Sugarmade, Inc.
Form 10-K
August 04, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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	**94-3008888**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

167 N. Sunset Avenue	
City of Industry, CA 91744	**91744**
(Address of principal executive offices)	(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

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 4, 2016 there were 178,685,388 shares outstanding of the issuer's common, the only class of common equity.

Table of Contents

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 IDEN 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, CarryOutSuppies.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.

(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

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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

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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.

(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

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

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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

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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.

(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

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

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

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.

(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, lives, 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

(table of contents)

REPORTS OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

(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	