

NUZEE, INC.

FORM 10-Q (Quarterly Report)

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Address	2865 SCOTT STREET SUITE 101 VISTA, CA, 92081
Telephone	858-385-9090
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Industry	Home Furnishings Retailers
Sector	Consumer Cyclical
Fiscal Year	09/30

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2017

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File No. 333-176684

NUZEE, INC.

(exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of incorporation or organization)

38-3849791

(I.R.S. Employer Identification Number)

2865 Scott Street, Suite 101, Vista, CA, 92081

(Address of principal executive offices) (zip code)

(760)295-2408

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Titles of each class
None

Name of each exchange on which registered
N/A

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

Large accelerated filer	<input type="checkbox"/>		Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	(Do not check if smaller reporting company)	Smaller reporting company	<input checked="" type="checkbox"/>

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

APPLICABLE ONLY TO REGISTRANTS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

(APPLICABLE ONLY TO CORPORATE REGISTRANTS)

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date. As of May 10, 2017, NuZee, Inc. had 34,756,780 shares of common stock outstanding.

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FORWARD-LOOKING INFORMATION

This Quarterly Report on Form 10-Q of NuZee, Inc. contains "forward-looking statements" that may state our management's plans, future events, objectives, current expectations, estimates, forecasts, assumptions or projections about the company and its business. Any statement in this report that is not a statement of historical fact is a forward-looking statement, and in some cases, words such as "believes," "estimates," "projects," "expects," "intends," "may," "anticipates," "plans," "seeks," and similar expressions identify forward-looking statements. Forward-looking statements involve risks and uncertainties that could cause actual outcomes and results to differ materially from the anticipated outcomes or results. These statements are not guarantees of future performance, and undue reliance should not be placed on these statements. It is important to note that our actual results could differ materially from what is expressed in our forward-looking statements due to the risk factors described in the section of our Form 10-K filed on December 29th, 2016 entitled "Risk Factors."

We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

PART I.

Item 1. Financial Statements.

NuZee, Inc.
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	March 31, 2017	September 30, 2016
ASSETS		
Current assets:		
Cash	\$ 152,040	\$ 40,613
Accounts receivable, net	214,164	57,711
Inventories	360,705	206,356
Prepaid expenses and deposits	172,676	65,726
Total current assets	899,585	370,406
Equipment, net	280,078	151,946
Other assets:		
Investment in unconsolidated affiliate	\$ 2,108	\$ -
Goodwill	52,424	-
Total other assets	54,532	-
Total assets	\$ 1,234,195	\$ 522,352
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	\$ 294,559	\$ 189,317
Loan payable - short term - Related party -Including interest of \$978	207,805	145,377
Current portion of long-term debt	35,413	-
Convertible Notes payable - Related party	-	603,008
Other current liabilities	65,765	7,337
Total current liabilities	603,542	945,039
Non-current liabilities:		
Loan payable, net of current portion	\$ 167,544	\$ -
Total non-current liabilities	167,544	-
Total Liabilities	\$ 771,086	\$ 945,039
Stockholders' equity (deficit):		
Common stock; 100,000,000 shares authorized, \$0.00001 par value; 34,172,431 and 31,154,951 shares issued	\$ 342	\$ 311
Additional paid in capital	8,466,667	6,909,523
Accumulated deficit	(7,980,230)	(7,263,412)
Less: treasury stock, at cost (1,800,844 shares held in treasury)	(69,109)	(69,109)
Accumulated other comprehensive loss	(19,611)	-
Total NuZee, Inc. shareholders' equity (deficit)	398,059	(422,687)
Noncontrolling interest	65,050	-
Total stockholders' equity (deficit)	463,109	(422,687)
Total liabilities and stockholders' equity (deficit)	\$ 1,234,195	\$ 522,352

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

NuZ ee, Inc.
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016	Six Months Ended March 31, 2017	Six Months Ended March 31, 2016
Revenues	\$ 376,327	\$ 50,954	\$ 953,834	\$ 95,414
Cost of sales	325,592	30,276	742,460	59,340
Gross Profit	50,735	20,678	211,374	36,074
Operating expenses	413,874	359,465	922,208	681,038
Loss from operations	(363,139)	(338,787)	(710,834)	(644,964)
Other income	13,113	48	30,960	276
Equity in loss of unconsolidated affiliate	(32,721)	-	(47,892)	-
Other expense	(2,545)	800	(3,900)	(2,850)
Net loss	(385,292)	(337,939)	(731,666)	(647,538)
Net loss attributable to noncontrolling interest	(8,426)	-	(14,848)	-
Net loss attributable to NuZee, Inc.	\$ (376,866)	\$ (337,939)	\$ (716,818)	\$ (647,538)
Basic and diluted loss per common share	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ (0.02)
Basic and diluted weighted average number of common stock outstanding	32,925,132	30,394,231	32,737,443	30,399,213

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

Nu Zee, Inc.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(UNAUDITED)

