consolidated results.

	Years ended June 30,	
	2015	2014
Net sales	\$5,806,410	\$8,743,964
Net income (loss)	\$(10,320,322)	\$(1,802,471)

19. Subsequent events

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

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

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

On September 25, 2015, the Company entered into a consulting agreement with Tony Thai & George Zuo, respectively. The term is from the date of the agreement through June 30, 2016. Stock compensation to each shall be 10% of all revenue generated by a Restaurant Supplies website as of June 30, 2016, which will equal the restricted stock award (“Stock Award”). The consultant shall receive restricted common shares of the Company in the amount of the Stock Award, unless the amount of the Stock Award is less than \$50,000, in which case the amount of the Restricted Stock Award shall be assumed to be \$50,000. The share price at which the stock will be awarded shall be the average closing trading price of the common shares on the 22 trading days preceding June 30, 2016. As of June 30, 2016, the consultant shall receive a bonus amount equaling 7.5% of the net profitability of the website if the profitability margins of the business exceed 5% on a full year.

On August 27, 2015, the Company sold 2,500,000 shares of restricted common stock to each of two accredited investors for \$50,000 each 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 30, 2015, the Company completed another EB5 investment financing and received proceeds of \$500,000 from sales of Series B Convertible Preferred Stock, par value \$0.001 per share (the “Series B Preferred Stock”) from an investor. 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. As of July 30, 2015, the Company completed and received total of \$2,000,000 from sales of the Series B Preferred Stock for the EB5 investment program, and of which, \$1,500,000 proceeds were received in the year ended December 31, 2015.

-39-

(table of contents)

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

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

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

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

On November 11, 2014, the Company dismissed its independent registered public accounting firm, Anton & Chia, LLC. The Registrant's Board of Directors made the decision to dismiss Anton & Chia, LLC and engage MJF & Associates, APC as Registrant's independent registered public accounting firm, as described below. During Registrant's two most recent fiscal years and any subsequent interim period before such dismissal, there were no substantial disagreements with Anton & Chia, LLC on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which remain unresolved. On November 11, 2014 the Registrant engaged MJF & Associates, APC as Registrant's independent registered public accounting firm.

On July 20, 2011, our Company engaged Anton & Chia, LLP ("A&C") as its independent registered public accounting firm effective July 20, 2011. The decision to engage A&C was approved by our Company's audit committee. A&C previously audited the financial statements of our wholly owned subsidiary Sugarmade, Inc. (incorporated in California – "Sugarmade-CA") as of December 31, 2010 and 2009 and for the year ended December 31, 2010 and the period March 2, 2009 (inception) to December 31, 2009.

Michael Cronin, Certified Public Accountant was the independent registered public accountant of Diversified Opportunities, Inc. and resigned as the independent registered public accountant effective July 20, 2011. The reports of Mr. Cronin on our Company's consolidated financial statements for the past two fiscal years did not contain an adverse opinion or disclaimer of opinion, nor were they modified as to uncertainty, audit scope, or accounting principles, other than to state that there is substantial doubt as to the ability of our Company to continue as a going

concern.

During our Company's two most recent fiscal years and the subsequent interim period up to the resignation of Mr. Cronin, there have not been any disagreements between our Company and Mr. Cronin, on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which disagreements if not resolved to the satisfaction of Mr. Cronin would have caused Mr. Cronin to make reference thereto in its reports on our Company's audited financial statements.

-40-

(table of contents)

Item 8A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934, as amended is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management to allow timely decisions regarding required disclosure as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act.

As of the date of this filing, our management team and our consultants have conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, we have concluded that as of June 30, 2013, our disclosure controls and procedures were not effective.

Management's Annual Report on Internal Control over Financial Reporting

We maintain disclosure controls and procedures 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, 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. 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 as of December 31, 2014, our disclosure controls and procedures were ineffective due to the Company is relatively inexperienced with certain complexities within USGAAP and SEC reporting.

