10-Q 1 aftm_10q-17279.htm AFTERMASTER, INC. 10-Q

U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 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 number 001-10196

AFTERMASTER, INC.

(Exact name of Registrant as specified in its charter)

DELAWARE	**23-2517953**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

6671 Sunset Blvd., Suite 1520
Hollywood, CA 90028

(Address of principal executive offices) (Zip Code)

(310) 657-4886

(Registrant's telephone number, including area code)

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 during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).

☒ Yes ☐ No (Not required)

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☒
		Emerging Growth 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 November 16, 2017, the number of shares outstanding of Common Stock, $0.001 par value, was 123,249,082 shares.

AFTERMASTER, INC.

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PART I - FINANCIAL INFORMATION

PART II - OTHER INFORMATION

AFTERMASTER, INC.

Consolidated Balance Sheets

		September 30, 2017 (Unaudited)		June 30, 2017
ASSETS				
Current Assets				
Cash	$	86,634	$	250,728
Accounts receivable		552,877		97,103
Inventory, net		206,548		104,891
Available for sale securities		47,940		123,600
Prepaid expenses		462,720		507,254
Total Current Assets		1,356,719		1,083,576
Property and equipment, net		235,252		266,040
Intangible assets, net		97,758		102,243
Deposits		33,363		33,363
Prepaid expenses, net of current		-		9,104
Total Assets	$	1,723,092	$	1,494,326
LIABILITIES AND STOCKHOLDERS' DEFICIT				
Current Liabilities				
Accounts payable and other accrued expenses	$	518,642	$	459,975
Accrued interest		351,336		185,509
Deferred revenue		266,692		270,623
Accrued consulting services - related party		33,449		22,064
Lease payable		-		1,937
Derivative Liability		2,932,616		2,145,065
Notes payable - related party		618,000		610,000
Notes payable, net of discount $29,744 and $0, respectively		195,744		40,488
Convertible notes payable - related party, net of discount of $0 and $3,818, respectively		3,955,000		3,951,182
Convertible notes payable, net of discount of $622,677 and $549,737, respectively		2,470,073		2,267,845
Total Current Liabilities		11,341,552		9,954,688
Total Liabilities		11,341,552		9,954,688
Stockholders' Deficit				
Convertible preferred stock, Series A; $0.001 par value; 100,000 shares authorized, 15,500 shares issued and outstanding		16		16
Convertible preferred stock, Series A-1; $0.001 par value; 3,000,000 shares authorized 2,585,000 and 2,185,000 shares issued and outstanding, respectively		2,585		2,585
Convertible preferred stock, Series B; $0.001 par value; 200,000 shares authorized, 3,500 shares issued and outstanding		3		3
Convertible preferred stock, Series C; $0.001 par value; 1,000,000 shares authorized, 13,404 shares issued and outstanding		13		13
Convertible preferred stock, Series D; $0.001 par value; 375,000 shares authorized, 130,000 shares issued and outstanding		130		130
Convertible preferred stock, Series E; $0.001 par value; 1,000,000 shares authorized, 275,000 shares issued and outstanding		275		275

Convertible preferred stock, Series P; $0.001 par value; 600,000 shares authorized, 86,640 shares issued and outstanding	87	87
Convertible preferred stock, Series S; $0.001 par value; 50,000 shares authorized, -0- shares issued and outstanding	-	-
Common stock, authorized 250,000,000 shares, par value $0.001, 122,674,082 and 118,486,728 shares issued and outstanding, respectively	122,681	118,493
Additional paid In capital	64,256,052	63,627,987
Accumulated other comprehensive income	17,940	93,600
Accumulated Deficit	(74,018,242)	(72,303,551)
Total Stockholders' Deficit	(9,618,460)	(8,460,362)
Total Liabilities and Stockholders' Deficit	$ 1,723,092	$ 1,494,326

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

AFTERMASTER, INC.
Consolidated Statements of Operations and Comprehensive Loss
(Unaudited)

	For the Three Months Ended September 30, 2017	2016
REVENUES		
AfterMaster Revenues	$ 120,715	$ 54,486
AfterMaster Product Revenues	494,681	-
Total Revenues	615,396	54,486
COSTS AND EXPENSES		
Cost of Revenues (Exclusive of Depreciation and Amortization)	156,328	162,095
Depreciation and Amortization Expense	38,969	40,539
Research and Development	2,194	66,995
Advertising and Promotion Expense	2,016	15,079
Legal and Professional Expense	14,190	24,266
Non-Cash Consulting Expense	76,438	871,971
General and Administrative Expenses	786,990	712,836
Total Costs and Expenses	1,077,125	1,893,781
Loss from Operations	(461,729)	(1,839,295)
Other Expense		
Interest Expense	(875,313)	(369,073)
Derivative Expense	(133,652)	-
Change in Fair Value of Derivative	(209,039)	(111)
Loss on Extinguishment of Debt	(34,958)	-
Total Other Expense	(1,252,962)	(369,184)
Loss Before Income Taxes	(1,714,691)	(2,208,479)
Income Tax Expense	-	-
NET LOSS	$ (1,714,691)	$ (2,208,479)
Preferred Stock Accretion and Dividends	(56,367)	(42,238)
NET LOSS AVAILABLE TO COMMON SHAREHOLDERS	$ (1,771,058)	$ (2,250,717)
Basic and diluted Loss Per Share of Common Stock	$ (0.01)	$ (0.02)
Weighted Average Number of Shares Outstanding	119,459,942	102,516,086
Other Comprehensive Income, net of tax		
NET LOSS AVAILABLE TO COMMON SHAREHOLDERS	(1,771,058)	(2,250,717)
Unrealized gain on AFS Securities	(75,660)	23,400
COMPREHENSIVE LOSS	$ (1,846,718)	$ (2,227,317)

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

AFTERMASTER, INC.
Consolidated Statements of Cash Flows
(Unaudited)

	For the Three Months Ended September 30, 2017	For the Three Months Ended September 30, 2016
OPERATING ACTIVITIES		
Net Loss	$ (1,714,691)	$ (2,208,479)
Adjustments to reconcile net loss to cash from operating activities:		
Depreciation and amortization	38,969	40,539
Share-based compensation - Common Stock	100,589	106,014
Common stock issued for services and rent	-	3,838
Common stock issued to extend the maturity dates on debt	16,897	60,000
Amortization of debt discount and issuance costs	418,126	92,241
Loss on extinguishment of debt	34,958	-
Derivative expense	133,652	-
Gain remeasurement of derivative	209,039	111
Changes in Operating Assets and Liabilities:		
Accounts receivables	(455,774)	(4,606)
Inventory	(101,657)	(41,333)
Other assets	76,438	745,431
Accounts payable and accrued expenses	64,084	124,414
Accrued interest	443,455	216,880
Deferred revenue	(3,931)	14,371
Accrued consulting services - related party	11,385	(697)
Net Cash Used in Operating Activities	(728,461)	(851,276)
INVESTING ACTIVITIES		
Purchase of property and equipment	(546)	(53,353)
Purchase of intangible assets	(3,150)	(23,000)
Net Cash Used in Investing Activities	(3,696)	(76,353)
FINANCING ACTIVITIES		
Common Stock issued for cash	168,500	-
A-1 Preferred Stock issued for cash	-	346,000
Proceeds from notes payable	175,000	-
Proceeds from notes payable - related party	18,000	-
Repayments of notes payable - related party	(10,000)	-
Proceeds from convertible notes payable	438,500	1,160,000
Repayments of convertible notes payable	(220,000)	-
Lease Payable	(1,937)	(984)
Net Cash Provided by Financing Activities	568,063	1,505,016
NET CHANGE IN CASH	(164,094)	577,387
CASH AT BEGINNING OF PERIOD	250,728	394,325
CASH AT END OF PERIOD	$ 86,634	$ 971,712
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
CASH PAID FOR:		
Interest	$ -	$ -

Taxes	$	-	$	-
NON CASH FINANCING ACTIVITIES:				
Beneficial conversion feature	$	30,000	$	30,519
Conversion of notes and Interest into common stock	$	34,000	$	334,804
Conversion of preferred stock for common stock	$	-	$	200
Conversion of Derivative Liability	$	31,895	$	56,791
MTM on AFS securities	$	75,660	$	23,400
Common stock issued with convertible debt	$	15,963	$	33,349
Common stock issued for prepaid expenses	$	22,800	$	118,250
Derivative liability	$	435,778	$	56,680
Original Issue Discount	$	35,250	$	-
Conversion of accrued interest into common stock	$	217,628	$	-

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

AFTERMASTER, INC.
Notes to Consolidated Financial Statements
September 30, 2017 and June 30, 2017

NOTE 1 – CONDENSED FINANCIAL STATEMENTS

The accompanying financial statements have been prepared by the Company without audit. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations, and cash flows at September 30, 2017, and for all periods presented herein, have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. It is suggested that these condensed financial statements be read in conjunction with the financial statements and notes thereto included in the Company's June 30, 2017 audited financial statements. The results of operations for the periods ended September 30, 2017 and 2016 are not necessarily indicative of the operating results for the full years.

NOTE 2 – GOING CONCERN

The Company's financial statements are prepared using generally accepted accounting principles in the United States of America applicable to a going concern which contemplates the realization of assets and liquidation of liabilities in the normal course of business. The Company has an accumulated deficit of $74,018,242, negative working capital of $9,984,833, and currently has revenues which are insufficient to cover its operating costs, which raises substantial doubt about its ability to continue as a going concern. The Company has not yet established an ongoing source of revenues sufficient to cover its operating costs and allow it to continue as a going concern.

The future of the Company as an operating business will depend on its ability to (1) obtain sufficient capital contributions and/or financing as may be required to sustain its operations and (2) to achieve adequate revenues from its ProMaster and AfterMaster businesses. Management's plan to address these issues includes, (a) continued exercise of tight cost controls to conserve cash, (b) obtaining additional financing, (c) more widely commercializing the AfterMaster and ProMaster products, and (d) identifying and executing on additional revenue generating opportunities.

The ability of the Company to continue as a going concern is dependent upon its ability to successfully accomplish the plans described in the preceding paragraph and eventually secure other sources of financing and attain profitable operations. The accompanying financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern. If the Company is unable to obtain adequate capital, it could be forced to cease operations.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Significant estimates are made in relation to the allowance for doubtful accounts and the fair value of certain financial instruments.

Principles of Consolidation
The consolidated financial statements include the accounts of AfterMaster, Inc. and its subsidiaries. All significant inter-Company accounts and transactions have been eliminated.

Investments
Our available for securities are considered Level 1. Realized gains and losses on these securities are included in “Other income (expense) – net” in the consolidated statements of operations using the specific identification method. Unrealized gains and losses, on available-for-sale securities are recorded in accumulated other comprehensive income (accumulated OCI). Unrealized losses that are considered other than temporary are recorded in other income (expense) – net, with the corresponding reduction to the carrying basis of the investment.

Our short-term investments are recorded at amortized cost, and the respective carrying amounts approximate fair values. Our available for securities maturing within one year are recorded in “Other current assets,” on the balance sheets.

Accounts Receivables

Accounts receivables are stated at amounts management expects to collect. An allowance for doubtful accounts is provided for uncollectible receivables based upon management's evaluation of outstanding accounts receivable at each reporting period considering historical experience and customer credit quality and delinquency status. Delinquency status is determined by contractual terms. Bad debts are written off against the allowance when identified.

AFTERMASTER, INC.
Notes to Consolidated Financial Statements
September 30, 2017 and June 30, 2017

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *continued*

Fair Value Instruments
Cash is the Company's only financial asset or liability required to be recognized at fair value and is measured using quoted prices for active markets for identical assets (Level 1 fair value hierarchy). The carrying amounts reported in the balance sheets for notes receivable and accounts payable and accrued expenses approximate their fair market value based on the short-term maturity of these instruments.

Market prices are not available for the Company's loans due to related parties or its other notes payable, nor are market prices of similar loans available. The Company determined that the fair value of the notes payable based on its amortized cost basis due to the short-term nature and current borrowing terms available to the Company for these instruments.

Derivative Liabilities
The Company has financial instruments that are considered derivatives or contain embedded features subject to derivative accounting. Embedded derivatives are valued separately from the host instrument and are recognized as derivative liabilities in the Company's balance sheet. The Company measures these instruments at their estimated fair value and recognizes changes in their estimated fair value in results of operations during the period of change. The Company has a sequencing policy regarding share settlement wherein instruments with the earliest issuance date would be settled first. The sequencing policy also considers contingently issuable additional shares, such as those issuable upon a stock split, to have an issuance date to coincide with the event giving rise to the additional shares.

