Sugarmade, Inc.
Form 10-Q
May 20, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended: September 30, 2013

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

SUGARMADE, INC.

(Exact Name of Registrant as Specified in its Charter)

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

167 N. Sunset Avenue

City of Industry, CA	**91744**
(Address and of principal executive offices)	(Zip Code)

(626) 961-8619

(Registrant's telephone number, including area code)

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

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

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

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

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

At May 15, 2015 there were 157,586,441 shares outstanding of the issuer's common, the only class of common equity.

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

SUGARMADE, INC.

FORM 10-Q

FOR THE PERIOD ENDED SEPTEMBER 30, 2013

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SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

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

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

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

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PART I : Financial Information

Item 1

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

	Sept 30, 2013	June 30, 2013
Assets		
Current assets:		
Cash	288	159,381
Accounts receivable, net	11,088	42,249
Inventory, net	85,872	159,255
Other current assets	0	20,057
Total current assets	97,249	380,942
Equipment, net	2,809	3,299
Other assets	10,727	4,705
	110,785	388,946
Liabilities and Stockholders' Deficiency		
Current liabilities:		
Note payable due to bank	25,982	150,000
Accounts payable and accrued liabilities	1,182,431	390,138
Accrued interest	118,771	87,275
Notes payable due to shareholder	186,000	186,000
Accrued compensation and personnel related payables	56,950	527,544
Production line of credit	324,000	274,000
Convertible notes payable, net	525,000	525,000
Derivative liabilities	233,000	326,452
Total liabilities	2,652,134	2,466,409
Stockholders’ deficiency:		
Preferred stock ($0.001 par value, 10,000,000 shares authorized, none issued and outstanding)	0	0
Common stock ($0.001 par value, 300,000,000 shares authorized, 10,538,526 shares issued and outstanding; 10,288,526 at June 30, 2012)	10,539	10,539
Additional paid-in capital	8,322,405	8,317,406
Accumulated deficit	(10,874,292)	(10,405,408)
Total stockholders' deficiency	(2,541,348)	(2,077,463)

	110,785	388,946

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

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Sugarmade, Inc. and Subsidiary
Consolidated Statements of Operations
For the three months ended September 30, 2013 and 2012

	For the three months ended	
	September 30, 2013	September 30, 2012
Revenues, net	$47,402	$48,207
Cost of goods sold:		
Materials and freight costs	73,471	47,671
Total cost of goods sold	73,471	47,671
Gross margin	(26,069)	536
Operating expenses:		
Selling, general and administrative expenses	503,762	621,117
Total operating expenses	503,762	621,117
Loss from operations	(529,831)	(620,581)
Non-operating income (expense):		
Interest expense:	(32,556)	(7,870)
Interest income:	50	133
Change in fair value of derivative liabilities	93,452	—
Total non-operating income (expense)	60,946	(7,737)
Net loss	$(468,884)	$(628,318)
Basic and diluted net loss per share	$(0.04)	$(0.06)
Basic and diluted weighted average common shares outstanding used in computing net loss per share	10,538,526	10,402,656

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

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Sugarmade, Inc. and Subsidiary
Consolidated Statements of Cash Flows
For the Quarters ended September 30, 2013 and 2012

	2013	2012
Operating activities:		
Net loss	$(468,884)	$(628,318)
Adjustments to reconcile net loss to cash flows from operating activities:		
Depreciation expense	490	490
Share based compensation	—	55,308
Issuance of common stock for services	—	93,745
Issuance of warrants with convertible notes	—	38,758
Allowance for doubtful accounts	41,187	—
Provision for inventory obsolescence	39,306	
Changes in fair value of derivative liability	(93,452)	
Changes in operating assets and liabilities:		
Accounts receivable	(10,027)	16,555
Inventory	34,077	4,160
Other assets	14,035	(6,951)
Accounts payable and accrued liabilities	470,890	58,811
Accrued interest	31,496	—
Accrued compensation and personnel related payables	(144,192)	121,858
Net cash flows used in operating activities	(85,075)	(245,584)
Investing activities:		
Additions to equipment	—	—
Net cash flows used in investing activities	—	—
Financing activities:		
Payment of bank note	(124,018)	
Proceeds from issuance of convertible notes payable	—	183,586
Proceeds from issuance of convertible notes payable to related parties	—	22,211
Proceeds from increase of production line of credit	50,000	—
Issuance of notes payable to shareholders	—	36,384
Net cash flows from financing activities	(74,018)	242,181
Net change in cash	(159,093)	(3,403)
Cash, beginning of period	159,381	192,100
Cash, end of period	$288	$188,697
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$32,556	$7,870
Income taxes	—	—

