

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, 2016

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
Non-accelerated filer

Accelerated filer
Smaller reporting company

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

At November 14, 2016, the number of shares outstanding of Common Stock, \$0.001 par value, was 104,342,979 shares.

AFTERMASTER, INC.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

AFTERMASTER, INC.
Consolidated Balance Sheets

	September 30, 2016 <u>(Unaudited)</u>	June 30, 2016 <u></u>
ASSETS		
Current Assets		
Cash	\$ 971,712	\$ 394,325
Accounts receivable, net	15,995	11,389
Inventory	41,333	-
Available for sale securities	87,000	63,600
Prepaid expenses	453,935	1,078,819
Total Current Assets	<u>1,569,975</u>	<u>1,548,133</u>
Property and equipment, net	313,928	294,557
Intangible assets, net	115,629	99,186
Deposits	33,363	33,363
Prepaid expenses, net of current	15,920	18,217
Total Assets	<u>\$ 2,048,815</u>	<u>\$ 1,993,456</u>
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current Liabilities		
Accounts payable and other accrued expenses	\$ 349,415	\$ 225,001
Accrued interest	69,411	77,335
Deferred revenue	754,571	740,200
Accrued consulting services - related party	27,864	28,561
Lease payable	-	984
Notes payable - related party	575,000	575,000
Notes payable	40,488	40,488
Convertible notes payable - related party	3,925,000	3,925,000
Convertible notes payable, net of discount of \$47,413 and \$22,282, respectively	2,111,411	1,029,718
Total Current Liabilities	7,853,160	6,642,287
Total Liabilities	<u>7,853,160</u>	<u>6,642,287</u>
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 2,615,000 and 2,185,000 shares issued and outstanding, respectively	2,615	2,185
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; 103,892,588 and 102,133,344 shares issued and outstanding, respectively	103,901	102,140
Additional paid In capital	60,025,286	58,997,912
Accumulated other comprehensive income	57,000	33,600
Accumulated Deficit	<u>(65,993,671)</u>	<u>(63,785,192)</u>
Total Stockholders' Deficit	<u>(5,804,345)</u>	<u>(4,648,831)</u>
Total Liabilities and Stockholders' Deficit	<u>\$ 2,048,815</u>	<u>\$ 1,993,456</u>

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

AFTERMASTER, INC.

Consolidated Statements of Operations and Comprehensive Income (Loss)
(Unaudited)

	For the Three Months Ended September 30,	
	<u>2016</u>	<u>2015</u>
REVENUES		
AfterMaster Revenues	54,486	19,780
Licensing Revenues	-	1,800,000
Total Revenues	<u>54,486</u>	<u>1,819,780</u>
COSTS AND EXPENSES		
Cost of Revenues (Exclusive of Depreciation and Amortization)	162,095	93,134
Depreciation and Amortization Expense	40,539	17,018
Research and Development	66,995	26,785
Advertising and Promotion Expense	15,079	1,518
Legal and Professional Expense	24,266	126,734
Non-Cash Consulting Expense	871,971	879,545
General and Administrative Expenses	<u>712,836</u>	<u>1,131,982</u>
Total Costs and Expenses	<u>1,893,781</u>	<u>2,276,716</u>
Loss from Operations	<u>(1,839,295)</u>	<u>(456,936)</u>
Other Income (Expenses)		
Interest Expense	369,073	(180,380)
Change in Fair Value of Derivative	(111)	4,374,585
Gain (Loss) on Extinguishment of Debt	-	95,447
Total Other Income (Expenses)	<u>(369,184)</u>	<u>4,289,652</u>

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

	For the Three Months Ended September 30,	
	2016	2015
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Gain (Loss) on Extinguishment of Debt	-	95,447
Total Other Income (Expenses)	(369,184)	4,289,652
Income (Loss) Before Income Taxes	(2,208,479)	3,832,716
Income Tax Expense	-	-
NET INCOME (LOSS)	\$ (2,208,479)	\$ 3,832,716
Preferred Stock Accretion and Dividends	(42,238)	(16,789)
NET INCOME (LOSS) AVAILABLE TO COMMON SHAREHOLDERS	\$ (2,250,717)	\$ 3,815,927
Basic Income (Loss) Per Share of Common Stock	\$ (0.02)	\$ 0.04
Weighted Average Number of Shares Outstanding	102,516,086	95,491,549
Diluted Income (Loss) Per Share of Common Stock	\$ (0.02)	\$ 0.03
Diluted Weighted Average Number of Shares Outstanding	102,516,086	119,351,785
Other Comprehensive Income, net of tax		
NET LOSS AVAILABLE TO COMMON SHAREHOLDERS	(2,250,717)	3,815,927
Unrealized gain (loss) on AFS Securities	23,400	(600,000)
COMPREHENSIVE INCOME (LOSS)	\$ (2,227,317)	\$ 3,215,927

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,
2016 2015

OPERATING ACTIVITIES

Net Income (Loss)	\$ (2,208,479)	\$ 3,832,716
Adjustments to reconcile net income (loss) to net cash from operating activities:		
Depreciation and amortization	40,539	17,018
Share-based compensation - Common Stock	106,014	128,061
Common stock issued for services and rent	3,838	140,917
Common stock issued for preferred dividends	-	11,981
Common stock issued to extend the maturity dates on debt	60,000	-
Amortization of debt discount and issuance costs	92,241	-
(Gain)/Loss on extinguishment of debt	-	(95,447)
Gain (loss) remeasurement of derivative	111	(4,374,585)
Licensing Revenue from the issuance of AFS Securities	-	(1,800,000)
Changes in Operating Assets and Liabilities:		
Other receivables	(4,606)	3,500
Inventory	(41,333)	-
Other assets	745,431	789,364
Accounts payable and accrued expenses	124,414	221,489
Accrued interest	216,880	-
Deferred revenue	14,371	-
Accrued consulting services - related party	(697)	-
Net Cash Used in Operating Activities	(851,276)	(1,124,986)