Using this sequencing policy, the Company used this sequencing policy, all instruments convertible into common stock, including warrants and the conversion feature of notes payable, issued subsequent to July 5, 2016 until the note was converted on the same day were derivative liabilities. The Company again used this sequencing policy, all instruments convertible into common stock, including warrants and the conversion feature of notes payable, issued subsequent to August 19, 2016 until the note was converted on August 22, 2016 were derivative liabilities.

The Company entered into multiple amendments to a note payable to extend the maturity date (the Amendments). The Company agreed to additional $30,000 extension fees which were converted at a percentage discount (variable) exercise price which causes the number to be converted into a number of common shares that "approach infinity", as the underlying stock price could approach zero. This creates a situation where the Company no longer has shares enough available to "cover" all potential equity issuance obligations during the period of issuance until conversion.

On February 3, 2017, the company entered into a note payable with an unrelated party at a percentage discount (variable) exercise price which causes the number to be converted into a number of common shares that "approach infinity", as the underlying stock price could approach zero. Accordingly, all convertible instruments issued after February 3, 2017 are considered derivatives according to the Company's sequencing policy.

The Company values these convertible notes payable using the multinomial lattice method that values the derivative liability within the notes based on a probability weighted discounted cash flow model. The resulting liability is valued at each reporting date and the change in the liability is reflected as change in derivative liability in the statement of operations.

Income Taxes
There is no income tax provision for the three months ended September 30, 2017 and 2016 due to net operating losses for which there is no benefit currently available.

At September 30, 2017, the Company had deferred tax assets associated with state and federal net operating losses. The Company has recorded a corresponding full valuation allowance as it is more likely than not that some portion of all of the deferred tax assets will not be realized.

Revenue Recognition
The Company applies the provisions of FASB ASC 605, *Revenue Recognition in Financial Statements*, which provides guidance on the recognition, presentation and disclosure of revenue in financial statements. ASC 605 outlines the basic criteria that must be met to recognize revenue and provides guidance for disclosure related to revenue recognition policies. In general, the Company recognizes revenue related to goods and services provided when (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or

services have been rendered, (iii) the fee is fixed or determinable, and (iv) collectability is reasonably assured.

AFTERMASTER, INC.
Notes to Consolidated Financial Statements
September 30, 2017 and June 30, 2017

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *continued*

The Company's revenues are generated from AfterMaster products and services, AfterMaster Pro, sessions revenue, and remastering. Revenues related to AfterMaster Pro sells through consumer retail distribution channels and through our website. For sales through consumer retail distribution channels, revenue recognition occurs when title and risk of loss have transferred to the customer which usually occurs upon shipment to the customers. We established allowances for expected product returns and these allowances are recorded as a direct reduction to revenue. Return allowances are based on our historical experience. Revenues related to sessions and remastering are recognized when the event occured.

Cost of Revenues
The Company's cost of revenues includes employee costs, and other nominal amounts. Costs associated with products are recognized at the time of the sale and when the inventory is shipped. Costs incurred to provide services are recognized as cost of sales as incurred. Depreciation is not included within cost of revenues.

Loss Per Share
Basic loss per Common Share is computed by dividing losses attributable to Common shareholders by the weighted-average number of shares of Common Stock outstanding during the period. The losses attributable to Common shareholders was increased for accrued and deemed dividends on Preferred Stock during the three months ended September 30, 2017 and 2016 of $56,367 and $42,238, respectively.

Diluted earnings per Common Share is computed by dividing net loss attributable to Common shareholders by the weighted-average number of Shares of Common Stock outstanding during the period increased to include the number of additional Shares of Common Stock that would have been outstanding if the potentially dilutive securities had been issued. Potentially dilutive securities include outstanding convertible Preferred Stock, stock options, warrants, and convertible debt. The dilutive effect of potentially dilutive securities is reflected in diluted earnings per share by application of the treasury stock method. Under the treasury stock method, an increase in the fair market value of the Company's Common Stock can result in a greater dilutive effect from potentially dilutive securities.

For the three months ended September 30, 2017 and 2016, all of the Company's potentially dilutive securities (warrants, options, convertible preferred stock, and convertible debt) were excluded from the computation of diluted earnings per share as they were anti-dilutive. The total number of potentially dilutive Common Shares that were excluded were 37,364,624 and 27,689,839 at September 30, 2017 and 2016, respectively.

Recent Accounting Pronouncements
Management has considered all recent accounting pronouncements issued since the last audit of our consolidated financial statements. The Company's management believes that these recent pronouncements will not have a material effect on the Company's consolidated financial statements.

NOTE 4 – SECURITIES AVAILABLE-FOR-SALE

On November 10, 2014, the Company received 600,000 shares of b Booth stock as part of an Asset License agreement with b Booth. The following table presents the amortized cost, gross unrealized gains, gross unrealized losses, and fair market value of available-for-sale equity securities, nearly all of which are attributable to the Company's investment in b Booth stock, as follows:

	September 30, 2017					
	Amortized cost	**Gross unrealized gains**	**Gross unrealized losses**	**Gross realized gains**	**Gross realized losses**	**Fair value**
Equity securities	$ 123,600	$ (75,660)	$ -	$ -	$ -	$ 47,940

June 30, 2017

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Gross realized gains	Gross realized losses	Fair value
Equity securities	$ 63,600	$ 60,000	$ -	$ -	$ -	$ 123,600

AFTERMASTER, INC.
Notes to Consolidated Financial Statements
September 30, 2017 and June 30, 2017

NOTE 5 – NOTES PAYABLE

Convertible Notes Payable
In accounting for its convertible notes payable, proceeds from the sale of a convertible debt instrument with Common Stock purchase warrants are allocated to the two elements based on the relative fair values of the debt instrument without the warrants and of the warrants themselves at time of issuance. The portions of the proceeds allocated to the warrants are accounted for as paid-in capital with an offset to debt discount. The remainder of the proceeds are allocated to the debt instrument portion of the transaction as prescribed by ASC 470-25-20. The Company then calculates the effective conversion price of the note based on the relative fair value allocated to the debt instrument to determine the fair value of any beneficial conversion feature ("BCF") associated with the convertible note in accordance with ASC 470-20-30. The BCF is recorded to additional paid-in capital with an offset to debt discount. Both the debt discount related to the issuance of warrants and related to a BCF is amortized over the life of the note.

Convertible Notes Payable – Related Parties
Convertible notes payable due to related parties consisted of the following as of September 30, 2017 and June 30, 2017, respectively:

Convertible Notes Payable – Related Parties

	September 30, 2017	June 30, 2017
Various term notes with total face value of $3,925,000 issued from February 2010 to April 2013, interest rates range from 10% to 15%, net of unamortized discount of $0 as of September 30, 2017 and June 30, 2017.	$ 3,925,000	$ 3,925,000
$30,000 face value, issued in August 2016, interest rate of 0%, matures January 2017, a gain on extinguishment of debt was recorded totaling $3,818 net unamortized discount of $0 as of September 30, 2017 and June 30, 2017.	30,000	26,182
Total convertible notes payable – related parties	3,955,000	3,951,182
Less current portion	3,955,000	3,951,182
Convertible notes payable – related parties, long-term	$ -	$ -

Convertible Notes Payable - Non-Related Parties
Convertible notes payable due to non-related parties consisted of the following as of September 30, 2017 and June 30, 2017, respectively:

Convertible Notes Payable - Non-Related Parties

	September 30, 2017	June 30, 2017
$7,000 face value, issued in July 2014, interest rate of 6%, matures October 2017, net unamortized discount of $0 as of September 30, 2017 and June 30, 2017, respectively.	$ 7,000	$ 7,000
$600,000 face value, issued in November 2015, interest rate of 0%, an OID of $190,000, matures November 2017, net unamortized discount of $0 of J September 30, 2017 and June 30, 2017, respectively, of which $260,000 has been paid.	430,000	430,000

AFTERMASTER, INC.
Notes to Consolidated Financial Statements
September 30, 2017 and June 30, 2017

NOTE 5 – NOTES PAYABLE - *continued*

$100,000 face value, issued in February 2016, interest rate of 10%, matures March 2018, net unamortized discount of $0 as of September 30, 2017 and June 30, 2017, respectively.	100,000	100,000
$25,000 face value, issued in February 2016, interest rate of 10%, matures February 2017, net unamortized discount of $0 as of September 30, 2017 and June 30, 2017, respectively.	25,000	25,000
$100,000 face value, issued in March 2016, interest rate of 10%, matures June2017, net unamortized discount of $0 as of September 30, 2017 and June 30, 2017, respectively.	100,000	100,000
$10,000 face value, issued in March 2016, interest rate of 10%, matures March 2018, net unamortized discount $0 of September 30, 2017 and June 30, 2017, respectively.	10,000	10,000
$50,000 face value, issued in July 2016, interest rate of 0%, matures October 2017, net unamortized discount of $0 of September 30, 2017 and June 30, 2017, respectively.	50,000	50,000
$50,000 face value, issued in August 2016, interest rate of 0%, matures September which was amended to January 2018, net unamortized discount of $44,308 and $5,418 of September 30, 2017 and June 30, 2017, respectively.	5,692	44,582
$1,000,000 face value, issued in September 2016, interest rate of 10%, matures June 2017, net unamortized discount of $0 as of September 30, 2017 and June 30, 2017, respectively.	1,000,000	1,000,000
$149,000 face value, issued in February 2017, interest rate of 10%, matures November 2017, net amortized discount of $0 and $59,740 as of September 30, 2017 and June 30, 2017, respectively, of which $20,000 has been paid.	129,000	89,260
$224,000 face value, issued in February 2017, interest rate of 10%, matures November 2017, net amortized discount of $32,452 and $119,795 as of September 30, 2017 and June 30, 2017, respectively, of which $15,000 has been paid.	176,548	104,205
$258,000 face value, issued in February 2017, interest rate of 12%, matures August 2017, net amortized discount of $0 and $48,464 as of September 30, 2017 and June 30, 2017, respectively, of which $185,000 has been paid.	133,000	209,536
$55,000 face value, issued in June 2017, interest rate of 10%, matures January 2018, net amortized discount of $26,986 and $50,631 as of September 30, 2017 and June 30, 2017, respectively.	28,014	4,369
$100,000 face value, issued in June 2017, interest rate of 7%, matures June 2018, net amortized discount of $39,130 and $52,317 as of September 30, 2017 and June 30, 2017, respectively.	60,870	47,683
$265,000 face value, issued in May 2017, interest rate of 10%, matures February 2018, net amortized discount of $132,028 and $218,790 as of September 30, 2017 and June 30, 2017, respectively.	132,972	46,210
$78,000 face value, issued in July 2017, interest rate of 12%, matures May 2018, net amortized discount of $61,187 as of September 30, 2017.	16,813	-
$50,000 face value, issued in August 2017, interest rate of 0%, matures October 2017, net amortized discount of $0 as of September 30, 2017, of which $34,000 has been converted.	16,000	-
$60,500 face value, issued in August 2017, interest rate of 12%, matures August 2018, net amortized discount of $50,721 as of September 30, 2017.	9,779	-
$10,000 face value, issued in August 2017, interest rate of 0%, matures August 2018, net amortized discount of $8,204 as of September 30, 2017.	1,796	-

AFTERMASTER, INC.
Notes to Consolidated Financial Statements
September 30, 2017 and June 30, 2017

NOTE 5 – NOTES PAYABLE - *continued*

$82,250 face value, issued in August 2017, interest rate of 12%, matures May 2018, net amortized discount of $68,542 as of September 30, 2017.	13,708	-
$53,000 face value, issued in August 2017, interest rate of 12%, matures June 2018, net amortized discount of $45,155 as of September 30, 2017.	7,845	-
$65,000 face value, issued in September 2017, interest rate of 12%, matures March 2018, net amortized discount of $57,099as of September 30, 2017.	7,901	-
$10,000 face value, issued in September 2017, interest rate of 10%, matures September 2018, net amortized discount of $9,479 as of September 30, 2017.	521	-
$5,000 face value, issued in September 2017, interest rate of 0%, matures March 2018, net amortized discount of $4,752 as of September 30, 2017.	247	-
$50,000 face value, issued in September 2017, interest rate of 0%, matures November 2017, net amortized discount of $42,633 as of September 30, 2017.	7,367	-
Total convertible notes payable – non-related parties	2,470,073	2,267,845
Less current portion	2,470,073	2,267,845
Convertible notes payable – non-related parties, long-term	$ -	$ -

