Sugarmade, Inc.
Form 10-K/A
April 24, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K/A

(Amendment No. 2)

(Mark One)

[X] ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the year ended June 30, 2012

[] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number: 000-23446

SUGARMADE, INC.
(Exact Name of Registrant as Specified in its Charter)

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

2280 Lincoln Avenue, Suite 200, San Jose CA	**95125**
(Address and of principal executive offices)	(Zip Code)

888-747-6233

(Registrant s telephone number, including area code)

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

Common Stock, par value $0.001 per share

(Title of class)

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes o No x
Indicate by check mark whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.. Yes x No o
Indicate by check mark if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-K contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark if the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b(2) of the Exchange Act. (Check one).

Large accelerated filer o

Accelerated filer o

Non-accelerated filer o

Smaller reporting company x

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

State issuer’s revenues for its most recent fiscal year: $141,750.
The aggregate market value of the voting and non-voting common equity on December 31, 2011 (the last business day of the registrant s most recently completed second fiscal quarter) held by non-affiliates* of the registrant (based on the average bid and asked ($4.25) was approximately $25,073,177. (See definition of affiliate in Rule 12b-2 of the Exchange Act.)Shares of common stock held by each officer and director and by each person who owns 10% or more of the outstanding common stock of the registrant have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes. Without acknowledging that any individual director of registrant is an affiliate, all directors have been included as affiliates with respect to shares owned by them.

At October 10, 2012, there were 10,538,526 shares outstanding of the issuer s common stock, the only class of common equity.

EXPLANATORY NOTE:

We filed our Annual Report on Form 10-K for the fiscal year ended June 30, 2012 (the Form 10-K) with the U.S. Securities and Exchange Commission (the SEC) on October 23, 2012. This Amendment No. 2 (the Form 10-K/A) to our Form 10-K is being filed to amend certain information included herein to conform to comments made by the Staff (the Staff) of the Securities and Exchange Commission during their review of our Amendment No. 4 to Form S-1/A filed on February 4, 2013. We are filing this Form 10-K/A solely for the purpose of restating Item 1 (Business), Item 1A (Risk Factors), Item 7 (Management s Discussion and Analysis of Financial Condition and Results of Operations), Item 10 (Directors, Executive Officers and Corporate Governance), Item 13 (Certain Relationships and Related Transactions and Director Independence), Item 15 (Exhibits) and Exhibit 31 (Certification).

Pursuant to Rule 12b-15 under the Securities Exchange Act of 1934, as amended, this Form 10-K/A also contains new certifications by the principal executive officer and principal financial officer as required by Section 302 of the Sarbanes-Oxley Act of 2002. Accordingly, Item 15 of Part IV is amended to include the currently dated certifications as exhibits. Although no financial statements have been included in this Form 10-K/A and this Form 10-K/A does not contain or amend any disclosure with respect to Items 307 and 308 of Regulation S-K, because the comments made by the Staff included the certification provided as Exhibit 31, we have included paragraphs 3, 4 and 5 of the Certification as they relate to the Form 10-K.

Except as expressly noted in this Form 10-K/A, this Form 10-K/A does not reflect any events occurring after the original filing of our Form 10-K or modify or update in any way any of the other disclosures contained in our Form 10-K, including, without limitation, the financial statements. Accordingly, this Form 10-K/A should be read in conjunction with our Form 10-K and our other filings with the SEC.

SUGARMADE, INC.

FORM 10-K/A

FOR THE YEAR ENDED JUNE 30, 2012

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SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

In addition to historical information, this Amendment No. 2 to our Annual Report on Form 10-K/A includes forward-looking statements. Forward-looking statements are those that predict or describe future events or trends and that do not relate solely to historical matters. You can generally identify forward-looking statements as statements containing the words "believe," "expect," "will," "anticipate," "intend," "estimate," "project," "plan," "assume" or other similar expressions, or negatives of those expressions, although not all forward-looking statements contain these identifying words. All statements contained or incorporated by reference in this prospectus regarding our future strategy, future operations, projected financial position, estimated future revenues, projected costs, future prospects, the future of our industry and results that might be obtained by pursuing management's current plans and objectives are forward-looking statements.