For three months ended March 31,	NuZee, Inc.		Noncontrolling Interests		Total	
	2017	2016	2017	2016	2017	2016
	Net loss	\$ (376,866)	\$ (337,939)	\$ (8,426)	\$ 0	\$ (385,292)
Foreign currency translation	6,650	-	2,850	-	9,500	-
Total other comprehensive loss, net of tax	6,650	-	2,850	-	9,500	-
Comprehensive loss	<u>\$ (370,216)</u>	<u>\$ (337,939)</u>	<u>\$ (5,576)</u>	<u>\$ 0</u>	<u>\$ (375,792)</u>	<u>\$ (337,939)</u>

For six months ended March 31,	NuZee, Inc.		Noncontrolling Interests		Total	
	2017	2016	2017	2016	2017	2016
	Net loss	\$ (716,818)	\$ (647,538)	(14,848)	\$ 0	\$ (731,666)
Foreign currency translation	(19,611)	-	(8,405)	-	(28,016)	-
Total other comprehensive loss, net of tax	(19,611)	-	(8,405)	-	(28,016)	-
Comprehensive loss	<u>\$ (736,429)</u>	<u>\$ (647,538)</u>	<u>(23,253)</u>	<u>\$ 0</u>	<u>\$ (759,682)</u>	<u>\$ (647,538)</u>

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

Nu Zee, Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Six months Ended March 31, 2017	Six months Ended March 31, 2016
Operating activities:		
Net loss	\$ (731,666)	\$ (647,538)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and Amortization	35,466	20,992
Option expense	12,200	25,807
Interest expense	3,635	-
Inventory impairment	4,112	-
Equity in loss of unconsolidated affiliate	47,892	-
Change in operating assets and liabilities:		
Accounts receivable	(95,681)	6,439
Inventories	79,496	(35,159)
Prepaid expenses and deposits	(31,212)	158
Accounts payable	21,205	(15,846)
Other current liabilities	(25,783)	96,377
Net cash used by operating activities	<u>(680,336)</u>	<u>(548,770)</u>
Investing activities:		
Purchase of equipment	(135,731)	(2,854)
Acquisition of investment in unconsolidated affiliate	(50,000)	-
Net cash acquired from business acquisition	201,676	-
Net cash used by investing activities	<u>15,945</u>	<u>(2,854)</u>
Financing activities:		
Proceeds from issuance of Loan - short term - Related party	180,824	100,000
Repayment of loans - short term - Related party	(119,001)	(30,000)
Proceeds from issuance of Loan	89,880	-
Repayment of loans - short term	(15,001)	-
Proceeds from issuance of common stock	680,510	431,000
Net cash provided by financing activities	<u>817,212</u>	<u>501,000</u>
Effect of foreign exchange on cash and cash equivalents	(41,394)	-
Net change in cash	111,427	(50,624)
Cash, beginning of period	40,613	107,678
Cash, end of period	<u>\$ 152,040</u>	<u>\$ 57,055</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 1,131	\$ -
Cash paid for taxes	\$ 800	\$ 800
Noncash investing and financing activities:		
Acquisition of NuZee JAPAN Co., Ltd through issuance of common shares	\$ 258,465	\$ -
Software purchased with installment agreement	\$ 14,807	\$ -
Conversion of note payable	\$ 606,000	\$ -

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

NuZee, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) March 31, 2017

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited interim financial statements of NuZee, Inc. (the "Company", "we", "our") have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"), and rules of the Securities and Exchange Commission, and should be read in conjunction with the audited financial statements and notes thereto contained in the Company's annual report on Form 10-K for the year ended September 30, 2016 as filed with the SEC. In the opinion of management, all adjustments, consisting of recurring adjustments, necessary for a fair presentation of financial position and the results of operations for the interim periods presented have been reflected herein. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year. Notes to the consolidated financial statements which would substantially duplicate the disclosure contained in the audited financial statements as reported in the annual report on Form 10-K have been omitted.

Going Concern

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which contemplates continuation of the Company as a going concern. The Company has had recurring losses, large accumulated deficit, is dependent on the shareholders to provide additional funding for operating expenses and has limited revenues. These items raise substantial doubts about the Company's ability to continue as a going concern. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty. The Company's continued existence is dependent upon management's ability to develop profitable operations, continued contributions from the Company's executive officers to finance its operations and the ability to obtain additional funding sources to explore potential strategic relationships and to provide capital and other resources for the further development and marketing of the Company's products and business.

Major Customers

In the six months ended March 31, 2017 and 2016, revenue was primarily from below major customers. Besides those revenues, there were \$52,616 account receivable owed by customer U, \$128,705 account receivable owed by customer PO as of March 31, 2017 and \$5,607 account receivable owed by customer H as of March 31, 2016.