On November 20, 2015, the Company issued a convertible note to an unrelated company for $600,000 that matures on May 20, 2016. The company paid $200,000 in principle balance leaving a remain balance of $430,000 including the extension fees and is not convertible unless the borrower defaults under the amendment agreement dated January 1, 2017. The note bears 0% interest and had an original issue discount (OID) of $100,000. This note is not convertible unless there is a default event, so no BCF was valued. The Company extended the maturity date for the sixth time by issuing additional $30,000 convertible notes on January 1, 2017 to February 15, 2017 and per the terms of the note there are no derivatives until it becomes convertible on the original note, however the $30,000 addition for the extension is to be considered derivatives. The Lender released a clarification of amendments to convertible promissory notes that explained the $30,000 extension fees are the only portion that is to be considered as convertible and converts within 2 days of issuance. The intent of the amendment agreements were to insure the original note dated November 20, 2015 in the amount of $600,000. Due to the conversion into 145,929 shares of common stock on January 1, 2017 (extension date) and January 3, 2017 (conversion date) sequencing is required on other instruments. Because the terms do not dictate a maximum numbers of convertible shares, the ability to settle these obligations with shares would be unavailable causing these obligations to potentially be settled in cash. This condition creates a derivative liability Under ASC 815-40. The Company has a sequencing policy regarding share settlement wherein instruments with the earliest issuance date would be settled first. The sequencing policy also considers contingently issuable additional shares, such as those issuable upon a stock split, to have an issuance date to coincide with the event giving rise to the additional shares. During the extension and conversion day period no additional convertible instruments were issued, therefore on the extension was considered in the derivative calculation. The Company extended the maturity date for the seventh time by increasing the principal balance by $30,000 on February 27, 2017 to May 6, 2017. The Company evaluated amendment under ASC 470-50, "*Debt - Modification and Extinguishment*", and concluded that the extension did not result in significant and consequential changes to the economic substance of the debt and thus resulted in a modification of the debt and not extinguishment of the debt. The Company extended the maturity date for the eighth time by increasing the principal balance by $30,000 on May 9, 2017 to June 20, 2017. The Company evaluated amendment under ASC 470-50, "*Debt - Modification and Extinguishment*", and concluded that the extension did not result in significant and consequential changes to the economic substance of the debt and thus resulted in a modification of the debt and not extinguishment of the debt. The Company extended the maturity date for the ninth time by increasing the principal balance by $30,000 on June 20, 2017 to August 4, 2017. The Company evaluated amendment under ASC 470-50, "*Debt - Modification and Extinguishment*", and concluded that the extension did not result in significant and consequential changes to the economic substance of the debt and thus resulted in a modification of the debt and not extinguishment of the debt. The Company extended the maturity date for the tenth time by paying additional consideration of $30,000 on August 3, 2017 to September 18, 2017. The Company evaluated amendment under ASC 470-50, "*Debt - Modification and Extinguishment*", and concluded that the extension did not result in significant and consequential changes to the economic substance of the debt and thus resulted in a modification of the debt and not extinguishment of the debt. The Company extended the maturity date for the tenth time by paying additional consideration of $30,000 on September 18, 2017 to November 2, 2017. The Company evaluated amendment under ASC 470-50, "*Debt - Modification and Extinguishment*", and concluded that the extension did not result in significant and consequential changes to the economic substance of the debt and thus resulted in a modification of the debt and not extinguishment of the debt.

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AFTERMASTER, INC.
Notes to Consolidated Financial Statements
September 30, 2017 and June 30, 2017

NOTE 5 – NOTES PAYABLE - *continued*

On February 15, 2016, the Company issued a convertible note to an unrelated individual for $25,000 that matures on February 15, 2017. The note was amended subsequently in September 28, 2017 to extend the maturity date to October 15, 2017. The Company evaluated amendment under ASC 470-50, "*Debt - Modification and Extinguishment"*, and concluded that the extension did not result in significant and consequential changes to the economic substance of the debt and thus resulted in a modification of the debt and not extinguishment of the debt.

On February 23, 2017, the Company issued a convertible note to an unrelated company for $149,000 that matures on November 23, 2017. The note bears 10% interest per annum and is convertible into shares of the Company's common stock at lesser of 40% of the average three lowest closing bids 20 days prior to the conversion date. Additionally, the note contains a percentage discount (variable) exercise price which causes the number to be converted into a number of common shares that "approach infinity", as the underlying stock price could approach zero. The Company determined under ASC 815, that this percentage discount (variable) exercise price indicates is an embedded derivative financial liability, which requires bifurcation and to be separately accounted for. At each reporting period, the Company will mark this derivative financial instrument to its estimated fair value. The Company extended the possibility to convert date by issuing 60,000 warrants valued at $7,813 on September 8, 2017 to November 2, 2017. The warrants are considered derivative liabilities under ASC 815-40 under the Company's sequencing policy and were valued using the multinomial lattice model. The Company evaluated amendment under ASC 470-50, "*Debt - Modification and Extinguishment"*, and concluded that the extension did not result in significant and consequential changes to the economic substance of the debt and thus resulted in a modification of the debt and not extinguishment of the debt.

On February 23, 2017, the Company issued a convertible note to an unrelated company for $224,000 that matures on November 23, 2017. The note bears 10% interest per annum and is convertible into shares of the Company's common stock at lesser of 40% of the average three lowest closing bids 20 days prior to the conversion date. Additionally, the note contains a percentage discount (variable) exercise price which causes the number to be converted into a number of common shares that "approach infinity", as the underlying stock price could approach zero. The Company determined under ASC 815, the Company has determined that this percentage discount (variable) exercise price indicates an embedded derivative financial liability, which requires bifurcation and to be separately accounted for. At each reporting period, the Company will mark this derivative financial instrument to its estimated fair value. The Company extended the possibility to convert date by issuing 90,000 warrants valued at $11,720 on September 8, 2017 to November 2, 2017. The warrants are considered derivative liabilities under ASC 815-40 under the Company's sequencing policy and were valued using the multinomial lattice model. The Company evaluated amendment under ASC 470-50, "*Debt - Modification and Extinguishment"*, and concluded that the extension did not result in significant and consequential changes to the economic substance of the debt and thus resulted in a modification of the debt and not extinguishment of the debt.

On August 26, 2016, the Company issued a convertible note to an unrelated individual for $50,000 that matures on August 26, 2017. The note bears interest rate of 10% per annum and is convertible into shares of the Company's Common stock at $0.40 per share. The note was amended on June 30, 2017 to extend the maturity date to October 1, 2017. The Company evaluated amendment under ASC 470-50, "*Debt - Modification and Extinguishment"*, and concluded that the extension did not result in significant and consequential changes to the economic substance of the debt and thus resulted in a modification of the debt and not extinguishment of the debt. The note was amended again on September 28, 2017 to extend the maturity date to January 1, 2018. The Company evaluated amendment under ASC 470-50, "*Debt - Modification and Extinguishment"*, and concluded that the extension resulted in significant and consequential changes to the economic substance of the debt and thus resulted in a extinguishment of the debt. The Company recorded a debt discount of $30,000 as a result of the extinguishment.

On March 7, 2016, the Company issued a convertible note to an unrelated individual for $100,000 that matures on March 7, 2017. The note bears interest rate of 10% per annum and is convertible into shares of the Company's Common stock at $0.40 per share. The Company valued a BCF related to the note valued at $24,269 and debt discount related to the 10,000 shares of common stock issued with the note at a relative fair value of $4,569. The note was amended again on September 28, 2017 to extend the maturity date to January 15, 2018, as additional consideration the Company issued 25,000 shares of common stock valued at $3,998. The Company evaluated amendment under ASC 470-50, "*Debt - Modification and Extinguishment"*, and concluded that the extension did not result in significant and consequential changes to the economic substance of the debt and thus resulted in a modification of the debt and not extinguishment of the debt.

AFTERMASTER, INC.
Notes to Consolidated Financial Statements
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NOTE 5 – NOTES PAYABLE - *continued*

On July 26, 2016, the Company issued a convertible note to an unrelated individual for $50,000 that matures on September 26, 2016. The note bears interest rate of 0% per annum and is convertible into shares of the Company's Common stock at $0.40 per share, as part of the note the company issued warrants to purchase 35,000 shares of 144 restricted common stock at an exercise price $0.30 for a two-year period. The note was amended on September 28, 2017 to extend the maturity date to January 15, 2018, as additional consideration the Company issued 15,000 shares of common stock valued at $2,399. The Company evaluated amendment under ASC 470-50, "*Debt - Modification and Extinguishment"*, and concluded that the extension did not result in significant and consequential changes to the economic substance of the debt and thus resulted in a modification of the debt and not extinguishment of the debt.

On July 31, 2017, the Company issued a convertible note to an unrelated company for $78,000, which included $75,000 in proceeds and $3,000 in legal fees, that matures on April 10, 2018. The note bears 12% interest per annum and is convertible into shares of the Company's common stock at 61% of the lowest two trading prices during the fifteen (15) trading day period ending to the date of conversion. The note contains a percentage discount (variable) exercise price which causes the number to be converted into a number of common shares that "approach infinity", as the underlying stock price could approach zero. The Company determined under ASC 815, the Company has determined that this percentage discount (variable) exercise price indicates an embedded derivative financial liability, which requires bifurcation and to be separately accounted for. At each reporting period, the Company will mark this derivative financial instrument to its estimated fair value.

On August 2, 2017, the Company issued a convertible note to an unrelated party for $50,000 that matures on August 24, 2017. The note bears 0% interest per annum, in lieu of interest the Company issued 12,000 shares of common stock on August 4, 2017. The note is convertible into shares of the Company's common stock at $0.10 per share. Due to sequencing on February 2, 2017, the Company determined under ASC 815, the Company has determined that the note is to be treated as an embedded derivative financial liability, which requires bifurcation and to be separately accounted for. At each reporting period, the Company will mark this derivative financial instrument to its estimated fair value. The note was amended on September 15, 2017, to extend the maturity date to October 15, 2017. The Company evaluated amendment under ASC 470-50, "*Debt - Modification and Extinguishment"*, and concluded that the extension did not result in significant and consequential changes to the economic substance of the debt and thus resulted in a modification of the debt and not extinguishment of the debt. On September 15, 2017, the note converted the principal of $34,000 for $340,000 shares of common stock.

On August 2, 2017, the Company issued a convertible note to an unrelated company for $60,500, which includes proceeds of $55,000, and $5,500 in OID, that matures on August 2, 2018. The note bears 12% interest per annum and is convertible into shares of the Company's common stock at 61% of the lowest two trading prices during the fifteen (15) trading day period ending to the date of conversion. The note contains a percentage discount (variable) exercise price which causes the number to be converted into a number of common shares that "approach infinity", as the underlying stock price could approach zero. The Company determined under ASC 815, the Company has determined that this percentage discount (variable) exercise price indicates an embedded derivative financial liability, which requires bifurcation and to be separately accounted for. At each reporting period, the Company will mark this derivative financial instrument to its estimated fair value.

On August 4, 2017, the Company issued a convertible note to an unrelated party for $10,000 that matures on August 4, 2018. The note bears 0% interest per annum, in lieu of interest the Company issued 3,500 shares of common stock on August 7, 2017. The note is convertible into shares of the Company's common stock at $0.10 per share. Due to sequencing on February 2, 2017, the Company determined under ASC 815, the Company has determined that the note is to be treated as an embedded derivative financial liability, which requires bifurcation and to be separately accounted for. At each reporting period, the Company will mark this derivative financial instrument to its estimated fair value.

On August 15, 2017, the Company issued a convertible note to an unrelated company for $82,250, which included $75,000 in proceeds and $7,250 in legal and other fees, that matures on April 18, 2018. The note bears 12% interest

per annum and is convertible into shares of the Company's common stock at 60% the lowest trading price during the previous twenty (2) days to the date of conversion. The note contains a percentage discount (variable) exercise price which causes the number to be converted into a number of common shares that "approach infinity", as the underlying stock price could approach zero. The Company determined under ASC 815, the Company has determined that this percentage discount (variable) exercise price indicates an embedded derivative financial liability, which requires bifurcation and to be separately accounted for. At each reporting period, the Company will mark this derivative financial instrument to its estimated fair value.

AFTERMASTER, INC.
Notes to Consolidated Financial Statements
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NOTE 5 – NOTES PAYABLE - *continued*

On August 16, 2017, the Company issued a convertible note to an unrelated company for $53,000, which included $50,000 in proceeds and $3,000 in legal fees, that matures on June 16, 2018. The note bears 12% interest per annum and is convertible into shares of the Company's common stock at 61% of the lowest two trading prices during the fifteen (15) trading day period ending to the date of conversion. The note contains a percentage discount (variable) exercise price which causes the number to be converted into a number of common shares that "approach infinity", as the underlying stock price could approach zero. The Company determined under ASC 815, the Company has determined that this percentage discount (variable) exercise price indicates an embedded derivative financial liability, which requires bifurcation and to be separately accounted for. At each reporting period, the Company will mark this derivative financial instrument to its estimated fair value.