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

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Sugarmade, Inc. and Subsidiary

Notes to Condensed Consolidated Financial Statements

September 30, 2013 (Unaudited) and June 30, 2013

1. Nature of Business

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

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

Effective October 26, 2014, the Board of Directors of the Company executed the final Acquisition and Share Exchange Agreement (the "Share Exchange Agreement") ratifying the Pending Acquisition. Under the terms of the Share Exchange Agreement the Company will issue Thirty Five Million (35,000,000) common shares of the Company to the holders of CarryOutSupplies.com in exchange for all of the outstanding shares in CarryOutSupplies.com. The number of Company shares exchanged shall be modified to Forty Million (40,000,000) shares Thirty (30) days after the effective date of this Share Exchange Agreement should CarryOutSupplies.com demonstrate revenues for the three (3) month period ending June 30, 2014 did not fall below a level equal to 70% of the revenues for the three (3) month period ending June 30, 2013. The number of shares exchanged shall be modified to Seventy One Million (71,000,000) Seventy Five (75) days after the effective date of this Share Exchange Agreement should CarryOutSupplies.com demonstrate revenues for the three (3) month period ending September 30, 2014 did not fall below a level equal to 70% of the revenues for the three (3) month period ending September 30, 2013. As of the date of this filing, all of the 71,000,000 shares had been issued to the owners of CarryOutSupplies.com.

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

2. Summary of Significant Accounting Policies

Basis of presentation

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

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September 30, 2013 (Unaudited) and June 30, 2013

These interim consolidated financial statements should be read in conjunction with our Company's Annual Report on Form 10-K for the year ended June 30, 2013, which contains our audited consolidated financial statements and notes thereto, together with the Management's Discussion and Analysis of Financial Condition and Results of Operation, for the period ended June 30, 2013. The interim results for the period ended September 30, 2013, are not necessarily indicative of the results for the full fiscal year.

Principles of consolidation

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

Going concern

The Company sustained continued operating losses during the three months ended September 30, 2013 and for the year ended June 30, 2013. The Company's continuation as a going concern is dependent on its ability to generate sufficient cash flows from operations to meet its obligations, in which it has not been successful, and/or obtaining additional financing from its shareholders or other sources, as may be required.

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

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

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.

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Sugarmade, Inc. and Subsidiary

Notes to Condensed Consolidated Financial Statements

September 30, 2013 (Unaudited) and June 30, 2013

Revenue recognition

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

During the year ended June 30, 2012, we became aware of quality issues surrounding our copy paper products. We were able to trace the reported problems with paper quality back to manufacturing issues with our third party contract manufacturer. Our Company has since implemented additional quality assurance procedures both during and at the completion of the production processes. During the three months ended September 30, 2013, the Company had limited sales as we continued producing and delivering replacement product, in addition to disposing of the product containing the quality issues. For the three months ended September 30, 2013, we sold the remaining sub-quality paper to a third party wholesaler specializing in the liquidation of excess inventory. This sale represented approximately 18% of our revenue for the quarter. As we had recorded an inventory reserve for this product, we recognized revenue with no corresponding cost of goods sold.

Cash

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

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

Accounts receivable

Accounts receivable are carried at their estimated collectible amounts, net of any estimated allowances for doubtful accounts. We grant unsecured credit to our customer's deemed credit worthy. Ongoing credit evaluations are performed and potential credit losses estimated by management are charged to operations on a regular basis. At the time any particular account receivable is deemed uncollectible, the balance is charged to the allowance for doubtful accounts. Since we cannot necessarily predict future changes in the financial stability of our customers, we cannot guarantee that our allowance for doubtful accounts will be adequate.