Six months ended March 31, 2017:

Customer Name	Sales Amount	% of Total Revenue
Customer PO	\$ 462,006	48%
Customer K	\$ 146,005	15%

Six months ended March 31, 2016 :

Customer Name	Sales Amount	% of Total Revenue
Customer H	\$ 50,466	53%
Customer A	\$ 34,080	36%

Lease

The Company evaluates each lease for classification as either a capital lease or an operating lease. If substantially all of the benefits and risks of ownership have been transferred to the Company as lessee, the Company records the lease as a capital lease at its inception. The Company performs this evaluation at the inception of the lease and when a modification is made to a lease. If the lease agreement calls for a scheduled rent increase during the lease term, the Company recognizes the lease expense on a straight-line basis over the lease term.

NuZee JAPAN Co., Ltd is the lessee of certain equipment under a capital lease extending through 2020. The asset and liability under the capital lease are recorded at the lower of the present value of the minimum lease payments, or the fair value of the asset. Leased equipment is depreciated over a 6 year life. The leased equipment has been recorded in the accompanying financial statements in equipment of \$13,376 as of March 31, 2017. The capital lease liability is included in other current liabilities on consolidated balance sheets.

Future minimum lease payments under capital lease as of March 31, 2017 for each of the remaining years are as follows:

2017	\$	3,303
2018		4,403
2019		4,403
2020		3,684
Total Minimum Lease Payments	\$	<u>15,793</u>

Loan

On June 30, 2016, NuZee JAPAN Co., Ltd entered into a loan agreement with Tono Shinyo Kinko bank. The Company borrowed the sum of approximately \$145,758 to be repaid on or before June 5, 2021 at an interest rate of 1.2%. The Company had \$114,596 loan payable at March 31, 2017. On January 27, 2017, NuZee JAPAN Co., Ltd entered into a loan agreement with Nihon Seisaku Kouko. The Company borrowed the sum of approximately \$89,880 to be repaid on or before January 20, 2022 at an interest rate of 0.16%. The Company had \$88,361 loan payable at March 31, 2017.

Principles of Consolidation

The Company prepares its financial statements on the accrual basis of accounting. The accompanying consolidated financial statements include the accounts of the Company and majority owned subsidiary which has a fiscal year end of January 31. All significant intercompany accounts, balances and transactions have been eliminated in the consolidation.

The Company consolidates its subsidiary in accordance with ASC 810, and specifically ASC 810-10-15-8 which states, the usual condition for a controlling financial interest is ownership of a majority voting interest, and, therefore, as a general rule ownership by one reporting entity, directly or indirectly, or over 50% of the outstanding voting shares of another entity is a condition pointing toward consolidation.

Foreign Currency Translation

The financial position and results of operations of the Company's foreign subsidiaries are measured using the foreign subsidiary's local currency as the functional currency. Revenues and expenses of such subsidiaries have been translated into U.S. dollars at average exchange rates prevailing during the period. Assets and liabilities have been translated at the rates of exchange on the balance sheet date. The resulting translation gain and loss adjustments are recorded directly as a separate component of shareholders' equity, unless there is a sale or complete liquidation of the underlying foreign investments. Foreign currency translation adjustments resulted in loss of \$28,016 and \$0 for six months ended March 31, 2017 and 2016, respectively.

Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the results of operations as incurred. Foreign currency transaction gains included in operations totaled \$890 for six months ended March 31, 2017 and losses totaled \$2,849 for six months ended March 31, 2016.

Equity Method

Investee companies that are not consolidated, but over which the Company exercises significant influence, are accounted for under the equity method of accounting. Whether or not the Company exercises significant influence with respect to an Investee depends on an evaluation of several factors including, among others, representation on the Investee company's board of directors and ownership level, which is generally a 20% to 50% interest in the voting securities of the Investee company. Under the equity method of accounting, an Investee company's accounts are not reflected within the Company's Consolidated Balance Sheets and Statements of Operations; however, the Company's share of the earnings or losses of the Investee company is reflected in the caption "Equity in loss of unconsolidated affiliate" in the Consolidated Statements of Operations. The Company's carrying value in an equity method Investee company is reflected in the caption "Investment in unconsolidated affiliate" in the Company's Consolidated Balance Sheets.

When the Company's carrying value in an equity method Investee company is reduced to zero, no further losses are recorded in the Company's consolidated financial statements unless the Company guaranteed obligations of the Investee company or has committed additional funding. When the Investee company subsequently reports income, the Company will not record its share of such income until it equals the amount of its share of losses not previously recognized.

Goodwill

The Company evaluates goodwill on an annual basis or more frequently if management believes indicators of impairment exist. Such indicators could include, but are not limited to (1) a significant adverse change in legal factors or in business climate, (2) unanticipated competition, or (3) an adverse action or assessment by a regulator. The Company first assesses qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. If management concludes that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, management conducts a two-step quantitative goodwill impairment test. The first step of the impairment test involves comparing the fair value of the applicable reporting unit with its carrying value. The Company estimates the fair values of its reporting units using a combination of the income, or discounted cash flows, approach and the market approach, which utilizes comparable companies' data. If the carrying amount of a reporting unit exceeds the reporting unit's fair value, management performs the second step of the goodwill impairment test. The second step of the goodwill impairment test involves comparing the implied fair value of the affected reporting unit's goodwill with the carrying value of that goodwill. The amount, by which the carrying value of the goodwill exceeds its implied fair value, if any, is recognized as an impairment loss.