On September 8, 2017, the Company issued a convertible note to an unrelated company for $65,000, which included $58,500 in proceeds and $6,500 in OID, that matures on March 8, 2018. The note bears 12% interest per annum and is convertible into shares of the Company's common stock at 55% of either the lowest sales price for common stock on principal market during the twenty-five consecutive trading days including the immediately preceding the conversion date. The note contains a percentage discount (variable) exercise price which causes the number to be converted into a number of common shares that "approach infinity", as the underlying stock price could approach zero. The Company determined under ASC 815, the Company has determined that this percentage discount (variable) exercise price indicates an embedded derivative financial liability, which requires bifurcation and to be separately accounted for. At each reporting period, the Company will mark this derivative financial instrument to its estimated fair value.

On September 11, 2017, the Company issued a convertible note to an unrelated party for $10,000 that matures on September 11, 2018. The note bears 10% interest per annum. The note is convertible into shares of the Company's common stock at $0.10 per share. Due to sequencing on February 2, 2017, the Company determined under ASC 815, the Company has determined that the note is to be treated as an embedded derivative financial liability, which requires bifurcation and to be separately accounted for. At each reporting period, the Company will mark this derivative financial instrument to its estimated fair value.

On September 27, 2017, the Company issued a convertible note to an unrelated party for $5,000 that matures on March 31, 2018. The note bears 0% interest per annum. The note is convertible into shares of the Company's common stock at $0.10 per share. Due to sequencing on February 2, 2017, the Company determined under ASC 815, the Company has determined that the note is to be treated as an embedded derivative financial liability, which requires bifurcation and to be separately accounted for. At each reporting period, the Company will mark this derivative financial instrument to its estimated fair value.

On September 28, 2017, the Company issued a convertible note to an unrelated party for $50,000 that matures on November 28, 2017. The note bears 0% interest per annum. The note is convertible into shares of the Company's common stock at $0.10 per share. Due to sequencing on February 2, 2017, the Company determined under ASC 815, the Company has determined that the note is to be treated as an embedded derivative financial liability, which requires bifurcation and to be separately accounted for. At each reporting period, the Company will mark this derivative financial instrument to its estimated fair value.

Notes Payable – Related Parties
Notes payable due to related parties consisted of the following as of September 30, 2017 and June 30, 2017, respectively:

Notes Payable – Related Parties

	September 30, 2017	June 30, 2017
Various term notes with total face value of $627,500 issued from April 11 to June 17, interest rates range from 0% to 15%, net of unamortized discount of $0 as of September 30, 2017 and June 30, 2017, respectively, of which $45,000 has been paid.	$ 600,000	$ 610,000
$18,000 face value, issued in September 2017, interest rate of 0%, matures November 2017.	18,000	-
Total notes payable – related parties	618,000	610,000
Less current portion	618,000	610,000

Notes payable - related parties, long term	$ -	$ -

AFTERMASTER, INC.
Notes to Consolidated Financial Statements
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NOTE 5 – NOTES PAYABLE - *continued*

On September 28, 2017, the Company issued a note to an unrelated party for $18,000 that matures on November 28, 2017. The note bears 0% interest per annum.

Notes Payable – Non-Related Parties
Notes payable due to non-related parties consisted of the following as of September 30, 2017 and June 30, 2017, respectively:

Notes Payable – Non-Related Parties

	September 30, 2017	June 30, 2017
Various term notes with total face value of $40,488 due upon demand, interest rates range from 0% to 14%.	$ 40,488	$ 40,488
$52,000 face value, issued in August 2017, interest rate of 0%, matures October 2017 net of unamortized discount of $7,227 as of September 30, 2017.	44,773	-
$52,000 face value, issued in August 2017, interest rate of 0%, matures October 2017 net of unamortized discount of $7,604 as of September 30, 2017.	44,396	-
$81,000 face value, issued in September 2017, interest rate of 8% per month, matures March 2018 net of unamortized discount of $14,913 as of September 30, 2017.	66,087	-
Total note payable – non-related parties	195,744	40,488
Less current portion	195,744	40,488
Notes payable – non-related parties, long-term	$ -	$ -

On August 25, 2017, the Company issued a note to an unrelated party for $52,000 as part of an Accounts Receivable Financing Agreement, which included $50,000 in proceeds and an OID of $2,000, that matures on October 25, 2017. The note bears 0% interest per annum. As additional consideration the Company also issued 50,000 warrants valued at $6,625. The warrants are considered derivative liabilities under ASC 815-40 under the Company's sequencing policy and were valued using the multinomial lattice model.

On August 31, 2017, the Company issued a note to an unrelated party for $52,000 as part of an Accounts Receivable Financing Agreement, which included $50,000 in proceeds and an OID of $2,000, that matures on October 31, 2017. The note bears 0% interest per annum. As additional consideration the Company also issued 50,000 warrants valued at $6,773. The warrants are considered derivative liabilities under ASC 815-40 under the Company's sequencing policy and were valued using the multinomial lattice model.

On September 19, 2017, the Company issued a note to an unrelated party for $81,000 which included $74,504 in proceeds, $6,000 in OID, and $496 in other fees, that matures on March 19, 2018. The note bears 8% interest per month. As additional consideration the Company is to issue 75,000 shares of common stock within 10 days.

AFTERMASTER, INC.
Notes to Consolidated Financial Statements
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NOTE 6 – CONVERTIBLE PREFERRED STOCK

The Company has authorized 10,000,000 shares of $0.001 par value per share Preferred Stock, of which the following were issued outstanding:

	Shares Allocated	Shares Outstanding	Liquidation Preference
Series A Convertible Preferred	100,000	15,500	-
Series A-1 Convertible Preferred	3,000,000	2,585,000	3,581,964
Series B Convertible Preferred	200,000	3,500	35,000
Series C Convertible Preferred	1,000,000	13,404	-
Series D Convertible Preferred	375,000	130,000	-
Series E Convertible Preferred	1,000,000	275,000	-
Series P Convertible Preferred	600,000	86,640	-
Series S Convertible Preferred	50,000	-	-
Total Preferred Stock	6,325,000	3,109,044	3,616,964

The Company's Series A Convertible Preferred Stock ("Series A Preferred") is convertible into Common Stock at the rate of 0.025 share of Common stock for each share of the Series A Preferred. Dividends of $0.50 per share annually from date of issue, are payable from retained earnings, but have not been declared or paid.

The Company's Series A-1 Senior Convertible Redeemable Preferred Stock ("Series A-1 Preferred") is convertible at the rate of 2 shares of Common Stock per share of Series A-1 Preferred. The dividend rate of the Series A-1 Senior Convertible Redeemable Preferred Stock is 6% per share per annum in cash, or commencing on June 30, 2009 in shares of the Company's Common Stock (at the option of the Company).

Due to the fact that the Series A-1 Preferred has certain features of debt and is redeemable, the Company analyzed the Series A-1 Preferred in accordance with ASC 480 and ASC 815 to determine if classification within permanent equity was appropriate. Based on the fact that the redeemable nature of the stock and all cash payments are at the option of the Company, it is assumed that payments will be made in shares of the Company's Common Stock and therefore, the instruments are afforded permanent equity treatment.

The Company's Series B Convertible 8% Preferred Stock ("Series B Preferred") is convertible at the rate of 0.067 share of Common Stock for each share of Series B Preferred. Dividends from date of issue are payable on June 30 from retained earnings at the rate of 8% per annum but have not been declared or paid.

The Company's Series C Convertible Preferred Stock ("Series C Preferred") is convertible at a rate of 0.007 share of Common Stock per share of Series C Preferred. Holders are entitled to dividends only to the extent of the holders of the Company's Common Stock receive dividends.

The Company's Series D Convertible Preferred Stock ("Series D Preferred") is convertible at a rate of 0.034 share of Common Stock per share of Series D Preferred. Holders are entitled to a proportionate share of any dividends paid as though they were holders of the number of shares of Common Stock of the Company into which their shares of are convertible as of the record date fixed for the determination of the holders of Common Stock of the Company entitled to receive such distribution.

The Company's Series E Convertible Preferred Stock ("Series E Preferred") is convertible at a rate of 0.034 share of Common Stock per share of Series E Preferred. Holders are entitled to a proportionate share of any dividends paid as though they were holders of the number of shares of Common Stock of the Company into which their shares of are convertible as of the record date fixed for the determination of the holders of Common Stock of the Company entitled to receive such distribution.

The Company's Series P Convertible Preferred Stock ("Series P Preferred") is convertible at a rate of 0.007 share of Common Stock for each share of Series P Preferred. Holders are entitled to dividends only to the extent of the holders of the Company's Common Stock receive dividends.

AFTERMASTER, INC.
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NOTE 6 – CONVERTIBLE PREFERRED STOCK - *continued*

In the event of a liquidation, dissolution or winding up of the affairs of the Company, holders of Series A Preferred Stock, Series P Convertible Preferred Stock, Series C Convertible Preferred Stock have no liquidation preference over holders of the Company's Common Stock. Holders of Second Series B Preferred Stock have a liquidation preference over holders of the Company's Common Stock and the Company's Series A Preferred Stock. Holders of Series D Preferred Stock are entitled to receive, before any distribution is made with respect to the Company's Common Stock, a preferential payment at a rate per each whole share of Series D Preferred Stock equal to $1.00. Holders of Series E Preferred Stock are entitled to receive, after the preferential payment in full to holders of outstanding shares of Series D Preferred Stock but before any distribution is made with respect to the Company's Common Stock, a preferential payment at a rate per each whole share of Series E Preferred Stock equal to $1.00. Holders of Series A-1 Preferred Stock are superior in rank to the Company's Common Stock and to all other series of Preferred Stock heretofore designated with respect to dividends and liquidation.

The activity surrounding the issuances of the Preferred Stock is as follows:

During the three months ended September 30, 2017 the Company did not issue shares of Series A-1 Preferred.

During the fiscal year ended June 30, 2017 the Company issued 550,000 shares of Series A-1 Preferred Stock for $550,000 in cash and paid $196,853 in cash offering costs. The Company had one conversion of 150,000 shares of Series A-1 Preferred Stock for 300,000 shares of Common Stock, and issued 15,682 shares of Common Stock of payment of $7,481 in accrued dividends.

During the three months ended September 30, 2017 and 2016, the outstanding Preferred Stock accumulated $56,367 and $42,238 in dividends on outstanding Preferred Stock. The cumulative dividends in arrears as of September 30, 2017 were approximately $908,938.

NOTE 7 – COMMON STOCK

The Company has authorized 250,000,000 shares of $0.001 par value per share Common Stock, of which 122,674,082 and 118,486,728 were issued outstanding as of September 30, 2017 and June 30, 2017, respectively. The activity surrounding the issuances of the Common Stock is as follows:

For the Three Months Ended September 30, 2017

The Company issued 1,625,000 shares of Common Stock for $168,500 in cash as part of a private placement, net of $1,500 of issuance costs, respectively.

The Company issued 340,000 shares of Common Stock for the conversion of notes and accrued interest valued at $34,000.

The Company issued 120,000 shares of Common Stock as payment for services and rent valued at $22,800.

The Company issued 115,500 shares of Common Stock for the incentive with convertible notes valued at $15,963.

The Company issued 115,000 shares of Common Stock for the extension of two convertible notes valued at $16,897.

As share-based compensation to employees and non-employees, the Company issued 591,692 shares of common stock valued at $100,589, based on the market price of the stock on the date of issuance.

As interest expense on outstanding notes payable, the Company issued 1,280,162 shares of common stock valued at $217,628 based on the market price on the date of issuance.

AFTERMASTER, INC.
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NOTE 7 – COMMON STOCK - *continued*

For the Three Months Ended September 30, 2016

The Company issued 552,733 shares of Common Stock for the conversion of notes and accrued interest valued at $130,022.

The Company also issued 100,000 shares of Common Stock as incentive to notes valued at $33,349 and recorded $30,519 in beneficial conversion features related to new issuances of debt.

The Company issued 309,965 shares of Common Stock as payment for services and rent valued at $122,136.

As share-based compensation to employees and non-employees, the Company issued 271,831 shares of common stock valued at $106,014, based on the market price of the stock on the date of issuance. As interest expense on outstanding notes payable, the Company issued 524,715 shares of common stock valued at $204,639 based on the market price on the date of issuance.