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Sugarmade, Inc. and Subsidiary

Notes to Condensed Consolidated Financial Statements

September 30, 2013 (Unaudited) and June 30, 2013

Inventory

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

If the estimated realizable value of our inventory is less than cost, we make provisions in order to reduce its carrying value to its estimated market value. In the end of 2012, the Company became aware of quality issues surrounding its copy paper products. As a result of these quality issues, we determined that the historical inventory values were not realizable and we recorded a reserve for inventory obsolescence. We completed our review of impacted inventory during the second quarter of fiscal 2013, and recorded additional reserves at that time. During the fiscal year ended June 30, 2013, we continued to dispose of reserved inventory either through sales to a third party liquidator or where it was impractical to sell the inventory; we donated the product to third party charitable organizations. As of September 30, 2013 and June 30, 2013, the balance for the inventory totaled $85,872 and $159,255, respectively.

Equipment

The Company owned equipment valued at $2,809 of September 30, 2013 and $3,299 as of June 30, 2013.

Income taxes

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

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.

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We believe that our income tax filing positions and deductions will be sustained on audit and do not anticipate any adjustments that will result in a material change to our financial position. Therefore, no reserves for uncertain income tax positions have been recorded pursuant to ASC 740. In addition, we did not record a cumulative effect adjustment related to the adoption of ASC 740. Our policy for recording interest and penalties associated with income-based tax audits is to record such items as a component of income taxes. We have no interest or penalties as of September 30, 2013.

Stock based compensation

Stock based compensation cost is measured at the date of grant, based on the calculated fair value of the stock-based award, and will be recognized as expense over the employee’s requisite service period (generally the vesting period of the award). We estimate the fair value of employee stock options granted using the Black-Scholes-Merton Option Pricing Model. Key assumptions used to estimate the fair value of stock options will include the exercise price of the award, the fair value of our common stock on the date of grant, the expected option term, the risk free interest rate at the date of grant, the expected volatility and the expected annual dividend yield on our common stock. We use comparable public company data among other information to estimate the expected price volatility and the expected forfeiture rate. Non-employee stock grant costs are measured and recognized upon completion of performance and tied to the contractual obligations of the parties we transact with.

Loss per share

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

Fair value of financial instruments

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

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

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

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

Derivative instruments

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

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Notes to Condensed Consolidated Financial Statements

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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 9 for details.

Recent Developed Accounting Pronouncements

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

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

New Accounting Pronouncements Not Yet Adopted

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

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Notes to Condensed Consolidated Financial Statements

September 30, 2013 (Unaudited) and June 30, 2013

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.

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

3. Concentration

Customers

For the three months ended September 30, 2013, our Company earned net revenues of $47,402. A significant portion of our Company's revenue is derived from a small number of customers. For the three months ended September 30, 2013, sales to 2 of our Company’s customers accounted for 75% and 10% of net sales, respectively. For the three months ended September 30, 2012, sales to one of our Company’s customers accounted for 100% of net sales.

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Sugarmade, Inc. and Subsidiary

Notes to Condensed Consolidated Financial Statements

September 30, 2013 (Unaudited) and June 30, 2013

Suppliers

For the three months ended September 30, 2013 and 2012, all of our tree free paper products were purchased from Sugar Paper Company (SCPC) and their contract manufacturers, Our CEO Leung is a major shareholder of SCPC.

4. Litigation

From time to time and in the course of business, we may become involved in various legal proceedings seeking monetary damages and other relief. The amount of the ultimate liability, if any, from such claims cannot be determined. As of September 30, 2013, there were no legal claims currently pending or threatened against us that in the opinion of our management would be likely to have a material adverse effect on our financial position, results of operations or cash flows. However, as of the date of this filing, we were involved in the following legal proceeding:

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

On May 24, 2014, the Labor Commissioner, State of California issued an Order, Decision or Award of the Labor Commissioner against the Company in the amount of $56,365 The Company is in the process of settling this claim and believes any amount of settlement paid would not be likely to have a material adverse effect on our financial position, results of operations or cash flows. On June 30, 2014 the Company entered into a settlement agreement, which was effective October 28, 2014, to resolve a judgment against the Company via the issuance of 502,533, and restricted shares a $30,000 cash payment. No changes have occurred as of the filing date of this report.