2. ACQUISITIONS**NuZee JAPAN Co., Ltd**

On August 16, 2016, the Company entered a Share Exchange Agreement with NuZee JAPAN Co., Ltd ("NuZee JP") and its shareholders whereby the Company will exchange 1,148,734 shares of its common stock, par value \$0.00001 per share, for seventy percent (70%) of the issued and outstanding common stock of NuZee JP. The Company's issued shares had an acquisition date fair value of \$258,465. The remaining thirty percent (30%) of NuZee JP's issued and outstanding common stock is, and will be at the closing, owned by NuZee JP's current President and Chairman of its Board of Directors. The reason for this acquisition is to extend our market shares as well as obtain more business opportunities in both USA and Japan market. This transaction closed on October 3rd, 2016.

The Company applied the acquisition method to the business combination and valued each of assets acquired and liabilities assumed at fair value as of the acquisition date. The following table shows the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition:

Acquisition of NuZee Japan Co., Ltd.

ASSETS ACQUIRED:	
CASH	\$ 201,676
ACCOUNTS RECEIVABLE	60,770
INVENTORIES	233,845
OTHER CURRENT ASSETS	75,738
PROPERTY PLANT AND EQUIPMENT	16,677
GOODWILL	52,424
TOTAL ASSETS ACQUIRED	641,130
LESS LIABILITIES ASSUMED	
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	(153,440)
LOAN PAYABLE	(140,922)
TOTAL LIABILITIES ASSUMED	(294,362)
LESS NONCONTROLLING INTEREST	(88,303)
NET ASSETS ACQUIRED FROM NUZEE JP ACQUISITION	<u>258,465</u>

Since the date of acquisition, revenues of \$559,340 attributed to NuZee Japan were included in the Company's consolidated net loss for the six months ended March 31, 2017.

In accordance with ASC 805-10-50, the Company is providing the following unaudited pro-forma to present a summary of the combined results of the Company's consolidated operations with all acquisitions as if the acquisitions had been completed as of the beginning of the reporting period. Adjustments were made to eliminate any inter-company transactions in the periods presented. There is no pro forma information for 2017 as NuZee Japan Co., Ltd was acquired at the beginning of the period.

NuZee, Inc.
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three months ended March 31, 2016 <u>(Pro Forma)</u>	Six Months ended March 31, 2016 <u>(Pro Forma)</u>
Revenues	\$ 225,197	\$ 277,911
Cost of sales	<u>147,144</u>	<u>192,924</u>
Gross Profit	78,053	84,987
Operating expenses	<u>481,255</u>	<u>867,570</u>
Loss from operations	(403,202)	(782,583)
Other income	12,139	12,382
Equity in loss of unconsolidated affiliate	-	-
Other expense	<u>(1)</u>	<u>(22,987)</u>
Net loss	(391,064)	(793,188)
Net loss attributable to noncontrolling interest	-	-
Net loss attributable to NuZee, Inc.	<u>\$ (391,064)</u>	<u>\$ (793,188)</u>
Net loss per share, basic and fully diluted	<u>\$ (0.01)</u>	<u>\$ (0.03)</u>
Weighted average of shares outstanding	<u>31,542,965</u>	<u>31,547,947</u>

3. RELATED PARTY TRANSACTIONS

During February 2015, the Company issued a secured convertible promissory note in the sum of \$600,000 to Masateru Higashida, the Company's major shareholder. Interest was calculated at the annual rate of zero percent (0%) for the period until April 2016. During March 2016, the Company and Masateru Higashida decided to extend the repayment date to March 31, 2017 so that the Company has more funds for production and marketing to fulfill customers' requirements, which is in the best interest of the Corporation and its shareholders. The annual rate of repayment is at an interest rate of one percent (1%) for the period until March 31, 2017. This promissory note will convert to 1,176,471 shares of NuZee, Inc common stock at \$0.51 per share if Company is unable to pay back the note by then. During three months ended March 31, 2017, the Company accrued interest of \$5,999.98 relating to this related party note.

On March 31, 2017, Masateru Higashida (Lender, a/k/a the "Seller") deemed it beneficial to engage in a private sale (the "Sale") and to sell the Amended Note to Kenichi Miura (the "Purchaser") upon the terms and conditions of the Convertible Note Purchase Agreement. The Amended Note shall continue to bear interest on the principal amount at the annual interest rate of one percent (1%) per year; and the Amended Note shall continue to be convertible in whole or in part to shares of the Corporation's common stock, at the election of the Lender (now at the election of Purchaser), at a price of \$.51 per share, on or after March 31, 2017;

During March 2016, the Company borrowed the sum of \$100,000 short-term loan from NuZee Co., Ltd to be repaid on or before March 31, 2017 at an interest rate of one percent (1%). During the six months ended March 31, 2017, the Company accrued interest of \$188. The Company paid back \$55,000 of this short-term loan as of September 30, 2016, and \$20,000 of this short-term loan during the six months ended March 31, 2017.