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

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

Item 1 - Business

As used in this annual report, the terms "we", "us", "our", and the "Company" means Sugarmade, Inc., a Delaware corporation or their management.

Business

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

We are parties to an Exclusive License and Supply Agreement (LSA) with Sugar Cane Paper Company (SCPC), a company located in the People s Republic of China. SCPC is one of Sugarmade s original contract manufacturers and SCPC is a holder of intellectual property rights and patents in the area of developing and manufacturing paper from non-wood sources. Under the LSA, we hold the exclusive right to market, distribute and manufacture SCPC s proprietary products in Europe, North, Central and South America, Australia and in other designated territories in the world. We also obtained the rights (within the designated territories) to the Sugarmade brand name and trademarks. Historically, Sugarmade has leveraged this relationship and corresponding agreement to initially insure production and management of its products. Presently, Sugarmade has been able to diversify its manufacturing and process management options to include other third party contract manufacturers. As of June 30, 2012, our Company wrote off the value of the LSA which was reported as an intangible asset in our prior annual and quarterly reports.

Throughout 2012, our Company gained substantial knowledge regarding manufacturing, quality control, process controls and vendor relationships with respect to the production of its paper products. Our Company has continued to refine and update its paper formulation and manufacturing processes to create an even higher quality paper that has broader applications in the US printing paper business. To accomplish this reformulation and process improvement, our Company worked directly and more closely with its third party contract manufacturers to align their processes with our updated and higher quality processes. Our Company now has more controls over quality, pricing, delivery and logistics and is no longer solely dependent on SCPC for management of its manufacturing process.

Pulp and paper manufacturing processes have not changed significantly for decades. Most equipment and processes used today are still based primarily on tree-based inputs and require massive amounts of resources including water, energy and caustic chemicals. World consumption of paper has grown 400 percent in the last 40 years. Now nearly 4 billion trees or 35 percent of the total trees cut around the world are used in paper industries on every continent. (Source: Sam Martin, Paper Chase September 10, 2011 (http:// www.ecology.com/2011/09/10/paper-chase/)) Over these last four decades, easily accessible and inexpensive sources of wood have continued to disappear. Because of the rapid consumption of virgin forests in places as far apart as Canada and Southeast Asia, forest restoration has not been able to keep pace with the demand for wood products.

Loss of forests is not the only concern. Deforestation releases an estimated 1.6 billion tons of carbon dioxide (CO_2 - believed by many to be linked to global climate change) into the atmosphere every year. Most people assume that greenhouse gases being released into the atmosphere are caused by burning oil and gas. But in fact between 25 and 30 percent of the greenhouse gases released into the atmosphere each year is caused by deforestation (Source: Christopher Matthews, Deforestation causes global warming September 4, 2006 (http://www.fao.org/newsroom/en/news/2006/1000385/index.html)). The pulp and paper industry is the third-largest industrial polluter in both Canada and the United States (Source: Reforming the Paper Industry September 19, 2006 (http://www.nrdc.org/cities/living/paper/default.asp)). Worldwide, pulp and paper is the fifth largest industrial consumer of energy. In the United States it is second (Source: Carolina D Souza, Paper Goes Green July 16, 2009 (http://archive.gulfnews.com/articles/09/07/13/10330811.html)). Our Company offers an alternative to this situation through our ability to provide the developed world paper products without utilizing the deforestation, pollution and resource waste of current paper producing methods.