We have taken, and are continuing to take, certain actions to remediate the material weakness related to our lack of U.S. GAAP experience. We plan to hire additional credentialed professional staff and consulting professionals with greater knowledge and experience of U.S. GAAP and related regulatory requirements to oversee our financial reporting process in order to ensure our compliance with U.S. GAAP and other relevant securities laws. In addition, we plan to provide additional training to our accounting personnel on U.S. GAAP, and other regulatory requirements regarding the preparation of financial statements.

Notwithstanding the above identified material weakness, the Company's management believes that its condensed consolidated financial statements included in this report fairly present in all material respects the Company's financial condition, results of operations and cash flows for the periods presented and that this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.

(table of contents)

Item 8B. Other Information

None.

PART III

Item 9. Directors, Executive Officers and Corporate Governance

As of the date of this filing, the following individuals are current officers and directors. Mr. Chan and Mr. Huang were appointed to the Board of Directors on October 8, 2014 and Mr. Ko on January 1, 2016. Certain information about them, is set forth below:

Name	Age	Position
Jimmy Chan	35	Chairman, CEO
Waylon Huang	32	Director
Richard Ko	31	Director

Jimmy Chan, 35, director (Chairman), has been, since 2008, the Chief Executive officer of CarryOutSupplies.com, located in the City of Industry. From 2005 to 2007, he served as the Vice-President, for Emergence Capital, operating out of Garden Grove, California, and providing mortgage services to the general public. From 2003 to 2005, he was the Vice-President in charge of operations for Azusa Mobile, a T-Mobile authorized dealer, and prior to that he was the president of Cyber Gift, importing toys for distribution as a wholesaler. He is not an officer nor director of any other public companies.

Waylon Huang, 32, director, has been serving as the chief operations officer of CarryOutSupplies.com, for the past 3 years, starting in the accounting department in Jan, 2008, and assuming the duties of COO in August, 1st, 2011. Prior to joining CarryOutSupplies.com, he was the ApoApo Store Manager for their Nogales and then Rowland Heights facilities, from 2004 to 2007. He has extensive experience in inventory control, materiel management, and operational planning, and has, during the preceding 6 years, added human resources to his range of knowledge and control. He does not serve as an officer or director of any other public companies.

Richard Ko, 31, director, has served in the internal audit department to CarryOutSupplies.com as well as providing assistance to quarterly and annual audits with external auditors and the company's accounting department. Mr. Ko previously held positions in Hyundai Motor America's Incentives department in addition to leadership roles in Firestone Complete Autocare, and many other service oriented industries. He currently holds a Bachelor's degree from

UCLA.

With his leadership positions, Mr. Ko provides Sugarmade, Inc. leadership experience in operations, talent management, and governance.

As of the end of the 2014 fiscal year (June), the below listed individuals were directors and senior management of the Company. Mr. Mandel, who served as Chairman and as the sole member of the Audit Committee resigned from the Board of Directors on October 6, 2014. Mr. Leong resigned on October 8, 2014. Clifton Kuok Wai Leung. Leung was appointed to our Board of Directors on June 14, 2011. Leung has served as a member of the Board of Directors of our subsidiary since October 2009, and is also the Chief Executive Officer and 100% owner of SCPC since early 2006.

-42-

(table of contents)

As of the end of the 2015 fiscal year (June), Jimmy Chan, Waylon Huang and Er Wang were the directors of the Company. Richard Ko replaced Er Wang as a director on January 1, 2016.

There are no family relationships among any of our officers or directors.

Corporate Governance

The Company did not have sufficient and skilled accounting personnel with an appropriate level of technical accounting knowledge and experience in the application of generally accepted accounting principles accepted in the United States of America commensurate with the Company's disclosure controls and procedures requirements, which resulted in a number of deficiencies in disclosure controls and procedures that were identified as being significant. The Company's Board believes that the number and nature of these significant deficiencies, when aggregated, was determined to be a material weakness.

The Independent Board member valuation and investigation of the current corporate governance practices were that they were inappropriate and resulted in the need for the significant restructuring of our company.

The Company's board of directors will be working during Fiscal 2016 to rectify these situations.