INVESTING ACTIVITIES

Purchase of property and equipment	(53,353)	(15,395)
Purchase of intangible assets	(23,000)	-
Net Cash Used in Investing Activities	(76,353)	(15,395)

FINANCING ACTIVITIES

A-1 Preferred Stock issued for cash	346,000	14,090
Proceeds from convertible notes payable	1,160,000	-
Repayments of convertible notes payable	-	(17,500)
Lease Payable	(984)	(10,732)
Net Cash Provided by Financing Activities	1,505,016	(14,142)
NET INCREASE (DECREASE) IN CASH	577,387	(1,154,523)
CASH AT BEGINNING OF PERIOD	394,325	2,185,702
CASH AT END OF PERIOD	\$ 971,712	\$ 1,031,179

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

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

For the Three Months Ended
September 30,

2016 2015

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	<u>(851,276)</u>	<u>(1,124,986)</u>
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SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

CASH PAID FOR:

Interest	\$ -	\$ -
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NON CASH FINANCING ACTIVITIES:

Beneficial conversion feature	\$ 30,519	\$
Conversion of notes and Interest into common stock	\$ 334,804	\$ 296,693
Conversion of preferred stock for common stock	\$ -	\$ 50
Common stock and warrants issued for interest	\$ -	\$ 527,000
Conversion of Derivative Liability	\$ 56,791	\$ 8,440,357
MTM on AFS securities	\$ 23,400	\$ -
Common stock issued with convertible debt	\$ 33,349	\$ -
Common stock issued for prepaid expenses	\$ 118,250	\$ -
Derivative liability	\$ 56,680	\$ -

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

AFTERMASTER, INC.

Notes to Consolidated Financial Statements

September 30, 2016 and June 30, 2016

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, 2016, 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, 2015 audited financial statements. The results of operations for the periods ended September 30, 2016 and 2015 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 \$65,993,671, negative working capital of \$6,283,185, 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 POLICIESUse 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

AFTERMASTER, INC.

Notes to Consolidated Financial Statements
September 30, 2016 and June 30, 2016

NOTE 1 – CONDENSED FINANCIAL STATEMENTS

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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 income 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.

Notes and Other Receivables

Notes and other 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, 2016 and June 30, 2016

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.

The fair value of the Company's notes payable at September 30, 2016 is approximately \$6,651,899. 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.

Reclassification

Certain amounts in the prior period financial statements have been reclassified to conform to the current period presentation. These reclassifications had no effect on reported losses.

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 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, 2016 and 2015 due to net operating losses for which there is no benefit currently available.

At September 30, 2016, 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.

The Company's revenues are generated from AfterMaster products and services, and licensing fees. Revenues related to licensing fees generated per a term sheet with bBooth are recorded when payment is received as there is no current executed agreement in place and the term of use is indefinite, pursuant to which bBooth agreed to acquire exclusive rights to license certain technologies, intellectual property, and patents from

AFTERMASTER, INC.

Notes to Consolidated Financial Statements
September 30, 2016 and June 30, 2016

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continuedFair 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.

The fair value of the Company's notes payable at September 30, 2016 is approximately \$6,651,899. 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.

Reclassification

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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.

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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.

The Company's revenues are generated from AfterMaster products and services, and licensing fees. Revenues related to licensing fees generated per a term sheet with bBooth are recorded when payment is received as there is no current executed agreement in place and the term of use is indefinite, pursuant to which bBooth agreed to acquire exclusive rights to license certain technologies, intellectual property, and patents from AfterMaster. The key terms of the letter agreement consist of the following:

- bBooth agreed to pay the Company \$1,250,000 over 18 months, for a conditional perpetual license of intellectual property (including related patents and other assets), of which, to date, \$200,000 has been received;

- bBooth agreed to grant 600,000 shares of our common stock to Studio One, which shares were received on November 10, 2014 valued at \$1,800,000 and;
- upon full receipt of the \$1,250,000 cash consideration, Bbooth will have the option to purchase six complete MyStudio booths, one fully operational mobile studio and truck, and an interest in its MyStudio TV show, for nominal additional consideration.

AFTERMASTER, INC.
Notes to Consolidated Financial Statements
September 30, 2016 and June 30, 2016

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Loss Per Share

Basic earnings (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, 2016 and 2015 of \$42,238 and \$16,789, respectively.

Diluted earnings per Common Share is computed by dividing income (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, 2016 and 2015, 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 27,689,839 and 23,860,236 at September 30, 2016 and 2015, 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, 2016					
	<u>Amortized cost</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized losses</u>	<u>Gross realized gains</u>	<u>Gross realized losses</u>	<u>Fair value</u>
Equity securities	\$ 63,600	\$ 23,400	\$ -	\$ -	\$ -	\$ 87,000
	June 30, 2016					
	<u>Amortized cost</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized losses</u>	<u>Gross realized gains</u>	<u>Gross realized losses</u>	<u>Fair value</u>
Equity securities	\$ 1,800,000	\$ 15,600	\$ -	\$ -	\$ (1,752,000)	\$ 63,600

NOTE 5 – NOTES PAYABLE

Convertible Notes Payable

AFTERMASTER, INC.