All our products are manufactured from 100% tree-free agricultural waste residues such as bagasse and bamboo. Both sugar cane and bamboo can be harvested in 7-10 months (Source: Sugarcane Growth Stages April 08, 2009 (http://agropedia.iitk.ac.in/?q=content/sugarcane-growth-stages), Source: Phil Comer, The Bamboo Growth Cycle February 2, 2009). This contrasts with trees that take a minimum of seven years before being ready for pulping and paper production. By utilizing bagasse and bamboo fibers for paper making, we can produce one ton of finished paper product for every one ton of raw material as contrasted to wood fiber which requires nearly four tons of raw material to produce one ton of finished products (Source: Phoebe Hall, Words on Paper: Tree Free or Recycled? May 11, 2005 (www.emagizine.com)). Our process greatly reduces the carbon footprint and environmental damages from paper production.

History

Our Company was originally incorporated on June 5, 1986 in California as Lab, Inc. and later changed its name to Software Professionals, Inc. During this time our Company was in the software solutions business, developing, marketing, and supporting software products designed to automate the management of computer systems for commercial concerns. On May 21, 1996, our Company filed a Certificate of Amendment to its Amended and Restated Articles of Incorporation changing its name to Enlighten Software Solutions, Inc. During August 2001, our Company filed a Form 15 for the purpose of deregistering its securities. On September 13, 2001, our Company filed a voluntary petition under Chapter 7, in the U.S. Bankruptcy Court, Northern District of California. On November 2, 2004, the Trustee filed its Report of Distribution and on January 4, 2005 a final decree was entered and the case was closed. On or near July 10, 2007, we filed the requisite documents with the State of California for the purpose of reinstating our corporate charter. On July 30, 2007, our Company through a series of transactions effectively reincorporated in the state of Delaware, while retaining the capital structure and number of shares outstanding of the previous California corporation. On January 14, 2008, our Company officially changed its name to Diversified Opportunities, Inc.

On April 23, 2011, we entered into an exchange agreement (the Exchange Agreement) with Sugarmade, Inc., a California corporation (Sugarmade-CA), which is now our wholly-owned subsidiary. Under the terms of the Exchange Agreement, we acquired all of the outstanding stock of Sugarmade-CA (the "Exchange"). On May 9, 2011, our Company completed the Exchange. Our Company then changed its name from Diversified Opportunities, Inc. to Sugarmade, Inc. on June 24, 2011. Our Company operates under Sugarmade-CA, which is a wholly owned subsidiary of our Company (references in this filing to our Company include the operations of Sugarmade-CA). Under the terms of the Exchange Agreement, Sugarmade-CA s shareholders exchanged all of their shares of stock on a one-for-one basis for an aggregate of 8,864,108 shares of our common stock. In connection with the Exchange Agreement and effective at the closing of the Exchange transaction, our previous three principal shareholders agreed to enter into a Share Cancellation Agreement pursuant to which 8,762,500 shares held by them were canceled or redeemed in exchange for our Company s payment of $210,000, the issuance of 200,000 warrants to purchase our common stock at $1.25 per share, and certain registration rights.

History of Sugarmade-CA

From the legal incorporation of Sugarmade-CA in March 2009 through October 2009, activities were primarily limited to exploring strategic alternatives and related negotiations in connection with what was to become its future operating business. On October 26, 2009, Sugarmade-CA (operating at the time as Simple Earth, Inc.) acquired all of the outstanding common stock of Sugarmade, Inc. (SMI), a California corporation incorporated to import, sell and distribute sustainable and environmentally friendly non-tree-based paper products. SMI primarily sold its 100% tree free copy paper, as well as other 100% tree free paper products such as plates, bowls, napkins and toilet tissue. SMI did not have a long history having been founded in May 2009, nor did it have significant sales of its products and was therefore in search of a sales outlet for its products when acquired by Sugarmade-CA.