During August 2016, the Company borrowed the sum of \$100,000 short-term loan from Masateru Higashida to be repaid on or before August 31, 2017 at an interest rate of one percent (1%). During March 2017, the Company borrowed the sum of \$44,000 short-term loan from Masateru Higashida to be repaid on or before March 14, 2018 at an interest rate of one percent (1%). During the six months ended March 31, 2017, the Company accrued interest of \$341. The Company paid back \$34,670 as of December 31, 2016 and \$41,000 as of March 31, 2017.

During December 2016, the Company borrowed the sum of \$18,384 short-term loan from NuZee Co., Ltd to be repaid on or before December 14, 2017 at an interest rate of one percent (1%). Between February and March 2017, the Company borrowed the sum of \$ 14,440 short-term loan from NuZee Co., Ltd to be repaid on or before March 23, 2018 at an interest rate of one percent (1%). As of March 31, 2017, Company paid back \$19,331 of this short-term loan. During the six months ended March 31, 2017, the Company accrued interest of \$57.

During February 2017, the Company borrowed the sum of \$4,000 short-term loan from Travis Gorney to be repaid on or before February 14, 2018 at an interest rate of one percent (1%). The Company paid back total principal of \$4,000 on March 31, 2017.

During March 2017, the Company borrowed the sum of \$100,000 short-term loan from Takayuki Nagashima to be repaid on or before June 30, 2017 at an interest rate of one percent (1%).

All convertible promissory note payable and short-term loans are related party transactions since Masateru Higashida is the Company's major shareholder and he holds 100% ownership of NuZee Co., Ltd. Travis Gorney is NuZee, Inc's officer and Takayuki Nagashima is the co-owner of the equity method affiliate. Mr. Higashida, NuZee Co., Ltd, Travis Gorney and Takayuki Nagashima are related parties with the Company.

4. INVESTMENT IN AFFILIATE

The Company has investment in equity method affiliate which has main businesses related to produce, sale, import and export of coffee & beans, tea & tea leaf, healthy foods and drinks. Besides that, they plan to manage café or restaurant, sell packaging machines and provide consulting services.

The following table is a reconciliation of the Company's investment in equity affiliate as presented on the consolidated balance sheet:

INVESTMENT IN AFFILIATE

	2017
Beginning of period	\$ -
Additional investments in unconsolidated affiliate	\$ 50,000
Distributions received	\$ -
Sale of investment in unconsolidated affiliate	\$ -
Equity in net income (loss) of unconsolidated affiliate	\$ (47,892)
End of period	<u>\$ 2,108</u>

5. COMMON STOCK

On October 3rd, 2016, the "Company" exchanged 1,148,734 shares of its common stock, par value \$0.00001 per share, for seventy percent (70%) of the issued and outstanding common stock of NuZee JP.

During October to December 2016, the Company sold 535,000 shares of common stock at \$1.00 per share, for an aggregate purchase price of \$535,000.

During January to March 2017, the Company sold 145,510 shares of common stock at \$1.00 per share, for an aggregate purchase price of \$145,510.

On March 31, 2017, Kenichi Miura exercised his right to convert the Amended Note to shares of the Corporation's common stock (the "Conversion"), at the price of \$.51 per share, in accordance with the terms and conditions of the Convertible Note Purchase Agreement, thus equating to a conversion of \$605,999.98 [i.e., \$600,000 principal, plus \$5,999.98 in accrued interest] to the equivalent 1,188,236 shares of the Corporation's common stock.

6. STOCK OPTIONS

The following table summarizes stock option activity for the six months ended of March 31, 2017:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value
Outstanding at September 30, 2016	573,000	\$ 0.70		
Granted	72,000	0.48		
Exercised	-	-		
Expired	-	-		
Forfeited	-	-		
Outstanding at March 31, 2016	<u>645,000</u>	<u>\$ 0.67</u>	<u>9.2</u>	<u>25,725</u>
Exercisable at March 31, 2016	<u>253,000</u>	<u>\$ 0.46</u>	<u>9.2</u>	<u>25,725</u>

The Company is expensing these stock option awards on a straight-line basis over the requisite service period. The Company recognized stock option expenses of \$12,200 for six months ended March 31, 2017. Unamortized option expense as of March 31, 2017, for all options outstanding amounted to approximately \$40,021. These costs are expected to be recognized over a weighted-average period of 1.9 years for the stock options awards. The Company recognized stock option expenses of \$25,615 for six months ended March 31, 2016.