Notes to Consolidated Financial Statements
September 30, 2016 and June 30, 2016

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continuedLoss Per Share

Basic earnings (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, 2016 and 2015 of \$42,238 and \$16,789, respectively.

Diluted earnings per Common Share is computed by dividing income (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, 2016 and 2015, 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 27,689,839 and 23,860,236 at September 30, 2016 and 2015, 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

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	September 30, 2016					
	<u>Amortized cost</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized losses</u>	<u>Gross realized gains</u>	<u>Gross realized losses</u>	<u>Fair value</u>
Equity securities	\$ 63,600	\$ 23,400	\$ -	\$ -	\$ -	\$ 87,000

	June 30, 2016					
	<u>Amortized cost</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized losses</u>	<u>Gross realized gains</u>	<u>Gross realized losses</u>	<u>Fair value</u>
Equity securities	\$ 1,800,000	\$ 15,600	\$ -	\$ -	\$ (1,752,000)	\$ 63,600

NOTE 5 – NOTES PAYABLEConvertible 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.

AFTERMASTER, INC.
Notes to Consolidated Financial Statements
September 30, 2016 and June 30, 2016

NOTE 5 – NOTES PAYABLE - *continued*

Convertible Notes Payable – Related Parties

Convertible notes payable due to related parties consisted of the following as of September 30, 2016 and June 30, 2016, respectively:

	September 30, 2016	June 30, 2016
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, 2016 and June 30, 2016.	\$ 3,925,000	\$ 3,925,000
Total convertible notes payable – related parties	3,925,000	3,925,000
Less current portion	3,925,000	3,925,000
Convertible notes payable – related parties, long-term	\$ -	\$ -

The notes were amended on February 15, 2016 to March 16, 2016. 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.

Convertible Notes Payable - Non-Related Parties

Convertible notes payable due to non-related parties consisted of the following as of September 30, 2016 and June 30, 2016, respectively:

	September 30, 2016	June 30, 2016
\$15,000 face value, issued in October 2011, interest rate of 10%, matures in June 2012, net of unamortized discount of \$0 as of September 30, 2016. and June 30, 2016, respectively.	\$ 15,000	\$ 15,000
\$50,000 face value of which \$50,000 was converted.	-	50,000
\$20,000 face value, issued in June 2014, interest rate of 6%, matures December 2014, net unamortized discount of \$0 as of September 30, 2016 and June 30, 2016 respectively.	20,000	20,000
\$7,000 face value, issued in July 2014, interest rate of 6%, matures October 2014, net unamortized discount of \$0 as of September 30, 2016 and June 30, 2016, respectively.	7,000	7,000
\$100,000 face value, issued in October 2015, interest rate of 6%, matures February 2016.	100,000	100,000
\$600,000 face value, issued in November 2015, interest rate of 0%, an OID of \$100,000, matures May 2016, net unamortized discount of \$0 of September 30, 2016 and June 30, 2016, respectively.	600,000	600,000
\$100,000 face value, issued in February 2016, interest rate of 10%, matures February 2017, net unamortized discount of \$1,311 and \$2,993 of September 30, 2016 and June 30, 2016, respectively .	98,689	97,007
\$15,000 face value, issued in February 2016, interest rate of 10%, matures February 2017, net unamortized discount of \$196 and \$462 of September 30, 2016 and June 30, 2016, respectively .	14,804	14,538
\$25,000 face value, issued in February 2016, interest rate of 10%, matures February 2017, net unamortized discount of \$328 and \$3,354 of September 30, 2016 and June 30, 2016, respectively .	24,672	21,646
\$10,000 face value, issued in February 2016, interest rate of 10%, matures February 2017, net unamortized discount of \$401 and \$1,382 of September 30, 2016 and June 30, 2016, respectively .	9,599	8,618
\$100,000 face value, issued in March 2016, interest rate of 10%, matures March 2017, net unamortized discount of \$12,483 and \$13,765 of September 30, 2016 and June 30, 2016, respectively .	87,517	86,235

AFTERMASTER, INC.
Notes to Consolidated Financial Statements
September 30, 2016 and June 30, 2016

NOTE 5 – NOTES PAYABLE - continued

\$10,000 face value, issued in March 2016, interest rate of 10%, matures March 2017, net unamortized discount of \$1,248 and \$326 of September 30, 2016 and June 30, 2016, respectively .	8,752	9,674
\$50,000 face value, issued in July 2016, interest rate of 0%, matures September 2016, net unamortized discount of \$0 of September 30, 2016	50,000	-
\$30,000 face value, issued in August 2016, interest rate of 0%, matures October 2016, net unamortized discount of \$1,198 of September 30, 2016	28,802	-
\$50,000 face value, issued in August 2016, interest rate of 0%, matures August 2017.	50,000	-
\$30,000 face value, issued in August 2016, interest rate of 0%, matures October 2016, net unamortized discount of \$1,238 of September 30, 2016.	28,762	-
\$1,000,000 face value, issued in September 2016, interest rate of 10%, matures December 22, 2016, net unamortized discount of \$32,186 of September 30, 2016.	967,814	-
Total convertible notes payable – non-related parties	<u>2,111,411</u>	<u>1,029,718</u>
Less current portion	<u>2,111,411</u>	<u>1,029,718</u>
Convertible notes payable – non-related parties, long-term	<u>\$ -</u>	<u>\$ -</u>

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 options to purchase 35,000 shares of 144 restricted common stock at an exercise price \$0.50 for a two-year period.

On August 08, 2016, the Company issued a convertible note to an unrelated individual for \$30,000 that matures on October 08, 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 options to purchase 21,000 shares of 144 restricted common stock at an exercise price \$0.50 for a two-year period.