Sugarmade-CA acquired all of the outstanding common stock of SMI in exchange for: 1) cash totaling $340,000; 2) a note payable totaling $60,000 (subsequently forgiven in February 2011); and 3) 10% of the then outstanding common stock of our Company or 72,973 shares (with a nominal value at the date of acquisition of $.001 per share). Additionally, we are required to pay up to two additional earn-out payments of $200,000 to the seller of SMI: 1) if net income equals or exceeds $10 million in 2011; and/or 2) if net income exceeds $11 million in 2012.

In addition to minimal amounts of saleable inventory, SMI also had an exclusive license and supply agreement (LSA) with Sugar Cane Paper Company (SCPC) located in the People s Republic of China. SCPC is a contract manufacturer and a holder of intellectual property in the area of paper from non-wood sources. Under the LSA (as subsequently amended), we obtained the exclusive right (as defined) to market, distribute and manufacture SCPC s proprietary products in Europe, North and South America and in other designated territories in the world. We also obtained the rights to the Sugarmade brand name and trademarks and other provisions of the agreement with SCPC also inure to the benefit of our Company. On February 17, 2011, SCPC forgave all amounts including accrued interest outstanding under the note payable due to them totaling $62,800. We accounted for the forgiveness as a capital contribution.

The Industry and the Overall Market

Currently, the U.S. Pulp and Paper industry is estimated to be an almost $200 billion industry. The U.S. alone is estimated to consume over 100 million tons of paper products each year (Source: Martin, Paper Chase). Our areas of focus are::

Printing and writing paper (27% of total production);

Containerboard or corrugated boxes (29% of total production); and

Tissue (8% of total production).

Within each of these sectors, there are varying amounts of recycled materials that can be used in production. Tissue has an industry average of 45% recycled fibers. Containerboard averages 24% recycled fibers. Printing and writing paper uses a scant 6% recycled fibers (Source: S. Kinsella et al, The State of the Paper Industry , 2007, Pg 17.). We see a significant market opportunity to leverage our capabilities to eliminate tree materials included in these products.

The advent of the Internet and email would at first sight seem to argue for decreased paper consumption. Many (including industry experts) forecasted that these technologies would lead to substantial reductions in the level of paper consumption. The reality has been the opposite. Worldwide, paper constitutes approximately 42% of the wood harvested in the world (Source: Paper Listening Study Question 64 (http://www.conservatree.org/paperlisteningstudy/Forests/question64.html)). The U.S. alone consumes nearly 30% of the world s paper products. The average American consumes over 749 pounds of paper per year, including the paper products that are the focus of our market strategy(Source: Martin, Paper Chase).

Paper is manufactured from three primary sources: 1) tree-based (i.e. virgin) materials; 2) recycled content (varying compositions of virgin and recycled) materials; and 3) tree-free materials. Tree-based paper is made from trees harvested from the forest, converted into pulp and bleached. Recycled (to varying percentages of composition) paper is a combination of virgin materials combined with previously used paper that undergoes an additional de-inking and bleaching process before further pulping process.

Tree-free paper (our Company s product offering) is made from fibrous materials that contain high levels of cellulose. The sources of tree-free products are agricultural byproducts, also called residuals. As a byproduct, residuals do not require dedicated farmland. Aside from preserving forest and farmland, residuals also greatly reduce environmental impact because of the reduction of water required in paper production, the decreased energy required to break down the cellulose in tree-based materials and a reduction of air pollution from the use of previously burned byproducts. Unlike competing manufacturers, our paper products are elemental chlorine free, meaning that we use chlorine dioxide (ClO_2) instead of elemental chlorine (Cl) gas in our manufacturing process. Elemental chlorine (Cl) gas produce toxic chlorinated organic compounds, including chloroform, a known carcinogen. These compounds are released into waterways as effluent from the bleaching process, where they produce environmental damage. (Source: Scott Beckner, Paper Information and Resources: Chlorine-Free Paper October 05, 2010 (http://www.calrecycle.ca.gov/paper/chlorinefree/default.htm)).