NOTE 8 – STOCK PURCHASE OPTIONS AND WARRANTS

The Board of Directors on June 10, 2009 approved the 2009 Long-Term Stock Incentive Plan. The purpose of the 2009 Long-term Stock Incentive Plan is to advance the interests of the Company by encouraging and enabling acquisition of a financial interest in the Company by employees and other key individuals. The 2009 Long-Term Stock Incentive Plan is intended to aid the Company in attracting and retaining key employees, to stimulate the efforts of such individuals and to strengthen their desire to remain with the Company. A maximum of 1,500,000 shares of the Company's Common Stock is reserved for issuance under stock options to be issued under the 2009 Long-Term Stock Incentive Plan. The Plan permits the grant of incentive stock options, nonstatutory stock options and restricted stock awards. The 2009 Long-Term Stock Incentive Plan is administered by the Board of Directors or, at its direction, a Compensation Committee comprised of officers of the Company.

Stock Purchase Options

During the three months ended September 30, 2017, the Company did not issue any stock purchase options.

During the fiscal year ended June 30, 2017, the Company issued 500,000 stock purchase options.

The following table summarizes the changes in options outstanding of the Company during the three months ended September 30, 2017.

Date Issued	Number of Options	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value	Expiration Date (yrs)	Value if Exercised
Balance June 30, 2017	525,000	$ 0.18	$ 0.16	4.81	$ 93,750
Granted	-	-	-	-	-
Exercised	-	-	-	-	-
Cancelled/Expired	-	-	-	-	-
Outstanding as of September 30, 2017	525,000	$ 0.18	$ 0.20	4.56	$ 93,750

AFTERMASTER, INC.
Notes to Consolidated Financial Statements
September 30, 2017 and June 30, 2017

NOTE 8 – STOCK PURCHASE OPTIONS AND WARRANTS - *continued*

Stock Purchase Warrants

During the three months ended September 30, 2017, the Company issued warrants to purchase a total of 725,000, consisting of 75,000 warrants as part of a private placement valued at $6,019, 100,000 warrants as part of two AR financing agreements executed on August 2017 valued at $13,398and 550,000 warrants in conjunction with extension of three promissory notes valued at $54,491. The warrants are considered derivative liabilities under ASC 815-40 under the Company's sequencing policy and were valued using the multinomial lattice model.

The following table presents the assumptions used to estimate the fair values of the stock warrants and options granted:

	September 30, 2017	June 30, 2017
Expected volatility	105-174%	92-126%
Expected dividends	0%	0%
Expected term	0-5 Years	0-5 Years
Risk-free interest rate	0.96-1.77%	0.74-1.89%

The following table summarizes the changes in warrants outstanding issued to employees and non-employees of the Company during the three months ended September 30, 2017.

	Number of Warrants	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value	Expiration Date (yrs)	Value if Exercised
Outstanding as of June 30, 2017	39,927,097	$ 0.38	$ 0.45	3.38	$ 15,144,835
Granted	725,000	0.20	0.10	3.31	146,250
Exercised	-	-	-	-	-
Cancelled/Expired	(65,000)	0.36	-	-	(40,000)
Outstanding as of September 30, 2017	40,587,097	$ 0.38	$ 0.48	3.38	$ 15,251,085

AFTERMASTER, INC.
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September 30, 2017 and June 30, 2017

NOTE 9 – FINANCIAL INSTRUMENTS

The Company has financial instruments that are considered derivatives or contain embedded features subject to derivative accounting. Embedded derivatives are valued separately from the host instrument and are recognized as derivative liabilities in the Company's balance sheet. The Company measures these instruments at their estimated fair value and recognizes changes in their estimated fair value in results of operations during the period of change. The Company has estimated the fair value of these embedded derivatives for convertible debentures and associated warrants using a multinomial lattice model as of September 30, 2017 and June 30, 2017. The fair values of the derivative instruments are measured each quarter, which resulted in a loss of $209,039 and $111, and derivative expense of $133,652 and $0 during the three months ended September 30, 2017 and 2016, respectively. As of September 30, 2017, and June 30, 2017, the fair market value of the derivatives aggregated $2,932,616 and $2,145,065, respectively, using the following assumptions: estimated 5-0 year term, estimated volatility of 174.38 -104.82%, and a discount rate of 1.77-0.96%.

NOTE 10 – FAIR VALUE MEASUREMENTS

For asset and liabilities measured at fair value, the Company uses the following hierarchy of inputs:

- Level one — Quoted market prices in active markets for identical assets or liabilities;
- Level two — Inputs other than level one inputs that are either directly or indirectly observable; and
- Level three — Unobservable inputs developed using estimates and assumptions, which are developed by the reporting entity and reflect those assumptions that a market participant would use.

Liabilities measured at fair value on a recurring basis at September 30, 2017, are summarized as follows:

	Level 1	Level 2	Level 3	Total
Fair value of derivatives	$ -	$ -	$ 2,932,616	$ 2,932,616
Securities available-for-sale	$ 47,940	$ -	$ -	$ 47,940

NOTE 11 – COMMITMENTS AND CONTINGENCIES

Legal Proceedings

The Company may become involved in certain legal proceedings and claims which arise in the normal course of business. The Company is not a party to any litigation. To the best of the knowledge of our management, there are no material litigation matters pending or threatened against us.

Lease Agreements

We lease offices in Hollywood, California (located at 6671 Sunset Blvd., Suite 1520, 1518 and 1550, Hollywood, California, 90028) for corporate, research, engineering and mastering services. The lease expires on December 31, 2017. The total lease expense for the facility is approximately $17,220 per month, and the total remaining obligations under these leases at September 30, 2017, were approximately $52,722.

AFTERMASTER, INC.
Notes to Consolidated Financial Statements
September 30, 2017 and June 30, 2017

NOTE 11 – COMMITMENTS AND CONTINGENCIES - *continued*

We lease a warehouse space located at 8260 E Gelding Drive, Suite 102, Scottsdale, Arizona, 85260. The lease expires on February 28, 2019. The total lease expense for the facility is approximately $1,888 per month, and the total remaining obligations under this leases at September 30, 2017, were approximately $5,786.

We lease corporate offices located at 7825 E Gelding Drive, Suite 101, Scottsdale, Arizona, 85260. The lease expires on April 30, 2021. The total lease expense for the facility is approximately $7,224 per month, and the total remaining obligations under this leases at September 30, 2017, were approximately $22,701.

We lease corporate offices located at 7825 E Gelding Drive, Suite 103, Scottsdale, Arizona, 85260. The lease expires on April 30, 2021. The total lease expense for the facility is approximately $3,000 per month, and the total remaining obligations under this leases at September 30, 2017, were approximately $9,000.

Below is a table summarizing the annual operating lease obligations over the next 5 years:

Year	Lease Payments
2018	$ 127,561
2019	141,464
2020	131,475
2021	87,287
2022	-
Total	$ 487,786

Other

The Company has not declared dividends on Series A or B Convertible Preferred Stock or its Series A-1 Convertible Preferred Stock. The cumulative dividends in arrears through September 30, 2017 were approximately $965,305.

As of the date of this filing, the Company has not filed its tax return for the fiscal year ended 2015, 2016, and 2017.

NOTE 13 - SUBSEQUENT EVENTS

In accordance with ASC 855, Company's management reviewed all material events through the date of this filing and determined that there were the following material subsequent events to report:

From October through November, the Company issued 575,000 shares of Common Stock for $57,500 in cash as part of a private placement. The Company also issued 75,000 warrants as part of a private placement valued at $6,019. The warrants are considered derivative liabilities under ASC 815-40 under the Company's sequencing policy and were valued using the multinomial lattice model.

On October 16, 2017, the Company issued a convertible note to an unrelated company for $110,000 that matures on July 16, 2018. The note bears 10% interest per annum and is convertible into shares of the Company's common stock at 57.5% of the lowest closing bid 30 days prior to the conversion date. Additionally, the note contains a percentage discount (variable) exercise price which causes the number to be converted into a number of common shares that "approach infinity", as the underlying stock price could approach zero. The Company determined under ASC 815, the Company has determined that this percentage discount (variable) exercise price indicates that these shares, if issued, are not indexed to the Company's own stock and, therefore, is an embedded derivative financial liability, which requires bifurcation and to be separately accounted for. At each reporting period, the Company will mark this derivative financial instrument to its estimated fair value.

AFTERMASTER, INC.
Notes to Consolidated Financial Statements
September 30, 2017 and June 30, 2017

NOTE 13 - SUBSEQUENT EVENTS- *continued*

The Company extended the possibility to convert date by issuing 60,000 warrants valued at $7,813 on September 8, 2017 to November 2, 2017. The warrants are considered derivative liabilities under ASC 815-40 under the Company's sequencing policy and were valued using the multinomial lattice model. The Company extended the possibility to convert date by paying $164,469 in principal on October 23, 2017 to February 21, 2018. The warrants are considered derivative liabilities under ASC 815-40 under the Company's sequencing policy and were valued using the multinomial lattice model. The Company evaluated amendment under ASC 470-50, "*Debt - Modification and Extinguishment*", and concluded that the extension did not result in significant and consequential changes to the economic substance of the debt and thus resulted in a modification of the debt and not extinguishment of the debt.

On February 23, 2017, the Company issued a convertible note to an unrelated company for $224,000 that matures on November 23, The Company extended the possibility to convert date by issuing 90,000 warrants valued at $11,720 on September 8, 2017 to November 2, 2017. The Company extended the possibility to convert date by paying $251,726 in principal on October 23, 2017 to February 21, 2018. The warrants are considered derivative liabilities under ASC 815-40 under the Company's sequencing policy and were valued using the multinomial lattice model. The Company evaluated amendment under ASC 470-50, "*Debt - Modification and Extinguishment*", and concluded that the extension did not result in significant and consequential changes to the economic substance of the debt and thus resulted in a modification of the debt and not extinguishment of the debt.

On October 29, 2017, the Company issued a convertible note to an unrelated company for $100,000 that matures on October 29, 2018. The note bears 10% interest per annum and is convertible into shares of the Company's common stock at $.10. The Company determined under ASC 815, the Company has determined that this percentage discount (variable) exercise price indicates that these shares, if issued, are not indexed to the Company's own stock and, therefore, is an embedded derivative financial liability, which requires bifurcation and to be separately accounted for. At each reporting period, the Company will mark this derivative financial instrument to its estimated fair value.

On October 31, 2017, the Company issued a secured promissory note to an unrelated party for $255,000, that matures on February 28, 2018. The note bears 2.5% interest per month. The note is to be paid back the greater of $1,000 per day and $75 per unit sold commencing 31 days after closing, the greater of $1,500 per day and $75 per unit sold commencing 61 days after closing, the greater of $2,000 per day and $75 per unit sold commencing 91 days after closing.

The note was amended on October 30, 2017, to extend the conversion rights from 180 days to 225 days, in consideration of the extension the Company paid $25,000 and issued 150,000 valued at $6,691. The Company evaluated amendment under ASC 470-50, "*Debt - Modification and Extinguishment*", and concluded that the extension did result in significant and consequential changes to the economic substance of the debt and thus resulted in an extinguishment of the debt.

AFTERMASTER, INC.
Notes to Consolidated Financial Statements
September 30, 2017 and June 30, 2017

NOTE 13 - SUBSEQUENT EVENTS- *continued*

On November 1, 2017, the Company issued warrants to purchase a total of 150,000, with a three year life and a conversion rate of $0.10, in conjunction with extension of three promissory notes valued at $6,691. The warrants are considered derivative liabilities under ASC 815-40 under the Company's sequencing policy and were valued using the multinomial lattice model.