On August 11, 2016, the Company issued a convertible note to an unrelated individual for \$30,000 that matures on October 11, 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 options to purchase 21,000 shares of 144 restricted common stock at an exercise price \$0.50 for a two-year period.

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.

On September 1, 2016, an unrelated individual converted a convertible note entered into on August 21, 2012, with a principal balance of \$50,000 and \$21,164 in accrued interest at a rate of \$0.25 per share of the Company's Common stock for 280,650 shares.

On September 27, 2016, the Company issued a convertible note to an unrelated individual for \$1,000,000 that matures on December 22, 2016. The fund will be used for the manufacturing of the companies AfterMaster Pro TV box. 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, as part of the note the company issued 100,000 shares of 144 restricted common stock for a value of \$33,349.

Notes Payable – Related Parties

Notes payable due to related parties consisted of the following as of September 30, 2016 and June 30, 2016, respectively:

	September 30, 2016	June 30, 2016
	<u> </u>	<u> </u>
Various term notes with total face value of \$610,000 issued from April 11 to January 2014, interest rates range from 0% to 15%, net of unamortized discount of \$0 as of September 30, 2016, and June 30, 2016, respectively, of which \$35,000 has been paid.	\$ 575,000	\$ 575,000
Total notes payable – related parties	575,000	575,000
Less current portion	575,000	575,000
Notes payable - related parties, long term	<u>\$ -</u>	<u>\$ -</u>

AFTERMASTER, INC.
Notes to Consolidated Financial Statements
September 30, 2016 and June 30, 2016

NOTE 5 – NOTES PAYABLE - continuedNotes Payable – Non-Related Parties

Notes payable due to non-related parties consisted of the following as of September 30, 2016 and June 30, 2016, respectively:

	September 30, 2016	June 30, 2016
Various term notes with total face value of \$40,488 due upon demand, interest rates range from 0% to 14%.	\$ 40,488	\$ 40,488
Total note payable – non-related parties	40,488	40,488
Less current portion	40,488	40,488
Notes payable – non-related parties, long-term	\$ -	\$ -

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	2,615,000	277,915
Series B Convertible Preferred	200,000	3,500	79,099
Series C Convertible Preferred	1,000,000	13,404	-
Series D Convertible Preferred	375,000	130,000	130,000
Series E Convertible Preferred	1,000,000	275,000	275,000
Series P Convertible Preferred	600,000	86,640	-
Series S Convertible Preferred	50,000	-	-
Total Preferred Stock	6,325,000	3,139,044	\$ 762,014

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.

AFTERMASTER, INC.

Notes to Consolidated Financial Statements
September 30, 2016 and June 30, 2016

NOTE 6 – CONVERTIBLE PREFERRED STOCK - continued

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.

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, 2016 the Company issued 430,000 shares of Series A-1 Preferred Stock for \$346,000 in cash.

During the fiscal years ended June 30, 2016 the Company issued 1,669,000 shares of Series A-1 Preferred Stock for \$1,382,390 in cash, net of \$286,610 of issuance costs, respectively. The Company had two conversions of 100,000 shares of Series A-1 Preferred Stock for 200,000 shares of Common Stock, and issued 59,326 shares of Common Stock of payment of \$26,769 in accrued dividends.

During the fiscal years ended June 30, 2015 the Company had three conversions of 80,000 shares of Series A-1 Preferred Stock for 160,000 shares of Common Stock, and issued 54,119 shares of Common Stock of payment of \$18,988 in accrued dividends.

During the three months ended September 30, 2016 and 2015, the outstanding Preferred Stock accumulated \$42,238 and \$16,789 in dividends on outstanding Preferred Stock. The cumulative dividends in arrears as of September 30, 2016 were approximately \$734,781.

NOTE 7 – COMMON STOCK

The Company has authorized 250,000,000 shares of \$0.001 par value per share Common Stock, of which 103,892,588 and 102,133,344 were issued outstanding as of September 30, 2016 and June 30, 2016, respectively. The Company amended its articles of incorporation on August 28, 2015 to increase the number of authorized shares to 250,000,000. The activity surrounding the issuances of the Common Stock is as follows:

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.

AFTERMASTER, INC.

Notes to Consolidated Financial Statements
September 30, 2016 and June 30, 2016

NOTE 7 – COMMON STOCK - *continued*

For the Three Months Ended September 30, 2015

The Company issued 1,048,173 shares of Common Stock for the conversion of notes and accrued interest valued at \$125,998.

The Company also issued 100,000 shares of Common Stock for the conversion of 50,000 shares of Series A-1 Preferred Stock and issued 27,863 shares of Common Stock of payment of \$12,932 in accrued dividends.

The Company issued 301,949 shares of Common Stock as payment for services and rent valued at \$140,917.

As share-based compensation to employees and non-employees, the Company issued 156,458 shares of common stock valued at \$67,277, based on the market price of the stock on the date of issuance. As interest expense on outstanding notes payable, the Company issued 396,964 shares of common stock valued at \$170,695 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, 2016 and fiscal year ended June 30, 2015, the Company did not issue any stock purchase options.

The following table summarizes the changes in options outstanding of the Company during the three months ended September 30, 2016.