Agricultural residual paper is produced from the waste by-products from a crop that has been harvested. While there are numerous crops that can be used for this, the ideal crops are bagasse (sugar cane), corn and wheat. The quality of these agricultural residual papers differs depending on the amount of cellulose that is present in the plant material. Depending on the strength of the fibers of the residual, a secondary material may have to be added to increase the strength of the final paper product. In some manufacturing processes, virgin or recycled pulp will be added to strengthen the paper. With our paper products, we combine bamboo with the bagasse pulp to give the strength necessary to produce the highest quality paper. The percentages of bamboo vary depending on products being produced.

The paper industry is the fourth largest contributor to greenhouse gas emissions among U.S. manufacturing industries and contributes 9% of the manufacturing sector's carbon emissions (Dan Shaply, 15 Facts about the Paper Industry October 2, 2007 (http://www.thedailygreen.com/environmental-news/latest/7447)). The following table gives a comparison of the environmental impacts of each category of paper production. The table gives data for the production of one ton of copy paper and the environmental impact each category has on our environment.

Table : Environmental Impacts

Per 1 Ton Finished Goods	Wood Use (Tons)	Net Energy (million BTUs)	Greenhouse Gasses (lbs. CO^2 equivalent)	Wastewater (gallons)	Solid Waste (lbs.)
**Sugarmade	-	10	1,957	3,953	72
*Virgin Pulp	4	32	6,023	22,219	1,922
*30% Recycled	3	29	5,235	18,665	1,697
*100% Recycled	-	22	3,396	10,372	1,171

*Data from EDF Paper Calculator (Environmental Paper Network Paper Calculator. (http://www.papercalculator.org))
**Internal Sugarmade Statistics

We believe that trends in government, corporate and consumer awareness of the environmental impacts of paper production will increase demand for alternative paper supplies which are more environmentally friendly. Within the market for environmentally friendly paper, we believe that our tree-free products are unique in their low carbon footprint. In addition, our relationship with SCPC gives us access to experience in manufacturing tree-free paper and the ability to reach commercial scale quickly. It is important to note that the tree-free paper market in North America is relatively young with little publically available data on the size of the market in relation to the overall paper industry. At this time, there is only anecdotal data referencing the growing demand in the United States and abroad for paper products from tree-free sources.

Manufacturing

Through our third party contract manufacturers, our Company converts plant material from the waste residuals of sugar cane (bagasse) and bamboo to commercial grade tree-free fibers. The processes used to produce our Company s paper products are proprietary in nature and are licensed to our Company under the LSA with SCPC. Additionally, we are in the process of filing for a provisional patent in the US for our newest formulation and process changes surrounding our tree-free pulp and cut sheet printing paper product. Our new formulation changes the mix of bagasse and bamboo in our paper to a 60/40 ratio, respectively. We have also changed the processes to produce our paper to accommodate the changes to our paper formulation and to further enhance our quality standards during the production process. Our Company owns this new formulation and the provisional patent application which the Company plans to file is intended to allow us to establish an early effective filing date with the United States Patent and Trademark Office (USPTO) for the filing of the planned final non-provisional patent for our paper product.

Under the LSA, we are the exclusive distributor for all of SCPC s tree-free and bagasse-based products in the Americas, Europe, Australia and New Zealand (the Territories). As its exclusive licensee, SCPC has also assigned us their relevant production patents in the Territories. Our exclusive distribution and license agreement for the Territories has an initial term of 20 years with a renewable option at our discretion for an additional 20 years. Sugarmade has the right to request SCPC file for counterpart patent protection in Sugarmade s territories and for copyright protection for the name Sugarmade , but we have not yet made such requests. We anticipate making such requests in the future.

Through our third party contract manufacturers, our Company has access to readily available commercial scale for the production of tree-free products. Moreover, because metric ton quantities of sugar cane and bamboo residual waste material are locally available (in China) to SCPC for tree-free pulp, we see little risk of product supply constraints. We believe that our strong vendor relationships, continuing relationship with SCPC, together with our third party contract manufacturers, new processes and formulation and access to source materials provides us with a substantial barrier to entry for potential competitors.