The Company extended the maturity date for the seventh time by increasing the principal balance by $30,000 on February 27, 2017 to May 6, 2017. The Company evaluated amendment under ASC 470-50, "*Debt - Modification and Extinguishment"*, and concluded that the extension did not result in significant and consequential changes to the economic substance of the debt and thus resulted in a modification of the debt and not extinguishment of the debt. The Company extended the maturity date for the eighth time by increasing the principal balance by $30,000 on May 9, 2017 to June 20, 2017. The Company evaluated amendment under ASC 470-50, "*Debt - Modification and Extinguishment"*, and concluded that the extension did not result in significant and consequential changes to the economic substance of the debt and thus resulted in a modification of the debt and not extinguishment of the debt. The Company extended the maturity date for the ninth time by increasing the principal balance by $30,000 on June 20, 2017 to August 4, 2017. The Company evaluated amendment under ASC 470-50, "*Debt - Modification and Extinguishment"*, and concluded that the extension did not result in significant and consequential changes to the economic substance of the debt and thus resulted in a modification of the debt and not extinguishment of the debt. The Company extended the maturity date for the tenth time by paying additional consideration of $30,000 on August 3, 2017 to September 18, 2017. The Company evaluated amendment under ASC 470-50, "*Debt - Modification and Extinguishment"*, and concluded that the extension did not result in significant and consequential changes to the economic substance of the debt and thus resulted in a modification of the debt and not extinguishment of the debt. The Company extended the maturity date for the tenth time by paying additional consideration of $30,000 on September 18, 2017 to November 2, 2017. The Company evaluated amendment under ASC 470-50, "*Debt - Modification and Extinguishment"*, and concluded that the extension did not result in significant and consequential changes to the economic substance of the debt and thus resulted in a modification of the debt and not extinguishment of the debt. The Company extended the maturity date for the tenth time by paying additional consideration of $30,000 on November 2, 2017 to December 17, 2017. The Company evaluated amendment under ASC 470-50, "*Debt - Modification and Extinguishment"*, and concluded that the extension did not result in significant and consequential changes to the economic substance of the debt and thus resulted in a modification of the debt and not extinguishment of the debt.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Annual Report (the "Report") includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934, as amended, and as contemplated under the Private Securities Litigation Reform Act of 1995. These forward-looking statements may relate to such matters as the Company's (and its subsidiaries) business strategies, continued growth in the Company's markets, projections, and anticipated trends in the Company's business and the industry in which it operates anticipated financial performance, future revenues or earnings, business prospects, projected ventures, new products and services, anticipated market performance and similar matters. All statements herein contained in this Report, other than statements of historical fact, are forward-looking statements.

When used in this Report, the words "may," "will," "expect," "anticipate," "continue," "estimate," "project," "intend," "budget," "budgeted," "believe," "will," "intends," "seeks," "goals," "forecast," and similar words and expressions are intended to identify forward-looking statements regarding events, conditions, and financial trends that may affect our future plans of operations, business strategy, operating results, and financial position. These forward-looking statements are based largely on the Company's expectations and are subject to a number of risks and uncertainties, certain of which are beyond the Company's control. We caution our readers that a variety of factors could cause our actual results to differ materially from the anticipated results or other matters expressed in the forward looking statements, including those factors described under "Risk Factors" and elsewhere herein. In light of these risks and uncertainties, there can be no assurance that the forward-looking information contained in this Report will in fact transpire or prove to be accurate. These risks and uncertainties, many of which are beyond our control, include:

- ***the sufficiency of existing capital resources and our ability to raise additional capital to fund cash requirements for future operations;***
- ***uncertainties involved in growth and growth rate of our operations, business, revenues, operating margins, costs, expenses and acceptance of any products or services;***
- ***uncertainties involved in growth and growth rate of our operations, business, revenues, operating margins, costs, expenses and acceptance of any products or services;***
- ***volatility of the stock market, particularly within the technology sector;***
- ***our dilution related to all equity grants to employees and non-employees;***
- ***that we will continue to make significant capital expenditure investments;***
- ***that we will continue to make investments and acquisitions;***
- ***the sufficiency of our existing cash and cash generated from operations;***
- ***the increase of sales and marketing and general and administrative expenses in the future;***
- ***the growth in advertising revenues from our websites and studios will be achievable and sustainable;***
- ***that seasonal fluctuations in Internet usage and traditional advertising seasonality are likely to affect our business; and***
- ***general economic conditions.***

Although we believe the expectations reflected in these forward-looking statements are reasonable, such expectations cannot guarantee future results, levels of activity, performance or achievements. We urge you not to place undue reliance on these forward-looking statements, which speak only as of the date of this Annual Report.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - *continued*

All references in this report to "we," "our," "us," the "Company" or "AfterMaster" refer to AfterMaster, Inc., and its subsidiary and predecessors.

Corporate Background

We are a Delaware corporation, incorporated on about May 12, 1988, and traded on an over the counter market (ticker symbol OTCQB:AFTM). As of September 30, 2017, there were 122,674,082 shares of Common Stock issued and outstanding. The Company's office and principal place of business, research, recording and mastering studios are located at 6671 Sunset Blvd., Suite 1520, Hollywood, CA 90028 USA, and its telephone number is (310) 657-4886. The Company also has an office at 7825 E. Gelding Drive, Suite 101, Scottsdale, Arizona 85260 USA, and its telephone number is (480) 556-9303.

Aftermaster, Inc. ("the Company" or "Aftermaster") is an audio technology company located in Hollywood, California and Scottsdale, Arizona. The Company's wholly-owned subsidiaries include Aftermaster HD Audio Labs, Inc. and MyStudio, Inc.

The Company and its subsidiaries are engaged in the development and commercialization of proprietary (patents issued and pending), leading-edge audio and video technologies and products for professional and consumer use, including Aftermaster® Audio, ProMaster™, Aftermaster Pro™ and MyStudio®. The Company also operates recording and mastering studios at its Hollywood facilities.

Aftermaster holds an unparalleled position in the audio technology industry and it is operated by a world-class team of experts with and extensive experience in music and audio technology. The Aftermaster team has produced, engineered and mastered more hit music than any other audio company in the world. We believe that our expertise and technical skills have led us to develop audio technologies unmatched in the audio industry. Aftermaster technologies are both patented and patent pending, and these technologies have won several awards. www.aftermaster.com

Mission Statement

Aftermaster's goal is to become one of the most innovative and important audio companies in the world through the development and licensing of proprietary audio technologies, the development and sales of leading-edge consumer and professional audio electronics products and through its contributions in the production, mixing and mastering of music, television and film audio.

Year End Summary

The Company is pleased to report that it is continuing its "quarter over quarter" sales growth from its Aftermaster products and services. For the quarter ending March 31, 2017, the Company recorded its then highest quarterly sales revenues of $266,621, followed by revenues of $510,138 for the quarter ending June 30, 2017 and further increased sales to $615,396 for the quarter ending September 30, 2017. Losses from operations also decreased dramatically during the quarter from $1,839,781 to $446,622.

Based on current and forecasted sales, the Company believes that it will continue to see increased growth from the sale of the Aftermaster Pro, licensing, studio revenues and its partnership with Tunecore. Increases from the sale of the Aftermaster Pro are subject to having adequate inventory levels availiable to meet demand.

On November 4, 2017 the Company entered into an agreement with headphone manufacturer Muzik, Inc., to license its Aftermaster technology (through both its Company's proprietary DSP chip and software application). Known as the "smartphone" of headphones, award-winning Muzik has created the worlds most advanced wireless headphone. Muzik's proprietary voice command and multiple "hot keys" allow a user to access Spotify, Siri and connect their headphones to over 300 apps from fitness, news, and productivity to the connected home, commerce, automotive, and social media. Muzik is considered the most important new headphone designer and manufacturer.

The Company has also recently expanded its relationship with Tunecore, Inc. TuneCore is considered to be one of the most important artist portals where independent artists can professionally master their music for an affordable fee. We originally partnered with Tunecore in May 2016 to do the professional music mastering for their independent artist services. Our professional hands-on music mastering service is headed up by Peter Doelle, one of the world's most talented and respected mastering engineers. Just recently, the Company entered into an agreement to process all of the the instant music-mastering for Tunecore that was previously done by Landr. Tunecore recognizes that quality and value of the Company's Promaster music mastering for its artists. In September 2017, we displaced Landr and became Tunecore's exclusive mastering partner for instant electronic music mastering. We continue to be Tunecore's choice for professional mastering services as well.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - *continued*

During the past year, the Company also designed and developed its first professional hardware product dubbed the "Aftermaster Studio Pro" which is the Company's first product designed for use in commercial audio applications. Due to the anticipated strong demand from potential customers, the Company's new product is a "1 U, 19" rack-mount Aftermaster audio processor that allows a user to enhance any audio playback with Aftermaster to make their sound fuller, clearer, louder and deeper. It will retail for $3,995 and can be seen at www.aftermastermaster.com/products. The Company believes that the worldwide market for its new product is significant, as it can be used in potentially hundreds of thousands of applications worldwide: radio stations, private and public recording studios, churchs, restaurants and bars, sports facilities, high-end residential, live concerts and concert facilities, hospitals – virtually anyplace where a business wants the audio to sound significantly better than anything they can do in house. The product is expected to be available for pre-sale in the fourth quarter of 2017.

Despite our recent record growth and proof of product interest by consumers, the Company's sales performance continues to be impacted due to manufacturing and financing challenges, both of which have limited the timing of the rollout of some of our products. The Company is currently negotiating with several companies to provide the capital required and with a third-party manufacturer with the expertise needed to streamline and provide a stable environment in which to exponentially increase the manufacturing rate and sales of our products. The Company has issued an initial purchase order and paid a substantial deposit for the electronic components and manufacturing of the first 100,000 circuit boards, which will allow an assembly manufacturer a significant head start for larger scale unit deliveries.

The Company also recently completed an extensive renovation and subsequently opened a world-class music recording studio originally built by music legend Graham Nash and made famous by Crosby, Stills and Nash in 1977, which is located adjacent to its existing studios in Hollywood at Crossroads of the World. The studio is equipped with state-of-the-art recording and mixing equipment, and it is used for both audio research and development as well as to generate revenue from rental to musicians. The Company considers it to be one of the finest recording studios in the US, and it began generating revenue in the first quarter of calendar 2017. It is the largest of the six recording studios that Aftermaster now operates at its studio facilities in Hollywood. www.aftermaster.com/studios

Investment Bankers

The recent successful introduction of our Aftermaster Pro has led the Company to engage a respected investment banking firm that specializes in small cap stocks, Maxim Group of New York, to assist the Company in concurrently raising the capital to both extinguish its current debt and to provide the additional growth capital required for the Company to complete an uplisting of its shares to a larger trading platform. Such financing is contingent on market conditions, share price and the performance of the company over the next two fiscal quarters, and there is no guarantee that we will raise such capital or complete such an uplisting.

TuneCore Agreement

Aftermaster offers both world-class, professional hands-on mastering services and instant online mastering through its Promaster brand for music, TV and film customers in its facilities in Hollywood, California. The Professional Mastering division is headed up by Peter Doell, one of the world's foremost mastering engineers. In May 2016, the Company entered into a partnership with TuneCore Digital Music Services to provide professional hands-on mastering services to TuneCore's customers. In September 2017, the Company expanded its relationship with TuneCore and entered into a multi-year agreement to also provide TuneCore with the Company's award-winning Promaster instant online mastering service to TuneCore's artists. The agreement displaced TuneCore's previous relationship with online mastering service, Landr. TuneCore was impressed by the music quality and technologies developed by Aftermaster.

Currently, TuneCore is one of the world's largest independent digital music distribution and publishing administration service. Under our agreement, Aftermaster has become the platform for both hands-on professional and online instant mastering services for TuneCore's artists on an exclusive basis. TuneCore has one of the highest artist revenue-generating music catalogs in the world, earning TuneCore Artists approximately $987 million from billions of downloads and streams. TuneCore's music distribution services help artists, labels and managers sell their music through iTunes, Amazon Music, Spotify and other major download and streaming sites while retaining 100% of their sales revenue and rights for a low annual flat fee. TuneCore's artists have direct access to Aftermaster's world-class senior mastering engineers and unmatched technologies and can get their tracks hand mastered for a premium price or instantly electronically mastered through Aftermaster's Promaster, returned and ready for distribution. The partnership builds upon TuneCore's mission to provide independent artists with key tools to build their careers and gain broad fan expsoure, by granting access to unparalleled mastering that meets the industry's highest standards.

Home Shopping Network

On April 15, 2017, the Company introduced its Aftermaster Pro personal re-mastering device on national television on the Home Shopping Network (HSN) during two 15-minute infomercials. Home Shopping Network is one of the world's largest television retailers. HSN initially purchased 1,000 Aftermaster Pros, and its management team has expessed to the Company that it considered the launch to be a big success. HSN has subsequently issued the Company purchase orders for several thousand more units and began new airing dates on June 9, 2017 followed on September 2, 2017. Additional dates are expected to be announced for the quarter ended December 31, 2017. HSN provides a unique format which provides the Company with the opportunity to showcase the quality of the product, while explaining the differentiating features and operation of its Aftermaster Pro on national television. The Company expects that Aftermaster Pro will continue to be featured on HSN and by other television, online and store based retailers.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS – *continued*

Icon Health and Fitness Products

During the year, the Company entered into a consulting and license agreement with ICON Health & Fitness, Inc. ("ICON"), pursuant to which the Company will act as an audio technology development consultant to develop an AfterMaster-based sound module for integration with ICON's exercise equipment. ICON will pay the Company a per module fee and receive a license from the Company to use or sell the modules and use the software relating to each module in its products. The Company will also provide audio tuning services to further enhance the sound quality for ICON's other audio-enabled equipment. The Company has agreed with ICON on a product development schedule, and the companies currently expect to unveil an Aftermaster-equipped premium fitness product at the upcoming Consumer Electronics show ("CES") in Las Vegas in January 2018.