	Number of Warrants	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value	Expiration Date (yrs)	Value if Exercised
Outstanding as of June 30, 2016	35,034,550	\$ 0.36	\$ 0.45	4.31	\$ 12,767,108
Granted	937,000	0.45	0.32	2.92	2,720,000
Exercised	-	-	-	-	-
Cancelled/Expired	(1,163,532)	0.30	-	-	(2,662,296)
Outstanding as of September 30, 2016	34,808,018	\$ 0.37	\$ 0.48	4.20	\$ 12,824,812

The following table summarizes the changes in options outstanding of the Company during the fiscal year ended June 30, 2016.

AFTERMASTER, INC.

Notes to Consolidated Financial Statements
September 30, 2016 and June 30, 2016

NOTE 7 – COMMON STOCK - continuedFor the Three Months Ended September 30, 2015

The Company issued 1,048,173 shares of Common Stock for the conversion of notes and accrued interest valued at \$125,998.

The Company also issued 100,000 shares of Common Stock for the conversion of 50,000 shares of Series A-1 Preferred Stock and issued 27,863 shares of Common Stock of payment of \$12,932 in accrued dividends.

The Company issued 301,949 shares of Common Stock as payment for services and rent valued at \$140,917.

As share-based compensation to employees and non-employees, the Company issued 156,458 shares of common stock valued at \$67,277, based on the market price of the stock on the date of issuance. As interest expense on outstanding notes payable, the Company issued 396,964 shares of common stock valued at \$170,695 based on the market price on the date of issuance.

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Stock Purchase Options

During the three months ended September 30, 2016 and fiscal year ended June 30, 2015, the Company did not issue any stock purchase options.

The following table summarizes the changes in options outstanding of the Company during the three months ended September 30, 2016.

	Number of Warrants	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value	Expiration Date (yrs)	Value if Exercised
Outstanding as of June 30, 2016	35,034,550	\$ 0.36	\$ 0.45	4.31	\$ 12,767,108
Granted	937,000	0.45	0.32	2.92	2,720,000
Exercised	-	-	-	-	-
Cancelled/Expired	(1,163,532)	0.30	-	-	(2,662,296)
Outstanding as of September 30, 2016	34,808,018	\$ 0.37	\$ 0.48	4.20	\$ 12,824,812

The following table summarizes the changes in options outstanding of the Company during the fiscal year ended June 30, 2016.

	Number of Warrants	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value	Expiration Date (yrs)	Value if Exercised
Outstanding as of June 30, 2015	31,981,778	\$ 0.43	\$ 0.50	4.98	\$ 13,585,289
Granted	5,172,000	0.45	0.33	3.52	2,316,000
Exercised	(813,360)	-	-	-	(630,364)
Cancelled/Expired	(175,868)	0.53	-	-	(2,513,817)
Outstanding as of June 30, 2016	35,034,550	\$ 0.36	\$ 0.45	4.31	\$ 12,767,108

Stock Purchase Warrants

During the three months ended September 30, 2016, the Company issued warrants to purchase a total of 937,000. The Company issued 77,000 warrants in conjunction with three promissory notes executed in July 2016 and August 2016. The Company also issued 860,000 warrants as part of a private placement. The warrants were valued using the Black-Scholes pricing model under the assumptions noted below. The Company apportioned value to the warrants based on the relative fair market value of the Common Stock and warrants.

AFTERMASTER, INC.

Notes to Consolidated Financial Statements
September 30, 2016 and June 30, 2016

NOTE 8 – STOCK PURCHASE OPTIONS AND WARRANTS - continued

During the fiscal year ended June 30, 2016, the Company issued warrants to purchase a total of 5,172,000. The Company issued 100,000 warrants in conjunction to an employment agreement entered into in July 2015 and 1,244,000 warrants in conjunction with a consulting agreement entered into December 2015 to June 2016. The Company issued 75,000 warrants in conjunction with a promissory note executed in October 2015. The Company issued 50,000 warrants as part of a commission's agreement, 175,000 warrants as part of four advisory agreements. The Company also issued 3,338,000 warrants as part of a private placement and 190,000 warrants as part a finder's fee agreement. The warrants were valued using the Black-Scholes pricing model under the assumptions noted below. The Company apportioned value to the warrants based on the relative fair market value of the Common Stock and warrants.

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

	September 30, 2016	June 30, 2016
Expected volatility	100-102%	106-114%
Expected dividends	0%	0%
Expected term	3 Years	2-5 Years
Risk-free interest rate	0.76-0.92%	0.71-1.01%

The following table summarizes the changes in warrants outstanding issued to employees and non-employees of the Company during the nine months ended September 30, 2016.

Date Issued	Number of Options	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value	Expiration Date (yrs)	Value if Exercised
Balance June 30, 2016	25,000	\$ 0.15	\$ 0.24	2.00	\$ 3,750
Granted	-	-	-	-	-
Exercised	-	-	-	-	-
Cancelled/Expired	-	-	-	-	-
Outstanding as of September 30, 2016	25,000	\$ 0.15	\$ 0.24	1.75	\$ 3,750

The following table summarizes the changes in warrants outstanding issued to employees and non-employees of the Company during the fiscal year ended June 30, 2016.