Products

To date, we have focused our sales and marketing efforts on the printing, writing and copy paper market. As of the date of this report, our Company has letter size 8.5 x 11 , legal size 8.5 x 14 , A4 and roll stock offerings for printing, writing, and copy paper available for sale.

Over time, we plan to have a complete suite of tree-less paper products available for sale. More specifically, our Company expects to have 32 separate SKU's (stock keeping units) of tree-free paper products in order to take advantage of all the products that can be produced by our third party contract manufacturers using our tree-free pulp in commercially scalable quantities. These 32 SKU's are expected to break down into four (4) product categories:

1

Printing, Writing, and Copy Paper (4 SKU s)

a.

Letter size 8.5 x 11

b.

Legal size 8.5 x 14

2

Industrial/Commercial Packaging (2 SKU s)

a.

Corrugated box

b.

Industrial paper

3

Roll Stock

a.

Web Roll Printing

b.

Converting

c.

High Speed Printing Applications

4

Tableware/Foodservice items (Plates, Cups, etc.) (18 SKU s)

a.

Plates 10.25 , 10 , 9 and 8.75 rounds with or without compartments

b.

Bowls 24 oz., 20 oz., 16 oz., 12 oz. with lids

c.

Away from home 9 , 6 clamshells with or without compartments

d.

Trays assorted sizes and shapes based on requirements

Production and Logistics Capabilities

Our Company s main third party contract manufacturing facilities for are located in the cities of Jiangmen and Gaoming, in the province of Guangdong in the Peoples Republic of China. These operations include pulping (from locally available bagasse and bamboo) and conversion (from pulp to finished product). Based on assessment of our third party contract manufacturers capacities, we believe that Sugarmade s tree-free paper production, through current subcontractors is currently operating at roughly 28% capacity. Further, Sugarmade and SCPC are evaluating other pulping and conversion facilities to augment the current subcontractors.

After transport from the factory to the nearby port of Yan Tian, product is shipped to a warehouse located in Oakland, CA or shipped directly to the customer. We have contracted for a warehousing facility that we use as a staging area for shipments throughout the U.S. as well as storage for inventory sold regionally. The third party warehouse can hold up to 2,000 shipping containers or 1.44 million cases of copy paper.

Between June 30, 2009 and June 30, 2011, our Company has purchased, sold or otherwise used approximately 49.85 metric tons of tree-free paper. For the year ended June 30, 2012, our Company purchased an additional 347 metric tons of tree-free paper.

Target Markets

Our initial target markets are office supply retailers and distributors, corporate entities and government agencies. We are currently in advanced discussions with retailers and distribution channels that service the corporate market as well as a number of large government agencies. A number of these potential distribution channels and customers are testing our products. We believe that our products' unique focus on sustainability and carbon footprint reduction has a significant appeal to these customers.

Product Pricing

The heightened environmental consciousness among society s leaders and the general public (often referred to as the Green Movement) has spurred product marketers, distributors and wholesalers to seek better green alternatives to provide to their commercial, corporate, and retail clients. We believe that this movement creates a unique and timely opportunity to gain market share as the sole commercial provider of 100% tree-free paper products.

While paper products made from tree-free sources are typically more costly than traditional virgin tree sources, we have made and intend to continue to make significant strides to narrow this cost gap. Our goal is to provide the paper needs of a rapidly increasing share of the market through competitive pricing, uncompromising quality and the ability to produce our product to specific customer specifications.

Our products are priced competitively with products from recycled sources. We believe this is a compelling price point, since green products are often priced at a significant premium compared to the non-green offerings.