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

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Sugarmade, Inc. and Subsidiary

Notes to Condensed Consolidated Financial Statements

September 30, 2013 (Unaudited) and June 30, 2013

5. Board of Directors

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

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

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

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

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

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Sugarmade, Inc. and Subsidiary

Notes to Condensed Consolidated Financial Statements

September 30, 2013 (Unaudited) and June 30, 2013

6. Convertible Notes (also see Note 9)

Between August 17, 2012 and March 31, 2013, our Company issued a total of $525,000 in convertible promissory notes to eleven accredited investors, one of which is a member of our Board and another was a former member of our Board. The convertible promissory notes must be repaid by our Company within six months from the date of issuance; accrue interest at the rate of 14%; and are subject to conversion at the election of the investors at such time as our Company has raised a minimum of $500,000 in a subsequent equity financing. The conversion price will be the lower of 80% of the per share purchase price paid for by the new investors in the subsequent financing, or $0.50 per share. Unless these promissory notes are converted or repaid earlier, our Company must pay the note-holders the amount of the then accrued interest on the three, six, and nine month anniversaries of the issue date. As of June 30, 2013, the Company extended the maturity date of the notes to one year from the date of issuance.

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

On various dates during June 2014 and July 2014 the Company and holders of certain convertible notes agreed to cancel warrants to purchase common shares in the Company and to extend the due dates on the Notes to July 1, 2016. $0.50 warrants and “Bonus Warrants” priced at $0.01, as defined in the original Convertible Note Purchase Agreements we cancelled pertaining to the Note and warrants acquired on the following dates for the following Convertible Notes and amounts. In total, 60,000 warrants at $0.50 and 60,000 “Bonus Warrants at $0.01 were cancelled.

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

- Note dated November 27, 2012 for $100,000

7. Note Payable to bank

During October 2011, we entered into a revolving demand note (line of credit) arrangement with HSBC Bank USA, with a revolving borrowing limit of $150,000. The line of credit bears a variable interest rate of one quarter percent (0.25%) above the prime rate (3.25% as of September 30, 2013). This borrowing facility is renewed annually and our Company is required to maintain a separate demand deposit account with HSBC with a minimum balance equal to the outstanding borrowing. In the event the deposit account is not established or minimum balance maintained, HSBC can charge a higher rate of interest of up to 4.0% above prime rate. As of September 30, 2013, the loan was paid down to $24,000.

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Sugarmade, Inc. and Subsidiary

Notes to Condensed Consolidated Financial Statements

September 30, 2013 (Unaudited) and June 30, 2013

8. Production Line of Credit

As part of our agreement with SCPC for a production line of credit, SCPC has provided our Company with access to a portion of the overall credit line to allow us to purchase product for inventory purposes, without the need for customer purchase orders as a requirement to order product from its contract manufacturer. This portion production line of credit will initially be set at $300,000, bear interest at 5% interest per quarter and a 4% usage charge, and require payment 30 days after receipt of funds from our customer. The same repayment terms will remain in effect. As of September 30, 2013, the balance on the credit line totaled $324,000.

9. Derivative Liabilities

Between August 17, 2012 and March 31, 2013, our Company issued a total of $525,000 in convertible promissory notes to eleven accredited investors, one of which is a member of our Board and another was a former member of our Board. The convertible promissory notes must be repaid by our Company within six months from the date of issuance; accrue interest at the rate of 14%; and are subject to conversion at the election of the investors at such time as our Company has raised a minimum of $500,000 in a subsequent equity financing. The conversion price will be the lower of 80% of the per share purchase price paid for by the new investors in the subsequent financing, or $0.50 per share. Unless these promissory notes are converted or repaid earlier, our Company must pay the note-holders the amount of the then accrued interest on the three, six, and nine month anniversaries of the issue date. As of June 30, 2013, the Company extended the maturity date of the notes to one year from the date of issuance.