Date Issued	Number of Options	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value	Expiration Date (yrs)	Value if Exercised
Balance June 30, 2015	80,000	\$ 0.66	\$ 0.59	1.20	\$ 52,900
Granted	-	-	-	-	-
Exercised	-	-	-	-	-
Cancelled/Expired	(55,000)	0.89	-	-	(49,150)
Outstanding as of June 30, 2016	25,000	\$ 0.15	\$ 0.24	2.00	\$ 3,750

AFTERMASTER, INC.
Notes to Consolidated Financial Statements
September 30, 2016 and June 30, 2016

NOTE 8 – STOCK PURCHASE OPTIONS AND WARRANTS - continued

During the fiscal year ended June 30, 2016, the Company issued warrants to purchase a total of 5,172,000. The Company issued 100,000 warrants in conjunction to an employment agreement entered into in July 2015 and 1,244,000 warrants in conjunction with a consulting agreement entered into December 2015 to June 2016. The Company issued 75,000 warrants in conjunction with a promissory note executed in October 2015. The Company issued 50,000 warrants as part of a commission's agreement, 175,000 warrants as part of four advisory agreements. The Company also issued 3,338,000 warrants as part of a private placement and 190,000 warrants as part a finder's fee agreement. The warrants were valued using the Black-Scholes pricing model under the assumptions noted below. The Company apportioned value to the warrants based on the relative fair market value of the Common Stock and warrants.

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

	September 30, 2016	June 30, 2016
Expected volatility	100-102%	106-114%
Expected dividends	0%	0%
Expected term	3 Years	2-5 Years
Risk-free interest rate	0.76-0.92%	0.71-1.01%

The following table summarizes the changes in warrants outstanding issued to employees and non-employees of the Company during the nine months ended September 30, 2016.

Date Issued	Number of Options	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value	Expiration Date (yrs)	Value if Exercised
Balance June 30, 2016	25,000	\$ 0.15	\$ 0.24	2.00	\$ 3,750
Granted	-	-	-	-	-
Exercised	-	-	-	-	-
Cancelled/Expired	-	-	-	-	-
Outstanding as of September 30, 2016	25,000	\$ 0.15	\$ 0.24	1.75	\$ 3,750

The following table summarizes the changes in warrants outstanding issued to employees and non-employees of the Company during the fiscal year ended June 30, 2016.

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Balance June 30, 2015	80,000	\$ 0.66	\$ 0.59	1.20	\$ 52,900
Granted	-	-	-	-	-
Exercised	-	-	-	-	-
Cancelled/Expired	(55,000)	0.89	-	-	(49,150)
Outstanding as of June 30, 2016	25,000	\$ 0.15	\$ 0.24	2.00	\$ 3,750

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, 2016 and 2015. The fair values of the derivative instruments are measured each quarter, which resulted in a gain (loss) of \$(111) and \$4,374,585, and derivative expense of \$0 and \$0 during the three months ended September 30, 2016 and 2015, respectively. As of September 30, 2016 and June 30, 2016, the fair market value of the derivatives aggregated \$0 and \$0, respectively, using

the following assumptions: estimated 3-0 year term, estimated volatility of 104.34 -71.93%, and a discount rate of 0.88-0.24%.

AFTERMASTER, INC.

Notes to Consolidated Financial Statements
September 30, 2016 and June 30, 2016

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, 2016, are summarized as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Fair value of derivatives	\$ -	\$ -	\$ -	\$ -
Securities available-for-sale	\$ 87,000	\$ -	\$ -	\$ 87,000

Liabilities measured at fair value on a recurring basis at June 30, 2015, are summarized as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Fair value of derivatives	\$ -	\$ -	\$ -	\$ -
Securities available-for-sale	\$ 63,600	\$ -	\$ -	\$ 63,600

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 \$15,375 per month, and the total remaining obligations under these leases at September 30, 2016, were approximately \$226,769

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 \$1,821 per month, and the total remaining obligations under these leases at September 30, 2016 were approximately \$56,685

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 \$7,148 per month, and the total remaining obligations under these leases at September 30, 2016 were approximately \$437,455

AFTERMASTER, INC.

Notes to Consolidated Financial Statements

AFTERMASTER, INC.
Notes to Consolidated Financial Statements
September 30, 2016 and June 30, 2016

NOTE 11 – COMMITMENTS AND CONTINGENCIES - continued

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

Year	Lease Payments
2017	212,862
2018	208,117
2019	108,068
2020	94,547
2021	97,315
Total	\$ 720,909

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, 2016 were approximately \$734,781.

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

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:

On October 1, 2016, the Company issued 300,000 shares of common stock as payment for services as part of an advisory agreement valued at \$117,000. As part of the agreement the Company also issued 300,000 warrants as payment for services. The warrants are have a term of two years, which vest immediately, exercisable at a price of \$0.40 valued at \$66,447

On November 20, 2015, the Company issued a convertible note to an unrelated company for \$600,000 that matures on May 20, 2016. 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 fourth time by issuing additional \$30,000 convertible notes on October 3, 2016 to November 17, 2016 the company saying they are not derivatives until it becomes convertible on the original note, however the \$30,000 addition for the extension is to be considered derivatives. St. George 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 10 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 remain current and is not convertible until the borrower defaulted under the amendment agreement dated October 3, 2016. Due to the immediate conversion into 150,391 shares of common stock on October 3, 2016 (extension and 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.

On October 27, 2016, the Company issued 25,000 shares of Series A-1 Preferred Stock for \$25,000 in cash as part of a private placement. The Company also issued 50,000 warrants as part of a private placement valued at \$10,692. The warrants were valued using the Black-Scholes pricing model.

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.

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

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

General

Corporate Background

We are a Delaware public Company traded on the Over-The-Counter Bulletin Board (ticker symbol: AFTM). As of November 14, 2016, there were 104,342,979 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, 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.