ICON Health and Fitness, Inc. is the world's largest manufacturer and marketer of home fitness equipment, selling over 10 million audio-enable fitness-related devices annually. ICON manufactures treadmills, elliptical trainers, stationary bicycles, weight machines and benches, and yoga and Pilates equipment. ICON has a wide range of well-known and respected brands, products and technologies, and sells home fitness and health club equipment under the following brands: NordicTrack®, ProForm®, Weider®, Gold's Gym® Home Fitness and FreeMotion®. Its fitness technology brand, including Wi-Fi-enabled fitness equipment and fitness wearables, is iFit®.

CB2 Marketing Agreement

CB2 (a division of Crate and Barrel), an industry leading lifestyle furniture retailer, and the Company have entered into a multi-year partnership to bring music and lifestyle spaces together like never before. CB2 has unique positioning in the furnishings industry as a modern, affordable and socially responsible brand who regularly offers its sophisticated clientele new and exciting opportunities to better their lifestyle and living environments.

Under the partnership, CB2's customers will receive the chance to purchase the unprecedented leading-edge audio through Aftermaster's revolutionary technology to be showcased with the CB2 platforms in a myriad of ways. As part of its collaborative strategic venture, CB2 began offering the Company's Aftermaster Pro personal audio remastering devices at key store locations across the United States including West Hollywood, New York: Soho, South Beach, Chicago, and Austin. The units retail at $189.99 in stores and online at CB2's website.

In addition, Aftermaster will now be a part of powering CB2's "After Hours" concert series. The "After Hours" events transform CB2 locales into intimate nocturnal music experiences. Just after closing time, the stores play host to a bevy of notable artists as they perform a one-of-a-kind show to an exclusive audience sipping on cocktails in a chic and sophisticated atmosphere. Aftermaster provides enhanced audio capability for these shows with its proprietary technology and offers unrivaled sound in real-time. Attendees may also try the Aftermaster Pro at demo stations throughout the stores during these events. We believe this is another important brand awareness and revenue avenue for the Pro.

Extending this partnership, CB2 also outfitted Aftermaster's famous music recording studios at Crossroads of the World in Hollywood, with a complete makeover of new furniture including "first-to-be-seen" pieces from their latest collection.

Aftermaster Consumer and Professional Electronics Products

The Company has assembled a world-class branding, technical and design team who have designed the the Companies first consumer and professional electronics products. The first consumer electronics product is the Aftermaster Pro, designed to dramatically improve the quality of TV audio. Aftermaster Pro is the world's first personal audio re-mastering device and defines a new category in consumer electronics products by offering a product never before offered. Aftermaster Pro is a proprietary, first-to-market product which has no direct competition.

The number of existing televisions worldwide is substantial, and a majority of TV owners complain about their TV audio quality, especially about having to continually adjust the volume because of difficulty hearing dialogue in certain programming. Feedback from thousands of TV owners have provided the Company with valuable data that confirms that no manufacturer is delivering an audio solution with the same sound quality of Aftermaster Pro.

Smaller than an iPhone, Aftermaster Pro transforms the audio of your TV, smartphone, headphones, laptop, tablet, gaming unit, or virtually any audio-enabled device to sound clearer, fuller, deeper, and more exciting. Aftermaster Pro connects easily via HDMI or

3.5mm audio cables with virtually any media source (i.e., cable, satellite box, cell phone, computer, tablet, etc.). When used with a television, Aftermaster Pro raises and clarifies dialogue in programming while significantly enhancing the quality of the overall audio content. This solves the longstanding issue with TV audio of having to continually adjust volume during a TV show to hear dialogue. When used portably with its built-in battery, Aftermaster transforms music and video to standards that we believe are superior to any portable audio enhancement device.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - *continued*

The Company has an aggressive marketing and sales plan for the Aftermaster Pro, which is the Company's first consumer electronics product completely developed in-house. The Aftermaster Pro debuted to consumers on national television on the Home Shopping Network ("HSN") show on April 15, 2017. The Aftermaster Pro sales were deemed to be very successful, and the product has since been featured on 5 additional HSN programs in June and September; additional programming with HSN has been scheduled for the fourth calendar quarter of 2017. In June 2017, the Aftermaster Pro also went on sale at Crate and Barrel's "CB2" stores (see below) and is also now available at several other prominent online retail outlets including Amazon.com, Walmart.com, as well as the Company's own website, Aftermasterpro.com. The Company has engaged a well regarded marketing firm and will begin an online advertising campaign in November 2017 designed to drive buyers to our various online retailers using the same ad process that produced highly successful sales metrics during our crowdfunding campaigns.

The Company has sold thousands of Aftermaster Pros to buyers in 65 countries and has generated revenues over $1,000,000. A majority of the sales were at $150 per unit. www.aftermasterpro.com.

Additional Aftermaster branded consumer electronics products products are under development, which we expect to introduce in the coming year.

The "Aftermaster Studio Pro" is the Company's first product designed for use in commercial audio environments. Due to the strong demand from potential customers, the Company's new product is a 1 U, 19" rack mount Aftermaster audio processor that allows a user to enhance any audio playback with Aftermaster to make their sound fuller, clearer, louder and deeper. The worldwide market is significant as it can be used in radio stations, private and public recording studios, church's, restaurants and bars, sports facilities, high-end residential, concerts and concert facilities.

ON Semiconductor/Aftermaster Audio Chip and Software

The Company is party to a multi-year joint development and marketing agreement with ON Semiconductor ("ON") of Phoenix, Arizona, to commercialize its technology through audio semiconductor chips. ON is a multi-billion dollar, multi-national semiconductor designer and manufacturer.

The agreement calls for ON to implement and support our Aftermaster technology in a Digital Signal Processor (DSP) semiconductor chip that is being marketed to their current OEM customers, distributors and others. We selected ON for its technical capabilities, sales support and deep customer pool.

In conjunction with ON, we have completed the development of an Aftermaster software algorithm that is designed to be used in semiconductor chips or as a standalone software product. We believe the sound quality from our algorithm provides a superior audio experience relative to other products on the market.

Now branded the BelaSigna 300 AM chip, it is one of the smallest, high power/low voltage DSP chips available. It is small enough to fit into a hearing aid but equally effective in any size device with audio capability.

Since entering into the agreement, both the Company and ON have identified a large number of prospective customers that will be key targets for this new and unprecedented technology. The algorithm and chips allow consumer product manufacturers an opportunity to offer a significantly improved and differential audio experience in their products without having to significantly change hardware and form factor designs. Through the combined relationships of the Company and ON, we hope to generate significant revenues for both parties through the sale of the ON/AfterMaster chips and software licensing.

The sales efforts of our semiconductor chips and Aftermaster software have been substantially delayed, as the sales plans and efforts relied on the completion of the Aftermaster Pro, which was just recently completed. Despite the delay, the Company currently has several sales and licensing agreements pending which it expects to finalize during the year.

Promaster

Promaster is an online music mastering, streaming, and storage service designed for independent artists which utilizes proprietary audio technologies developed by Aftermaster.

Tens of millions of songs are produced, distributed and played on the Internet each month around the world by independent artists.

However, many of these artists lack the financial and technical means to master, or “finish” their composition, as a professional mastering session can cost up to $500 per song. Now, with the Promaster online platform, musicians can transmit their music directly to the Promaster HD website, where it can be mastered with Aftermaster technology for $9.99 per song. Each user receives four different mastered versions of their song done in different styles, and they can preview 90 seconds of each version to make a decision about whether or not they want to buy it.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - *continued*

Promaster creates a compelling offering for those seeking to significantly enhance the quality of their music for personal use, or with intent to showcase their music in hopes of advancing their career aspirations. Based on the enormous addressable market for this product, we believe that Promaster has the potential to generate significant revenues for the Company.

Our Promaster on-line music mastering product is in the final stages of a complete redesign including the addition of new features. The current website will remain active until the new website is launched in the coming months. www.promasterhd.com

Recording and Mastering Studios

Aftermaster operates six (6) recording and mastering studios at its Hollywood California facility. The Company's engineers mix and master music for both independent and high profile artists, and they are currently mastering the music for the hit TV show "Empire".

The Company recently took over the former recording studio built by music legends Crosby, Stills and Nash in 1977, which is located next to its existing studios. The Company recently completely renovated the studio and installed state-of-the-art equipment. The Company considers the new studio to be one of the finest recording studios in the US and expects it to begin generating revenues in the first quarter of 2018 www.aftermaster.com/studios

Adobe Audition

Aftermaster's Promaster on-line audio mastering service has been chosen to be included with Adobe® Audition® CC, a professional audio workstation for mixing, finishing and editing audio/video. The integration of Promaster will allow Adobe Audition CC users to instantly master their original work directly within Adobe Creative Cloud®. Promaster infuses the clearest, deepest sound quality into any recording, which elevates that audio to a studio remastered sound experience. Adobe's Audition CC with Promaster HD will enable its users to substantially cut editing time and enhance original audio work into fuller, deeper, louder and clearer tracks. When ready, users will install the Promaster extension from the Adobe Add-ons marketplace.

The integration of Promaster into Adobe Audition has been delayed due the Company undertaking a complete redesign of its ProMaster website including adding many new features to the platform. The Company expects to complete the integration in the coming months.

Aftermaster Audio Technology

Aftermaster audio technology was created and developed pursuant to a multi-year, multi-million dollar development effort to make digital audio sound substantially better by developing proprietary software, digital signal processing technology and consumer products. The Aftermaster Audio Labs team is comprised of a unique group of award-winning industry leaders in music, technology and audio engineering which includes Ari Blitz, Peter Doell, Rodney Jerkins, Larry Ryckman, Justin Timberlake, Paul Wolff, Andrew Wuepper and Shelly Yakus. See www.Aftermaster.com .

The Aftermaster audio technology is an internally-developed, proprietary (patented and patents pending) mastering, remastering and audio processing technology which makes virtually any audio source sound significantly louder, fuller, deeper and clearer. Aftermaster is a groundbreaking technology which eliminates the weaknesses found in other audio enhancement and processing technologies while offering a much superior audio experience for consumer and industrial applications. We believe that our Aftermaster audio technology is one of the most significant breakthroughs in digital audio processing technology and has the potential to create significant revenues for the Company. The broad commercialization of this technology is a top priority for the Company.

As the convergence of features on consumer electronics continues, it is becoming more difficult for leading consumer electronics companies to differentiate their products. We believe that Aftermaster provides a unique and significant competitive advantage for consumer electronics manufacturers by offering their customers a superior audio experience. Aftermaster technology can be incorporated into most audio capable devices through the addition of an Aftermaster DSP chip or Aftermaster software. Such uses are intended to include phones (i.e., mobile, home, business and VoIP); headphones; televisions; stereo speakers; stereos (i.e., home, portable, commercial and automobile); and computers (i.e., desktop, laptop and tablets).

Aftermaster audio is also the only commercial audio enhancement technology available that is used for professional music mastering because it enhances the entire frequency range without distortion or changing the underlying intent of the music. The technology has been used to master music created by some of the worlds most populat artists. Further information on Aftermaster and Aftermaster products can be found at www.Aftermaster.com.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - *continued*

Intellectual Property and Licensing

The Company has been awarded six patents and six trademarks with numerous others pending. The Company has an aggressive intellectual property strategy to protect the Aftermaster and the related technologies it has developed. We also enter into confidentiality and invention assignment agreements with our employees and consultants and confidentiality agreements with third parties. We rigorously control access to our proprietary technologies. During the year, the Company engaged Morgan Chu of Irell and Manella, to represent its intellectual property interests along with its existing IP attorneys Farjami & Farjami LLP and Arnold Weintraub of the Weintraub Group. Mr. Weintraub serves on the Board of the Company.

Employees

As of June 30, 2017, we employed thirteen full-time and one part-time employees. We expect to add additional employees in the next year to handle anticipated potential growth.

We believe that our relationship with our employees is good. None of our employees are members of any union nor have they entered into any collective bargaining agreements.

Facilities

We lease offices in Hollywood, California (located at 6671 Sunset Blvd., Suite 1520, 1518 and 1550, Hollywood, California, 90028) for corporate, research, engineering and mastering services. The lease expires on December 31, 2017. The total lease expense for the facility is approximately $17,220 per month, and the total remaining obligations under these leases at September 30, 2017, were approximately $52,722.