A summary of the status of the Company's nonvested shares as of March 31, 2017, is presented below:

	Number of Nonvested Shares
Nonvested shares at September 30, 2016	378,000
Granted	72,000
Exercised	-
Expired	-
Vested	<u>(58,000)</u>
Nonvested shares at March 31, 2017	<u><u>392,000</u></u>

7. SUBSEQUENT EVENTS

During April and May 2017, the Company sold 388,271 shares of treasury stock at \$0.51 per share, for an aggregate purchase price of \$198,018.

On April 1, 2017, Eguchi Holdings Co., Ltd., a shareholder of NuZee, Inc., lent NuZee, Inc. \$50,000 short term loan with 1% annual interest rate and all outstanding principal and interest due and payable on June 30, 2017.

On April 1, 2017, Eguchi Steel Co., Ltd., a shareholder of NuZee, Inc., lent NuZee, Inc. \$50,000 short term loan with 1% annual interest rate and all outstanding principal and interest due and payable on June 30, 2017.

During May 2017, Company agrees to change Nagashima Takayuki's \$100,000 short-term loan to a convertible loan and Nagashima Takayuki converted this loan to 196,078 shares of common stock of NuZee, Inc.

During May 2017, the Company paid back \$5,000 short term loan to NuZee Co., Ltd.

During May 2017, the Company paid back total \$13,497 principal and \$65 accrued interest to NuZee Co., Ltd.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following plan of operation provides information which management believes is relevant to an assessment and understanding of our results of operations and financial condition. The discussion should be read along with our financial statements and notes thereto. This section includes a number of forward-looking statements that reflect our current views with respect to future events and financial performance. Forward-looking statements are often identified by words like believe, expect, estimate, anticipate, intend, project and similar expressions, or words which, by their nature, refer to future events. You should not place undue certainty on these forward-looking statements. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our predictions.

Plan of Operations

Short Term Goals (12 Months)

Over the next 3 months, the Company's growth plans include continuing efforts to:

- Leverage our network of potential (and current) customers that we have been introduced to during our extensive trade show campaign. Participating in trade shows and conferences has been a huge success for the company so far. At each tradeshow there are between 2,000 and 10,000 attendees/exhibitors depending on its size – which gives the company ample opportunity to meet, talk and most importantly educate the consumer on the benefits of our product as well as the proper usage and applications. Another benefit of attending trade shows is that there are a lot of the same companies/buyers at each coffee event – The more these buyers see our face and the product, the more likely they are to trust and do business with us. We are able to create relationships through the shows and networking events, many of these relationships have turned into business opportunities.

- Fulfill the current demand of our current customer base and complete transactions with customers that have expressed a strong interest in our company and brands. With recent development of new innovative products, we have good reason to reach back out to our current and new customers to gain more distribution points.

- Maximize the effectiveness of our current distributors by implementing sales and marketing road-map's. Currently, we are working closely with KeHE & are able to meet with hundreds of sales reps and buyers for the grocery channel across the US at Table Top events. KeHE offers a sales and marketing Roadmap, which we are actively participating in. These roadmaps are made to help the vendor maximize and increase their sales by putting promotions and other discounts into place ahead of time. So far we have gained three new accounts in the short few weeks that our New@KeHE promo has launched.

- Work with our chosen brokers to build new relationships and strengthen existing relationships. By working with a broker who has a strong connectivity to retailers, it ensures that a unique and appropriate strategy is developed and executed with speed and precision for our brand. In addition, the broker will be able to guide us in which strategies and tactics will work at each specific retailer, this is vital to the growth of a brand. Additionally, a retailer's strategy and tactics can change over time and knowing this in real time is critical to success.

- Continue to increase the awareness for Coffee Blenders/NuZee brand and products by submitting articles to Coffee Roasters magazines as well as continually submit blogs/content to several social media platforms. Through participating in all of the tradeshows in 2016, we were able to create relationships with journalists and magazine owners who will often post articles and product reviews in their publication for free. With the coffee industry being as large as it is, there are numerous coffee magazines and website out there and even more eyes reading the content produced by trusted sources. In addition, we are actively creating new content for our social media pages.

We have retained and expanded our sales and marketing team who have continuously contributed to our network of US and international channels as such seeding our product and maintaining relationships is a top priority. We have developed working relationships with key online and national distributors who serve the coffee and single-serve pod consumers. We are also expanding our SKU line with cold brew and whole bean, ground coffee & tea products to meet the wants and needs of all consumers. We plan to accelerate our traction by continuing to work with manufacturer representatives with food and beverage experience.

We have entered into several different channels for distribution and are planning to expand into a few more channels in 2017. Our current and forecasted company directed channels include;

Direct – coffeeblenders.com shopping via search and digital marketing
E-commerce affiliates (Amazon Exclusives, Groupon, Jet.com, Bulu box)
Select health and wellness retailers
Key mass/grocery retailers – Kroger, HEB, Safeway, Whole Foods, Lowes, Jewel-Osco, Rouses
Club/Other – Sam's Club
Outdoor retailer locations (such as REI/ Bass Pro Shops)
Co-Packing with other coffee roasters on our pour-over drip cup

If we are unable to receive funding our plans will be dramatically and negatively impacted such that we will prioritize go to market strategies based on reduced operations and available capital.