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

As of September 30, 2013, the derivative liabilities were valued using the weighted-average Black-Scholes-Merton option pricing model using the assumptions detailed below. The Company recorded $93,452 income from changes in derivative liability during the three months ended September 30, 2013. The results of year--end valuation were summarized as follows:

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Sugarmade, Inc. and Subsidiary

Notes to Condensed Consolidated Financial Statements

September 30, 2013 (Unaudited) and June 30, 2013

Grant Date	Derivative Liabilities	Dividend Yield	Expected Volatility	Risk Free Rate	Expected Term	Fair Value as of June 30, 2014
8/17/2012	Conversion Feature	0%	191%	0.19%	0.38	7,000
	$0.01 Warrant	0%	191%	0.19%	0.88	2,000
	$0.50 Warrant	0%	191%	0.19%	0.88	0
8/24/2012	Conversion Feature	0%	181%	0.18%	0.40	7,000
	$0.01 Warrant	0%	181%	0.18%	0.90	2,000
	$0.50 Warrant	0%	181%	0.18%	0.90	1,000
9/9/2012	Conversion Feature	0%	170%	0.17%	0.44	10,000
	$0.01 Warrant	0%	170%	0.17%	0.94	6,000
	$0.50 Warrant	0%	170%	0.17%	0.94	2,000
9/13/2012	Conversion Feature	0%	170%	0.16%	0.45	13,000
	$0.01 Warrant	0%	170%	0.16%	0.88	4,000
	$0.50 Warrant	0%	170%	0.16%	0.88	1,000
9/18/2012	Conversion Feature	0%	168%	0.18%	0.46	6,000
	$0.01 Warrant	0%	168%	0.18%	0.97	2,000
	$0.50 Warrant	0%	168%	0.18%	0.97	0
9/18/2012	Conversion Feature	0%	168%	0.18%	0.46	6,000
	$0.01 Warrant	0%	168%	0.18%	0.97	2,000
	$0.50 Warrant	0%	168%	0.18%	0.97	0
9/18/2012	Conversion Feature	0%	168%	0.18%	0.46	6,000
	$0.01 Warrant	0%	168%	0.18%	0.97	2,000
	$0.50 Warrant	0%	168%	0.18%	0.97	0
9/27/2012	Conversion Feature	0%	162%	0.16%	0.49	6,000
	$0.01 Warrant	0%	162%	0.16%	0.99	3,000
	$0.50 Warrant	0%	162%	0.16%	0.99	1,000
10/5/2012	Conversion Feature	0%	162%	0.17%	0.51	2,000
	$0.01 Warrant	0%	162%	0.17%	1.01	1,000
	$0.50 Warrant	0%	162%	0.17%	1.01	0
10/25/2012	Conversion Feature	0%	162%	0.18%	0.57	7,000
	$0.01 Warrant	0%	162%	0.18%	1.07	4,000
	$0.50 Warrant	0%	162%	0.18%	1.07	1,000
7/31/2012	Conversion Feature	0%	192%	0.14%	0.84	11,000
	$0.01 Warrant	0%	192%	0.14%	1.08	5,000
	$0.50 Warrant	0%	192%	0.14%	1.08	2,000
10/31/2012	Conversion Feature	0%	192%	0.17%	0.84	11,000
	$0.01 Warrant	0%	192%	0.17%	0.04	5,000
	$0.50 Warrant	0%	192%	0.17%	0.04	1,000
11/27/2012	Conversion Feature	0%	129%	0.17%	0.65	24,000
	$0.01 Warrant	0%	129%	0.17%	1.16	7,000
	$0.50 Warrant	0%	129%	0.17%	1.16	1,000
12/21/2012	Conversion Feature	0%	114%	0.19%	0.72	22,000

	$0.01 Warrant	0%	114%	0.19%	1.22	18,000
	$0.50 Warrant	0%	114%	0.19%	1.22	6,000
8/23/2016	$0.50 Warrant	0%	114%	0.00%	2.90	16,000
						233,000

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Sugarmade, Inc. and Subsidiary