We lease a warehouse space located at 8260 E Gelding Drive, Suite 102, Scottsdale, Arizona, 85260. The lease expires on February 28, 2019. The total lease expense for the facility is approximately $1,888 per month, and the total remaining obligations under this leases at September 30, 2017, were approximately $5,786.

We lease corporate offices located at 7825 E Gelding Drive, Suite 101, Scottsdale, Arizona, 85260. The lease expires on April 30, 2021. The total lease expense for the facility is approximately $7,224 per month, and the total remaining obligations under this leases at September 30, 2017, were approximately $22,701.

We lease corporate offices located at 7825 E Gelding Drive, Suite 103, Scottsdale, Arizona, 85260. The lease expires on April 30, 2021. The total lease expense for the facility is approximately $3,000 per month, and the total remaining obligations under this leases at September 30, 2017, were approximately $9,000.

RESULTS OF OPERATIONS

Revenues

	For the Three Months Ended September 30,	
	2017	2016
AfterMaster Revenues	$ 120,715	$ 54,486
AfterMaster Product Revenues	494,681	-
Total Revenues	$ 615,396	$ 54,486

We currently generate revenue from our operations through three activities: AfterMaster revenues and AfterMaster product revenues.

AfterMaster revenues are generated primarily from AfterMaster audio services provided to producers and artists on a contract basis. We hope this source of revenue grows in coming years, and the Company is expecting to generate additional revenues in this category from on-line mastering downloads and the development of the AfterMaster software algorithm and chip, although such growth and additional revenues are not assured and may not occur. AfterMaster revenues for the three months ended September 30, 2017, increased to $120,715, as compared to $54,486 for the comparable three months ended September 30, 2016, the increases were due primarily to an increase in the mastering and remastering of music and licensing by our customers and recognition of deferred revenues from sales.

Product revenues are generated through the sale of the AfterMaster TV Pro. Our product revenues were $494,681 and $0 during the three months ended September 30, 2017 and 2016. The increase was due to the company introducing the produce for sale in the fourth quarter of the prior fiscal year.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - *continued*

In the aggregate, total Company revenues increased to $615,396 for the three months ended September 30, 2017, as compared to total revenues of $54,486 for the three months ended September 30, 2016, due to the company launching the AfterMaster TV Pro after the prior quarter.

	For the Three Months Ended September 30,	
	2017	2016
Cost of Revenues (excluding depreciation and amortization)	$ 156,328	$ 162,095

Cost of sales consists primarily of manufacturing cost of the AfterMaster Pro TV consumer electronic product, AfterMaster Studio Rent, Consultants, senior engineers, and Internet connectivity and excludes depreciation and amortization on the studios. The decrease in cost of sales for the three months ended September 30, 2017, over the comparable three-month period, is attributable, primarily, to a decrease in utilities, salaries, and overhead costs offset by increases in cost directly related to AfterMaster Pro TV and rent expense. The company had manufacturing cost in the amount of $91,398 for the AfterMaster Pro TV for the three months ending September 30, 2017.

Other Operating Expenses

	For the Three Months Ended September 30,	
	2017	2016
Depreciation and Amortization Expense	$ 38,969	$ 40,539
Research and Development	2,194	66,995
Advertising and Promotion Expense	2,016	15,079
Legal and Professional Expense	14,190	24,266
Non-Cash Consulting Expense	76,438	871,971
General and Administrative Expenses	786,990	712,836
Total	$ 920,797	$ 1,731,686

Operating expenses consist primarily of compensation and related costs for our finance, legal, human resources, investor relation, Public relations and information technology personnel; advertising and promotion expenses; rent and facilities; and expenses related to the issuance of stock compensation. During the three months ended September 30, 2017, General and administrative expenses increased by $74,154 as compared to the three months ending September 30, 2016. The increases in General and administrative expenses is due to increases in consulting services, insurance expense, and wages expense partially set of by increases in tradeshows and investor relations.

During the three months ended September 30, 2017, Research and Development costs decreased by $64,801, Advertising and Promotion decreased by $13,063, Legal and Professional fees decreased by $10,076 and consulting services decreased by $795,533, as compared to the three ending September 30, 2016. The decreases in Research and Development, decreases in Advertising and Promotion, and consulting services are primarily due to the design, development and marketing of its Aftermaster Pro consumer hardware product. Legal and Professional fees decrease are primarily to the company only using one attorney on a monthly retainer to handle all the company's legal needs.

Other Expense

	For the Years Ended September 30,	
	2017	2016
Interest Expense	$ (875,313)	(369,073)
Derivative Expense	(133,652)	-
Change in Fair Value of Derivative	(209,039)	(111)
Loss on Extinguishment of Debt	(34,958)	-
Total	$ (1,252,962)	$ (369,184)

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - *continued*

The other expenses during the quarter ended September 30, 2017, totaling $1,252,962 of expenses, which consists of interest expense, derivative expense, change in fair value of derivative, and loss on extinguishment of debt. During the comparable period in 2016, other expenses totaled $369,184. Interest expense has increased primarily due to an increase in non-cash interest expense relating to warrants attached to recent debt discount. These additional borrowings have been used in the development of the AfterMaster HD. Derivative expense and change in fair value of derivatives has increased due to the issuance of derivative instruments in the current period and the company revaluing the instruments at the end of the current period. Loss on extinguishment of debt increased in the current period due to notes extinguished in the current period.

Net Loss

	For the Three Months Ended September 30,	
	2017	2016
Net Loss	$ (1,714,691)	$ (2,208,479)

Due to the Company's cash position, we use our Common Stock as currency to pay many employees, vendors and consultants. Once we have raised additional capital from outside sources, as well as generated cash flows from operations, we expect to reduce the use of Common Stock as a significant means of compensation. Under FASB ASC 718, "*Accounting for Stock-Based Compensation" and ASC 505, Equity Based Payments to Non-Employees"*, these non-cash issuances are expensed at the equity instruments fair market value. Absent these large stock-based compensations of $76,438 and $871,971, derivative expense of $133,652 and $0, loss on the change in the derivative liability of $209,039 and $111 for the three months ended September 30, 2017 and 2016, our net loss would have been $1,295,562 and $1,336,397 for three months ended September 30, 2017 and 2016, respectively.

LIQUIDITY AND CAPITAL RESOURCES

The Company had revenues of $615,396 during the three months ended September 30, 2017 as compared to $54,486 in the comparable quarter of 2016. The Company has incurred losses since inception of $74,018,242. At September 30, 2017, the Company has negative working capital of $9,984,833, which was a decrease in working capital of $1,113,721 from June 30, 2017.

The Company had cash of $86,634 as of September 30, 2017, as compared to $250,728 as of June 30, 2017. The decrease is a result of the company entering into ten (10) Share Purchase Agreements with individual accredited investors resulting in net proceeds of $168,500, three (3) notes payable resulting in net proceeds of $175,000, one (1) related notes payable resulting in net proceeds of $18,000, and ten (10) convertible notes payable resulting in net proceeds of $438,500 compared to thirty-five (35) Share Purchase Agreements with individual accredited investors resulting in net proceeds of $1,344,648 to the Company in the prior year. This amount was also decreased by operational costs, purchases of assets, and payments of obligations from convertible notes, notes, and lease payables. The company had more expenses during the quarter then the funding which resulted in a decrease in cash. The decrease is related to the company having less funding during the quarter ending September 30, 2017 as compared to June 30, 2017.

The Company had prepaid expense of $462,720 as of September 30, 2017, as compared to $507,254 as of June 30, 2017. The decrease is due to the Company amortizing the prepaid expenses totaling $76,438 over the three months ended September 30, 2017, partially offset by the issuance of two consulting agreements entered into in the current period.

The future of the Company as an operating business will depend on its ability to obtain sufficient capital contributions and/or financing as may be required to sustain its operations. Management's plan to address these issues includes a continued exercise of tight cost controls to conserve cash and obtaining additional debt and/or equity financing.

As we continue our activities, we will continue to experience net negative cash flows from operations, pending receipt of significant revenues that generate a positive sales margin.

The Company expects that additional operating losses will occur until net margins gained from sales revenue is sufficient to offset the costs incurred for marketing, sales and product development. Until the Company has achieved a sales level sufficient to break even, it will not be self-sustaining or be competitive in the areas in which it intends to operate.

In addition, the Company will require substantial additional funds to continue production and installation of the additional studios and to fully implement its marketing plans.

As of September 30, 2017, the existing capital and anticipated funds from operations were not sufficient to sustain Company operations or the business plan over the next twelve months. We anticipate substantial increases in our cash requirements which will require additional capital to be generated from the sale of Common Stock, the sale of Preferred Stock, equipment financing, debt financing and bank borrowings, to the extent available, or other forms of financing to the extent necessary to augment our working capital. In the event we cannot obtain the necessary capital to pursue our strategic business plan, we may have to significantly curtail our operations. This would materially impact our ability to continue operations. There is no assurance that the Company will be able to obtain additional funding when needed, or that such funding, if available, can be obtained on terms acceptable to the Company.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - *continued*

Recent global events, as well as domestic economic factors, have recently limited the access of many companies to both debt and equity financings. As such, no assurance can be made that financing will be available or available on terms acceptable to the Company, and, if available, it may take either the form of debt or equity. In either case, any financing will have a negative impact on our financial condition and will likely result in an immediate and substantial dilution to our existing stockholders.

Although the Company intends to engage in a subsequent equity offering of its securities to raise additional working capital for operations, the Company has no firm commitments for any additional funding, either debt or equity, at the present time. Insufficient financial resources may require the Company to delay or eliminate all or some of its development, marketing and sales plans, which could have a material adverse effect on the Company's business, financial condition and results of operations. There is no certainty that the expenditures to be made by the Company will result in a profitable business proposed by the Company.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not required.

ITEM 4T. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer, President, and Chief Financial Officer (the "Certifying Officers") are responsible for establishing and maintaining disclosure controls and procedures for the Company. The Certifying Officers have designed such disclosure controls and procedures to ensure that material information is made known to them, particularly during the period in which this Report was prepared.

The Certifying Officers responsible for establishing and maintaining adequate internal control over financial reporting for the Company used the "Internal Control over Financial Reporting Integrated Framework" issued by Committee of Sponsoring Organizations ("COSO") to conduct an extensive review of the Company's "disclosure controls and procedures" (as defined in the Exchange Act, Rules 13a-15(e) and 15-d-15(e)) as of the end of each of the periods covered by this Report (the "Evaluation Date"). Based upon that evaluation, the Certifying Officers concluded that, as of September 30, 2016, our disclosure controls and procedures were not effective in ensuring that the information we were required to disclose in reports that we file or submit under the Securities and Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission ("SEC") rules and forms.

The Certifying Officers based their conclusion on the fact that the Company has identified material weaknesses in controls over financial reporting, detailed below. In order to reduce the impact of these weaknesses to an acceptable level, hawse have contracted with consultants with expertise in U.S. GAAP and SEC financial reporting standards to review and compile all financial information prior to filing that information with the SEC. However, even with the added expertise of these consultants, we still expect to be deficient in our internal controls over disclosure and procedures until sufficient capital is available to hire the appropriate internal accounting staff and individuals with requisite GAAP and SEC financial reporting knowledge. There have been no significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting that occurred in the three months ended September 30, 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Legal Proceedings

The Company may become involved in certain legal proceedings and claims which arise in the normal course of business. The

Company is not a party to any litigation. To the best of the knowledge of our management, there are no material litigation matters pending or threatened against us.

ITEM 1A - RISK FACTORS

Not required.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

During the three months ended September 30, 2017, no matters were submitted to the shareholders for a vote.

ITEM 5. OTHER INFORMATION

Subsequent Events

None

ITEM 6. EXHIBITS

a) The following Exhibits are filed herein:

NO.	TITLE
31.1	Certification of Chief Executive Officer pursuant to the Securities Exchange Act of 1934, Rules 13a-14 and 15d-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to the Securities Exchange Act of 1934, Rules 13a-14 and 15d-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer and of Chief Financial officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase
101.DEF*	XBRL Taxonomy Extension Definition Linkbase
101.LAB*	XBRL Taxonomy Extension Label Linkbase
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase

SIGNATURES

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

AFTERMASTER, INC.

Date: November 16, 2017

By: /s/ Larry Ryckman
Larry Ryckman,
Title: President and Chief Executive Officer

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

AFTERMASTER, INC.

Date: November 16, 2017

By: /s/ Larry Ryckman
Larry Ryckman,
Title: Director, President, Chief Executive Officer

AFTERMASTER, INC.

Date: November 16, 2017

By: /s/ Mirella Chavez
Mirella Chavez
Title: Chief Financial Officer, Secretary