Long Term Goals (Five Years)

The Company believes that our limited resources may pose a challenge to our expansion goals and therefore anticipates that it may require additional capital in future years to fund expansion. There can be no assurance that our expansion strategy will be accretive to our earnings within a reasonable period of time. However, the Company believes that it can improve its operational efficiencies and reduce the need for new capital by carefully managing the business based on the following economic fundamentals within accretive margin and cost contribution modeling.

Results of Operations

Three months ended March 31, 2017 Compared to Three months ended March 31, 2016

Revenue . For the three months ended March 31, 2017, our realized revenue totaled \$376,327. Compared with the same time period in 2016, our revenue increased more than 7 times. Our realized total revenues include \$255,312 from NuZee Japan, which is a subsidiary we acquired in October 2016.

Our quarterly revenue during three month ended March 31, 2017 increase from \$50,954 same quarter last year to \$376,327 this quarter by selling of our products to various retailers, wholesalers and distributors.

Gross Profit . As of March 31, 2017, we earned a total gross profit of \$50,735 from sales of our products, which includes \$32,545 from NuZee Japan. The gross profit earned during same period of 2016 was \$20,678. That is almost triple times increase within one year. The margin rate went down from 41% first quarter last year to 13% first quarter this year. This decrease was primarily caused by increasing of our other overhead cost which is a part of cost of goods sold.

Expenses . For the three months ended March 31, 2017, our Company's expenses totaled \$413,874. Of those expenses, \$73,172 were from NuZee Japan, which accounts for 18% of total expenses. Expenses primarily came from outside professional services, cost of employees and sales & marketing expenses. We incurred \$129,325 in expenses for professional services which is mainly associated with legal and accounting services as well as other related costs associated with public company operation. There were total \$189,761 payroll related expenses accrued during three months ended March 31, 2017, which increased from \$81,872 the same period last year. This increase was primarily caused by increasing scale of company. Among the \$64,557 sales and marketing expenses, two-thirds came from advertising of our products with new customers as well as attending tradeshows for exploring more business opportunities.

Net Loss . For the three months ended March 31, 2017, we generated net losses of \$385,292. This loss was attributed to \$413,874 in operating expenses. Among them, NuZee Japan generated net losses of \$28,086 and operating expenses of \$ 73,172. Compared with quarter ended December 31, 2016, total net loss increased \$38,918 since the company expensed more money on sales & marketing our products. Compared with same period ended March 31, 2016, the overall net loss increased by \$47,353 and operating expense increased by \$54,409. Most of this increase is caused by the new NuZee Japan subsidiary as well as marketing products costs.

Six months ended March 31, 2017 Compared to Six months ended March 31, 2016

Revenue . For the six months ended March 31, 2017, our realized revenue totaled \$953,834. Compared with the same time period in 2016, our revenue increased almost 10 times. Our realized total revenues include \$559,340 from NuZee Japan.

Our revenue rose from \$95,414 six months ended March 31, 2016 to \$953,834 this quarter by selling of our products to existing and new retailers, wholesalers and distributors. This significant increase for 6 months' period between two years were mainly contributed by the company's proper marketing strategies. As parent company in US, NuZee,Inc's customers are mostly famous big wholesalers. In order to expanded market, we also utilized online stores as well as Amazon platform. Besides, we attracted customers who interested in co-packing business by using our technology advantage. Regard to the subsidiary company in Japan, NuZee Japan focus on various distribution channels based on the characteristic of Asian market, which include but not limit to post office and hotels.

Gross Profit. As of six months ended March 31, 2017, we earned a total gross profit of \$211,374 from sales of our products, which includes \$121,429 from NuZee Japan. The gross profit earned during same period of 2016 was \$36,074. There are around 6 times increase within one year. The margin rate went down from 38% six months ended March 31, 2016 to 22% six month ended March 31, 2017. This decrease was primarily caused by reclassification of our other overhead cost which is a part of cost of goods sold since October 2016.

Expenses . For the six months ended March 31, 2017, our Company's expenses totaled \$922,208. Of those expenses, \$200,013 were expenses from NuZee Japan. Expenses primarily came from sales and marketing, outside professional services, cost of employees and office expenses. We incurred \$114,306 in expenses for marketing and sales to expend our brand awareness both in US and Asian market.

There were \$223,446 professional services during this time period which is mainly associated with legal and accounting services and an acquisition audit service fee as well as other related costs associated with public company operation. Among the totaled \$93,728 office expenses, \$72,289 was cost of delivery and postage for shipping out products and samples to customers during the six months' period. Total expenses of six months ended March 31, 2016 was \$681,038, which includes \$66,193 marketing and sales related expenses, \$182,537 professional service expense and \$45,239 office expenses.