Notes to Condensed Consolidated Financial Statements

September 30, 2013 (Unaudited) and June 30, 2013

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

Grant Date	Derivative Liabilities	Dividend Yield	Expected Volatility	Risk Free Rate	Expected Term	Fair Value as of 06/30/13	
8/17/2012	Conversion Feature	0%	88%	0.15%	0.88	$12,500	
	$0.01 Warrant	0%	232%	0.15%	1.13	2,313	
	$0.50 Warrant	0%	232%	0.15%	1.13	1,088	
8/24/2012	Conversion Feature	0%	65%	0.15%	0.65	7,000	
	$0.01 Warrant	0%	251%	0.15%	1.15	2,313	
	$0.50 Warrant	0%	251%	0.15%	1.15	1,125	
9/9/2012	Conversion Feature	0%	94%	0.15%	0.94	20,000	
	$0.01 Warrant	0%	248%	0.15%	1.19	3,700	
	$0.50 Warrant	0%	248%	0.15%	1.19	1,800	
9/13/2012	Conversion Feature	0%	71%	0.15%	0.71	16,000	
	$0.01 Warrant	0%	232%	0.15%	1.13	4,625	
	$0.50 Warrant	0%	232%	0.15%	1.13	2,175	
9/18/2012	Conversion Feature	0%	97%	0.15%	0.97	13,000	
	$0.01 Warrant	0%	245%	0.15%	1.22	2,313	
	$0.50 Warrant	0%	245%	0.15%	1.22	1,125	
9/18/2012	Conversion Feature	0%	97%	0.15%	0.97	13,000	
	$0.01 Warrant	0%	245%	0.15%	1.22	2,313	
	$0.50 Warrant	0%	245%	0.15%	1.22	1,125	
9/18/2012	Conversion Feature	0%	97%	0.15%	0.97	13,000	
	$0.01 Warrant	0%	245%	0.15%	1.22	2,313	
	$0.50 Warrant	0%	245%	0.15%	1.22	1,125	
9/27/2012	Conversion Feature	0%	121%	0.15%	1.21	15,000	
	$0.01 Warrant	0%	244%	0.15%	1.24	2,313	
	$0.50 Warrant	0%	244%	0.15%	1.24	1,125	
10/5/2012	Conversion Feature	0%	85%	0.15%	0.85	4,600	
	$0.01 Warrant	0%	243%	0.15%	1.27	925	
	$0.50 Warrant	0%	243%	0.15%	1.27	465	
10/25/2012	Conversion Feature	0%		36,457,536		-	
Corporate debt investments-preferred			31,104,274			-	31,104,274
Corporate debt investments-other			4,292,399			-	4,292,399
U.S. government securities			51,073,811			-	51,073,811

Other equities	211,633,650	70,405,475	141,228,175	
Interest-bearing cash	140,448,983	140,448,983	-	
Value of interest in common/collective-trusts	217,433,093	-	217,433,093	
Commingled funds holding principally venture capital and partnership investments	84,207,459	-	-	
Total investment assets at fair value	$ 1,076,643,883	$ 510,847,136	$ 481,589,288	$

The following tables set forth, by level within the fair value hierarchy, the Plan’s participant loans, held outside the Master Trust, at fair value:

	As of December 31, 2009			
	Total	Level 1	Level 2	Level 3
Participant loans	$ 7,992,044	$ -	$ -	$ 7,992,044

	As of December 31, 2008			
	Total	Level 1	Level 2	Level 3
Participant loans	$ 7,903,972	$ -	$ -	$ 7,903,972

The following table sets forth information related to fair value measurements of the venture capital and partnership investments held by the master trust that calculate net asset value per share:

	As of December 31, 2009		
	Fair Value	Unfunded Commitment	Remaining Life
Venture capital funds	$ 33,430,548	$ 16,703,000	0 - 10 years
Secondary private equity funds	21,584,626	19,221,000	5 years
Mezzanine funds	20,789,024	6,489,684	0 - 10 years
Leveraged buyout and growth capital funds	16,704,915	1,792,000	0 - 7 years
Independent power funds	461,266	-	2 years
International equity funds	291,766	513,000	2 years
Total	$ 93,262,145	$ 44,718,684	

These investments can not be redeemed during the life of the funds, although such investments may be liquidated through secondary markets, subject to negotiated terms. Distributions are received through the liquidation of the underlying assets of the funds. It is expected that the underlying assets will be liquidated over the remaining life and any contractual extension of the investment agreements.