Leadership Structure

Jimmy Chan who, is also a director and serves as chairman, CEO, CFO and corporate Secretary. Waylon Huang to became a director as of December 31, 2014. Richard Ko became a director of January 1, 2016.

Board Committees

As of the date of this filing, there are no formal committees of the board of directors.

Director Independence

We currently have no independent directors. We apply the definition of “independent director” provided under the Listing Rules of The NASDAQ Stock Market LLC (“NASDAQ”). Under NASDAQ rules, the Board has considered all relevant facts and circumstances regarding our directors and has affirmatively determined that none of the directors serving on the Board are independent of us under NASDAQ rules.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires our Company’s directors and officers, and persons who own more than ten-percent (10%) of our Company’s common stock, to file with the Securities and Exchange Commission reports of ownership on Form 3 and reports of changes in ownership on Forms 4 and 5. Such officers, directors and ten-percent stockholders are also required to furnish our Company with copies of all Section 16(a) reports they file. As of June 30, 2015, we do not believe such reports were timely filed.

Item 10. Executive Compensation

Mr. Huang receive a salary of \$60,000 per year and Mr. Chan as of the date of this filing has no salary.

Employment Agreements

(table of contents)

Mr. Chan served as CEO of company will be compensated 5,000,000 shares at the end of each calendar year.

Mr. Huang served as GM of company will be compensated 3,000,000 shares at the end of each calendar year.

Mr. Ko served as VP of business development will be compensated 3,000,000 shares at the end of each calendar year.

Grants of Stock and Other Equity Awards

No other equity awards.

Option Exercises

During the fiscal years ending June 30, 2015 and June 30, 2014, there were no option exercises by our named executive officers.

Compensation of Directors

Our current Directors do not receive compensation for their service on the board of directors. Unassociated with board service, Director Chan, during December 2014, received 2,500,000 common shares and Director Wang, Huang and Ko received 1,500,000 common shares.

Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

As of the date of this filing, information with respect to the securities holdings of (i) our officers and directors, and (ii) all persons (currently none) which, pursuant to filings with the SEC and our stock transfer records, we have reason to believe may be deemed the beneficial owner of more than five percent (5%) of the Common Stock.

The securities “beneficially owned” by an individual are determined in accordance with the definition of “beneficial ownership” set forth in the regulations promulgated under the Exchange Act and, accordingly, may include securities owned by or for, among others, the spouse and/or minor children of an individual and any other relative who resides in the same home as such individual, as well as other securities as to which the individual has or shares voting or investment power or which each person has the right to acquire within 60 days through the exercise of options or otherwise. Beneficial ownership may be disclaimed as to certain of the securities. **Table 8** has been prepared based on the number of shares outstanding totaling 178,685,388.

(table of contents)

Officers and Directors	Amount and Nature of Beneficial Ownership	Percentage of Class Beneficially Owned
Jimmy Chan	9,600,000	5.37%
Waylan Huang	4,162,500	2.33%
Er Ya Wang	2,152,174	1.20%
Richard Ko	1,530,572	0.86%
All Directors and Executive Officers as a Group	17,445,246	9.76%
Greater than 5% Shareholders		0.00%
LMK Capital LLC	11,266,667	6.31%
Weihao Ltd	10,000,000	5.60%
Amy Thai	9,378,066	5.25%

As of the date of this filing Mr. Jimmy Chan's holdings represent 5.4% of the company. He is currently employed by LMK Capital LLC as management consultant and is therefore a beneficial owner of shares owned by LMK Capital LLC

LMK Capital LLC.'s holdings as of the date of this filing represents 6.3% of the company.

As of the date of this filing Mr. Waylon Huang's holdings represent 2.3% of the company.

Mr. Wang was replaced as a director on January 1, 2016 with Mr. Ko assuming a director role.

Item 12. Certain Relationships and Related Party Transactions and Director Independence

Transactions with Related Persons

Our Company reviews transactions between our Company and persons or entities considered to be related parties (collectively "related parties"). Our Company considers entities to be related parties where an executive officer, director or a 5% or more beneficial owner of our common stock (or an immediate family member of these persons) has a direct or indirect material interest. Transactions of this nature require the approval of our Board.