Business

Aftermaster, Inc. ("the Company") 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 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 as it is operated by a world-class team that have successful track records 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. www.aftermaster.com

Summary

- We began manufacturing our first AfterMaster branded consumer electronics product, "Aftermaster Pro", in October. Through Crowdfunding platforms, the company pre-sold thousands of Aftermaster Pro units to buyers in dozens of countries, with sales totaling over \$750,000. A majority of the sales were at \$150 per unit. www.aftermasterpro.com.
- Our new micro-size, low power, high output DSP chip and software will allow the Company and partner ON Semiconductor to provide audio solutions for OEM consumer electronics manufacturers worldwide on a competitive basis. Several sales and licensing agreements are now pending for both the chips and software.
- Our ProMaster on-line music mastering product is in the final stages of beta testing and will formally launch during the fourth calendar quarter of 2016. ProMaster will provide hundreds of millions of independent musicians around the world an easy way to access affordable professional music mastering to make their music competitive and radio ready.
- The Company significantly expanded its professional music mastering services through an exclusive agreement with music distribution and publishing management giant, Tunecore, to provide professional mastering services to their customers. The Company is also opening a new high profile, world class recording studio in November which it expects to be an additional profit center for its studio complex in Hollywood.

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. www.AfterMaster.com/team.

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

AfterMaster Audio Technology is an internally-developed, proprietary (patented and patents pending) mastering, remastering and audio processing

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

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 technology has been recognized with several awards including three at the 2016 CES show in Las Vegas. 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 any audio capable device through the addition of an AfterMaster DSP chip or AfterMaster software. Such uses are intended to include phones (mobile, home, business and VoIP); headphones; televisions; stereo speakers; stereos (home, portable, commercial and automobile); and computers (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. Further information on AfterMaster and AfterMaster products can be found at www.AfterMaster.com.

Aftermaster Consumer Electronics Products

The Company designs, manufactures and markets unique consumer electronics hardware products branded as "AfterMaster" products. We recently began the manufacturing of our first consumer electronics product developed by the Company, "Aftermaster Pro".

AfterMaster Pro is the worlds 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. Smaller than an iPhone, Aftermaster Pro transforms the audio of a 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 (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.

Through Crowd-funding platforms, the company pre-sold over 4,000 Aftermaster Pro's to buyers in dozens of countries, totaling over \$750,000. A majority of the sales were at \$150 per unit. www.aftermasterpro.com. The revenues from the Crowd-funding sales are currently recorded as deferred revenue and will be recognized as revenue when the units are shipped. The Company has issued a purchase order for 100,000 units with its main supplier and is shipping units as parts are available. The Company has negotiated several venues in which to market its Aftermaster Pro, including in-store, on-line and via infomercial.

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

Aftermaster Wins Three Awards at the 2016 Consumer Electronics Show (CES) in Las Vegas

The Company was awarded three "Innovation & Design" awards during the ShowStoppers product showcase at the 2016 International Consumer Electronics Show (CES) in Las Vegas, Nevada on January 6, 2016. The Envisioneering international team of technologists, inventors, marketers and industrial designers recognized the Company for its innovation, design and revolutionary Aftermaster sound, AfterMaster TV and BelaSigna 300 AM Processor Chip. www.AfterMaster.com/news

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued**Aftermaster Enters Into Agreement with TuneCore for professional music mastering**

In April of 2016, the Company announced a partnership with TuneCore, one of the world's largest independent digital music distribution and publishing administration service. Under the agreement, Aftermaster will serve as the new professional mastering service for TuneCore artists. TuneCore has one of the highest artist revenue-generating music catalogs in the world, earning TuneCore Artists \$541 million from over 15.2 billion downloads and streams since inception. TuneCore 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 artists will have direct access to Aftermaster's world-class senior mastering engineers, and within 72 hours, they will be able to get their tracks mastered and ready for distribution. The new partnership builds upon TuneCore's mission to provide independent artists with key tools to build their careers, by granting access to unparalleled mastering that meets the industry's highest standards.

Adobe Audition

Aftermaster's Promaster online audio mastering service will soon be available on 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.

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 Company currently has several sales and licensing agreements pending which it expects to finalize by the end of the year.

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

ProMaster is an online music mastering, streaming, and storage service designed for independent artists which utilizes proprietary audio

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

ProMaster is an online music mastering, streaming, and storage service designed for independent artists which utilizes proprietary audio technologies developed by AfterMaster. ProMaster will master a user's uploaded music and allow them to compare up to 90 seconds of their original to the newly mastered songs so they can make a decision to purchase.

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.

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.

ProMasterHD.com went live in a soft beta launch in the fourth quarter of 2015 to test functionality and generate feedback from users. The Company plans a high-profile worldwide marketing launch for ProMaster in the last calendar quarter of 2016.

Recording and Mastering Studios

Aftermaster operates 7 recording and mastering studios at its Hollywood California facilities. The Company engineers and masters music for both independent and high profile professional music and is currently mastering the music for the hit TV show "Empire".

The Company recently leased the former recording studio built by music legends Crosby, Stills and Nash in 1977 which is located next to its existing studios. The Company has completely renovated the studio and expects that it will be viewed as one of the best recording studios in the US when it opens in November.

The Company recently leased the former recording studio built by music legends Crosby, Stills and Nash in 1977 which is located next to its existing studios. The Company has completely renovated the studio and expects that it will be viewed as one of the most important recording studios in the US when it opens in October.

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, and we rigorously control access to proprietary technology. During the year, the Company engaged Mr. Morgan Chu of Irell and Manella, to represent its intellectual property interests along with IP attorney, Arnold Weintraub, of the Weintraub Group. Mr. Weintraub serves on the Board of Aftermaster.