Net Loss : We had a net loss in the amount of \$731,666 during the six months ended March 31, 2017, or a per share loss of \$0.02, based on 32,737,443 weighted-average shares outstanding. This loss was attributed to \$922,208 in operating expenses. Among them, NuZee Japan generated net losses of \$49,492 and operating expenses of \$200,013. This compare to the net loss in the amount of \$647,538 during the six months ended March 31, 2016, or a per share loss of \$0.02, based on 30,399,213 weighted-average shares outstanding,

Liquidity and Capital Resources

As of September 30, 2016, we had a cash balance of \$40,613 and \$152,040 as of March 31, 2017, this increase was primarily from the acquisition of NuZee Japan. Compared with last quarter, the cash amount decreased by 7% which contributed to packaging material purchase.

By end of March 31, 2017, NuZee Japan had \$135,820 cash, which accounts for 89% of consolidated cash balance. Account receivable increased 4 times as well as inventories doubled since September 30, 2016 also mainly because of this acquisition. Compared with last quarter, there are slightly increase in account receivable and 12% decrease in Inventory.

During second quarter of 2017, we had total current liabilities of \$0.604 million and \$0.945 million at September 30, 2016. As of March 31, 2017, Masateru Higashida, CEO of NuZee,Inc, sold the \$600,000 convertible note to Miura Kenichi, shareholder of NuZee,Inc. And Mr. Miura convert the note (principle and accrued interest) to 1,188,236 NuZee,Inc common stocks at the same day. As a result, convertible note became \$0, which leads to the decrease of current liabilities. The other parts of current liabilities increased since we received new short-term loans this quarter as well as more account payables during this quarter.

Our current ratio increased from 39% in September 30, 2016 to 149% as of March 31, 2017, due to current assets increasing significantly and current liabilities decrease due to sell and convert of the convertible notes.

We had an approximate \$167,544 non-current liability from NuZee Japan's acquisition, loans from Tono Sinyon Bank and Nihon Seisaku Kouko to support daily operation as well as pay back accounts payable of NuZee Japan.

Our auditor has indicated that there is substantial doubt about our ability to continue as a result of our lack of significant revenues, and if we are unable to generate significant revenue or secure financing, we may be required to cease or curtail our operations. Our financial statements do not include adjustments that might result from the outcome of this uncertainty.

Our current cash balance as of March 31, 2017, is not sufficient to fund our operations for the next twelve months. Therefore, the Company intends to engage in additional financing through the sale of equity securities.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

Item 4. Controls and Procedures

As of the end of the period covered by this Report, the Company's President, and principal financial officer (the "Certifying Officer"), evaluated the effectiveness of the Company's "disclosure controls and procedures," as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934. Based on that evaluation, the officer concluded that, as of the date of the evaluation, the Company's disclosure controls and procedures were not effective to provide reasonable assurance that the information required to be disclosed in the Company's periodic filings under the Securities Exchange Act of 1934 is accumulated and communicated to management to allow timely decisions regarding required disclosure.

The Certifying Officer has also indicated that there were no changes in internal controls over financial reporting during the Company's last fiscal quarter, and no significant changes in our internal controls or other factors that could significantly affect such controls subsequent to the date of their evaluation and there were no corrective actions with regard to significant deficiencies and material weaknesses.

Our management, including the Certifying Officer, does not expect that our disclosure controls or our internal controls will prevent all errors and fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. In addition, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the control. The design of any systems of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Because of these inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART II.

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

There have been no changes to our risk factors from those disclosed in our Form 10-K filed on December 29, 2016

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

There were no unregistered Sales of Equity Securities during the quarter ending March 31, 2017

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

EXHIBIT NO.	DESCRIPTION
31.1*	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101**	Interactive Data Files
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith

** Furnished herewith. Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of any registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, and otherwise are not subject to liability under those sections.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: May 17, 2017

NUZEE, INC.

By: /s/ Masateru Higashida
Masateru Higashida, Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer)

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Masateru Higashida, certify that:

1. I have reviewed this report on Form 10-Q of NuZee, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 17, 2017

NUZEE, INC.

By: /s/ Masateru Higashida
Masateru Higashida, President, Chief Executive Officer
(Principal Executive Officer), Chief Financial Officer
(Principal Financial Officer), Secretary, Treasurer and
Director (Sole Officer and Director)

**WRITTEN STATEMENT
PURSUANT TO
18 U.S.C. SECTION 1350**

In connection with the Quarterly Report of NuZee, Inc. and its subsidiaries (the "Company") on Form 10-Q for the period ended March 31, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the Company's Chief Executive Officer, Masateru Higashida, certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13a-14(b) or 15d-14(b) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 17th, 2017

NUZEE, INC.

By: /s/ Masateru Higashida
Masateru Higashida, President, Chief Executive Officer
(Principal Executive Officer), Chief Financial Officer
(Principal Financial Officer), Secretary, Treasurer and
Director (Sole Officer and Director)