(table of contents)

Other Transactions with Related Persons, Promoters and Certain Control Persons

The following includes a summary of any transaction occurring since July 1, 2012, or any proposed transaction, in which we were or are to be a participant and the amount involved exceeded or exceeds the lesser of \$120,000 or one percent of our average total assets at year end for the two most recently completed fiscal years, and in which any related person had or will have a direct or indirect material interest (other than compensation described under “Executive Compensation” above). We believe the terms obtained or consideration that we paid or received, as applicable, in connection with the transactions described below were comparable to terms available or the amounts that would be paid or received, as applicable, in arm’s-length transactions.

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

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

Per board resolution September 18, 2013, our Board approved the appointment of Clifton 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. 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. On this date, Sugarcane Paper Company also agreed to accept 1,057,534 common shares for the conversion of a promissory note with an outstanding balance of \$105,753.

On November 27, 2012, our Company issued a convertible promissory note in the amount of \$100,000 to Leong, a current Director, as part of a financing involving seven accredited investors. The convertible promissory note were to 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 \$0.50 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, six-month anniversary, and nine month anniversary of the issue date. In connection with the issuance of the promissory notes, Mr. Jensen received two-year warrants to purchase 3,750 shares of common stock at \$0.50 per share, and two-year warrants to purchase 6,250 shares of common stock at \$.01 per share. On September 18,

2013, our Board approved the issuance of 1,057,534 common shares to a Director, Jonathan Leong, 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.

(table of contents)

On August 17, 2012, our Company issued a convertible promissory note in the amount of \$25,000 to C. James Jensen, one of our directors, as part of a financing involving seven 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, six month anniversary, and nine month anniversary of the issue date. In connection with the issuance of the promissory notes, Jensen received two-year warrants to purchase 3,750 shares of common stock at \$.50 per share, and two-year warrants to purchase 6,250 shares of common stock at \$.01 per share.

Item 13. Principal Accountant Fees and Services

Principal Accountant Fees and Services

(1) Audit Fees

The aggregate fees billed for professional services rendered by the principal accountants for the audit of the registrant's annual financial statements and review of financial statements included in the registrant's Form 10-K or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for the fiscal year ended June 30, 2015 were \$36,750.

(2) Audit-Related Fees

There were no fees billed during the two years ended June 30, 2015 for assurance and related services by the principal accountants that are reasonably related to the performance of the audit or review of the registrant's financial statements and are not reported under item (1).

(3) Tax Fees

No aggregate fees were billed for professional services rendered by the principal accountant for tax compliance, tax advice, and tax planning for the fiscal years ended June 30, 2015 and June 30, 2014.

(4) Work Performance by others

The percentage of hours expended on the principal accountant's engagement to audit the registrant's financial statements for the most recent fiscal year that were attributed to work performed by persons other than the principal accountant's full-time, permanent employees was more than 50 percent.

-47-

(table of contents)

PART IV

Item 14. Exhibits, Financial Statement Schedules

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.

1. Financial Statement. See Consolidated Financial Statement in part II, Item 7 of this Annual report on from 10-K.

(table of contents)

SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Sugarmade, Inc., a Delaware corporation

By _____ Date: August 9, 2016

Jimmy Chan

CEO and Director

POWER OF ATTORNEY

We, the undersigned directors and/or officers of Sugarmade, Inc. hereby severally constitute and appoint Scott Lantz, acting individually, his true and lawful attorney-in-fact and agent, with full power of substitution and re-substitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this registration statement, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

In accordance with the requirements of the Securities Act of 1933, this registration statement has been signed by the followings persons in the capacities and on the dates stated.

Signature

Title

Date

/s/ Jimmy Chan Director and Chairman August 9, 2016

Jimmy Chan

/s/ Waylon Huang

Director

August 9, 2016

Waylon Huang

/s/ Richard Ko

Richard Ko

Director

August 9, 2016

-49-