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

As of September 30, 2016 we employed thirteen full-time and one part-time employees. We expect to seek 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

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

Employees

As of September 30, 2016 we employed thirteen full-time and one part-time employees. We expect to seek 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 \$15,375 per month, and the total remaining obligations under these leases at September 30, 2016, were approximately \$249,082

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 \$1,821 per month, and the total remaining obligations under these leases at September 30, 2016 were approximately \$56,687

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 \$7,148 per month, and the total remaining obligations under these leases at September 30, 2016 were approximately \$437,457.

RESULTS OF OPERATIONS

Revenues

	Three Months Ended September 30,	
	2016	2015
AfterMaster Revenues	54,486	19,780
Licensing Revenues	-	1,800,000
Total Revenues	\$ 54,486	\$ 1,819,780

We currently generate revenue from our operations through two activities: AfterMaster revenues, and licensing 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 quarter ending September 30, 2016, increased to \$54,486, as compared to \$19,780 for the comparable quarter ending September 30, 2015, the increases were due primarily to an increase in the mastering and remastering of music and licensing by our customers.

Licensing revenues are generated by licensing certain technologies, intellectual property, and patents to third parties. Our licensing revenues decreased to \$0 during the quarter ending September 30, 2016, as compared to the \$1,800,000 for the comparable quarter ending September 30, 2015, due primarily to a licensing contract with bBooth no longer being in place.

In the aggregate, total Company revenues decreased to \$54,486 for the quarter ending September 30, 2016, as compared to total revenues of \$1,819,780 for the quarter ending September 30, 2015, due to a decrease in licensing revenues.

Cost of Revenues

	Three Months Ended September 30,	
	2016	2015
Cost of Revenues (excluding depreciation and amortization)	\$ 162,095	\$ 93,134

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

Cost of sales consists primarily of AfterMaster Studio Rent, Consultants, senior engineers, and Internet connectivity and excludes depreciation and amortization on the studios. The increase in cost of sales for the three months ended September 30, 2016, over the comparable period for the prior fiscal year, is attributable, primarily, to the Company hiring a new senior engineer and increase in studio rent for new state-of-the-art recording studio.

Other Operating Expenses

	Three Months Ended September 30,	
	2016	2015
Depreciation and Amortization Expense	\$ 40,539	\$ 17,018
Research and Development	66,995	26,785
Advertising and Promotion Expense	15,079	1,518
Legal and Professional Expense	24,266	126,734
Non-Cash Consulting Expense	871,971	879,545
General and Administrative Expenses	712,836	1,131,982
Total	\$ 1,731,686	\$ 2,183,582

General and Administrative expenses consist primarily of compensation and related costs for our staff, finance, human resources, investor relations, public relations, information technology personnel and rent and facilities. During the quarter ended September 30, 2016, General and Administrative expenses decreased by \$419,146, as compared to the quarter ending September 30, 2015. The decrease is mostly due to the decrease consulting fees, public relations, and travel expenses.

During the quarter ending September 30, 2016, Research and Development costs increased by \$40,210, Advertising and Promotion increased by \$13,561, Legal and Professional fees decreased by \$102,468 and consulting services decreased by \$7,574, as compared to the quarter ending September 30, 2015. The increases in Research and Development, 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 Income and Expenses

	Three Months Ended September 30,	
	2016	2015
Interest Expense	\$ (369,073)	\$ (180,380)
Change in Fair Value of Derivative	(111)	4,374,585
Gain (Loss) on Extinguishment of Debt	-	95,447
Total	\$ (369,184)	\$ 4,289,652

The other income and expenses during the quarter ended September 30, 2016, totaling \$(369,184) of net expenses, which consists of change in fair value of derivative. During the comparable period in 2015, other income and expenses totaled \$4,289,652.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued
Net Income (Loss)

	Three Months Ended September 30,	
	2016	2015

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

Net Income (Loss)

	Three Months Ended September 30,	
	2016	2015
Net Income (Loss)	\$ (2,208,479)	\$ 3,832,716

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", these non-cash issuances are expensed at the equity instruments fair market value.

LIQUIDITY AND CAPITAL RESOURCES

The Company had revenues of \$54,486 during the three months ended September 30, 2016 as compared to \$1,819,780 in the comparable quarter of 2015. The Company has incurred losses since inception of \$65,993,671. At September 30, 2016, the Company has negative working capital of \$6,283,185, which was a decrease in working capital of \$1,189,031 from June 30, 2016.

The Company had cash of \$971,712 as of September 30, 2016, as compared to \$394,325 as of June 30, 2016. The increase is a result of the company entering into seven (7) Share Purchase Agreements with individual accredited investors resulting in net proceeds of \$346,000 and five (5) convertible notes payable resulting in net proceeds of \$1,160,000. This amount was partially offset by operational costs, purchases of assets, and payments of obligations from convertible notes, notes, and lease payables.

The Company had prepaid expense of \$453,935 as of September 30, 2016, as compared to \$1,078,819 as of June 30, 2016. The decrease is due to the Company amortizing the prepaid expenses totaling \$871,971 over the three months ended September 30, 2016, partially offset by the issuance of two consulting agreements entered into in the current year and retainer paid.

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, 2016, 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.

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.

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

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, 2016 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

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, 2016, 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 14, 2016

By: /s/ Larry RyckmanLarry 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 14, 2016

By: /s/ Larry RyckmanLarry Ryckman,
Title: Director, President, Chief Executive Officer**AFTERMASTER, INC.**

Date: November 14, 2016

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

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 14, 2016

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 14, 2016

By: /s/ Larry Ryckman

Larry Ryckman,

Title: Director, President, Chief Executive Officer

AFTERMASTER, INC.

Date: November 14, 2016

By: /s/ Mirella Chavez

Mirella Chavez

Title: Chief Financial Officer, Secretary