The venture capital funds invest in early-stage, high potential, growth companies. The secondary private equity funds acquire pre-existing commitments made by others to private equity and other alternative investment funds. The mezzanine funds invest in subordinated debt or preferred equity instruments of established firms. The leveraged buyout and growth capital funds invest in large privately negotiated equity instruments. The independent power funds invest in electricity generation and related assets. The international equity funds invest in mid-size international companies, with a focus on Asia.

Level 3 Gains and Losses — The following table presents a reconciliation of the beginning and ending balances of the fair value measurements using significant unobservable inputs (Level 3):

		Total		Loan Fund (held outside the Master Trust)		Commingled Funds Holding Principally Venture Capital and Partnerships
Balance, January 1, 2009	$	92,111,431	$	7,903,972	$	84,207,459
Realized gains / (losses)		-		-		-
Unrealized gains / (losses)		2,743,000		-		2,743,000
Purchases, sales, issuances, and settlements		6,399,758		88,072		6,311,686
Transfers in (out) of Level 3		-		-		-
Balance, December 31, 2009	$	101,254,189	$	7,992,044	$	93,262,145

6. PLAN TERMINATION

Although it has not expressed any intention to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions set forth in the Employee Retirement Income Security Act.

7. FEDERAL INCOME TAX STATUS

The Internal Revenue Service has determined and informed the Company by a letter dated January 10, 2003, that the Plan and related trust were designed in accordance with the applicable regulations of the Internal Revenue Code (“IRC”). The Plan has been amended since receiving the determination letter; however, the Company and Plan administrator believe that the Plan is currently designed and operated in compliance with the applicable requirements of the IRC and that the Plan and the related trust continue to be tax-exempt. Therefore, no provision for income taxes has been included in the Plan’s financial statements.

8. EXEMPT PARTY-IN-INTEREST TRANSACTIONS

At December 31, 2009 and 2008, the Master Trust held 4,540,694 and 4,311,479 shares, respectively, of common stock of the Company with a cost basis of $227,352,786 and $217,262,815, respectively. During the year ended December 31, 2009, the Master Trust recorded dividend income of $6,881,053 attributable to its investment in the Company’s common stock.

9. PLAN MERGER

Effective February 14, 2008, the Florida Rock Industries, Inc. Profit Sharing and Deferred Earnings Plan and the Arundel Corporation Profit Sharing and Savings Plan were merged into the defined contribution employee benefit plans that participate in the Master Trust. The merger resulted in the transfer of $4,032,407 and $280,842,023 of net assets into this Plan and into the Master Trust, respectively, in December 2009.

10. SUBSEQUENT EVENTS

Subsequent events have been evaluated since the date of these financial statements. There were no events or transactions discovered during this evaluation that require recognition or disclosure in the financial statements.

VULCAN MATERIALS COMPANY THRIFT PLAN FOR SALARIED EMPLOYEES

FORM 5500, SCHEDULE H, PART IV, LINE 4i —
SCHEDULE OF ASSETS (HELD AT END OF YEAR)
AS OF DECEMBER 31, 2009

(a)	(b) Identity of Issue, Borrower, Lessor, or Similar Party	(c) Description of Investment, Including Maturity Date, Rate of Interest, Collateral, and Par or Maturity Value	(d) Cost		(e) Current Value
*	Various plan participants	Participant loans at interest rates of 4.3% to 9.1% maturing in 1 to 60 months	**	$	7,992,044

* Party-in-interest.
** Cost information is not required for participant-directed investments and, therefore, is not included.

SIGNATURES

The Plan. Pursuant to the requirements of the Securities Exchange Act of 1934, the trustee (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

	VULCAN MATERIALS COMPANY THRIFT PLAN FOR SALARIED EMPLOYEES	
Date: June 28, 2010	By:	/s/ Charles D. Lockhart Charles D. Lockhart Chairman of the Administrative Committee