Corporate Social Responsibility

Corporate Social Responsibility ("CSR") is the practice of corporate self-regulation integrated into an organization s business model. CSR takes into account the impact of business decisions on the environment, society, consumers, employees, stakeholders and other members of public sphere. Our Company proactively promotes the public s interest by encouraging community growth and development, and voluntarily eliminating practices that harm the public sphere. Through the deliberate inclusion of public interest into corporate decision-making, and honoring the triple bottom line, People, Planet, and Profitability, we hope to better our communities for generations to come.

B-Corporation Status

Our Company has been certified as a B Corp by B Lab. The B Corporation certification is a validation process that requires companies to report and verify that they meet the sustainable and stewardship goals that B Lab sets forth to become a B Corporation. The certification process includes requirements that we have certain internal policies and procedures, such as allowing employees to donate up to 45 hours per year of their time for community service, and other reporting, governance and management practices intended to promote social and environmental responsibility. The certification process does not require that we change our bylaws, articles or the legal rights or remedies of our shareholders. Our Company B Corp status has been fully recertified effective August 2012. We are one of only two publically held companies to earn this certification. B Corporation certification lasts for a period of two years.

Intellectual Property

In conjunction with SCPC, we rely on a combination of trademark, patent laws, trade secrecy laws and contractual provisions to protect ours and SCPC s intellectual property rights. SCPC holds several patents in the People s Republic of China related to the production of tree-free paper. Sugarmade has the right to request SCPC to file for counterpart patent protection in Sugarmade s territories and for copyright protection for the name Sugarmade, but we have not yet made such requests. We anticipate making such requests in the future. There can be no assurance that the steps taken by us to protect these proprietary rights will be adequate or that third parties will not infringe or misappropriate our trademarks, trade secrets or similar proprietary rights. In addition, there can be no assurance that other parties will not assert infringement claims against us, or that we may have to pursue litigation against other parties to assert our rights. Any such claim or litigation could be costly and we may lack the resources required to defend against such claims. In addition, any event that would jeopardize our proprietary rights or any claims of infringement by third parties could have a material adverse effect on our ability to market or sell our brands, and profitably exploit our products.

Competition

We face competition from traditional paper manufacturers as well as other manufacturers that claim to produce environmentally friendly products. Paper is a mature industry with a number of manufacturers with significant capital resources, distribution channels and entrenched customer accounts. We compete against traditional paper manufacturers primarily based on our environmental benefits. As discussed above, our products compete well in terms of reduced environmental impact. Our products are generally more expensive than paper manufactured from virgin wood. Some customers will pay a premium for "green" or environmentally friendly paper, provided that the price is a reasonable premium, and the products are of comparable quality. We also believe that we provide comparable quality as compared to virgin wood products in our product applications. Currently, we are priced competitively with recycled paper products. If there were a significant reduction in the cost of virgin wood based products, or if our costs of products were to rise significantly, it would reduce our ability to compete.

There are a number of manufacturers deploying different techniques to develop environmentally sensitive paper products. Based on feedback from customers and potential customers of environmentally sensitive paper products, we classify these manufacturers into the following four distinct categories:

1.

Companies focused on very limited niche markets with limited distribution potential or limited access to commercial supply quantities. In general, companies in this group find their products are too expensive for massive consumer scaled tree-free commodity products (e.g. Living Tree Paper Company, TreeFrog, Environmental Pulp and Paper Company Limited).

2.

Companies that in addition to employing bagasse or bamboo in their products, also include wood fillers, post-consumer waste and wood pulp or fiber whose products are not truly tree-free (e.g. Canefields, Terradigm, New Leaf Paper Company and Quena Paper Company).

3.

Companies producing a tree-free paper product employing wheat, corn, bananas or kenaf fiber. These materials have not proven to yield a commercially successful product for scalable quantities (e.g. Echo Paper Store, Natures Paper Company, Banana Paper Company, and Vision Paper Company).

4.

Companies employing tree-free competitive products that are unable to meet standard quality requirements (e.g. jam-free" copy paper) (e.g. ShangiHongtuo, Ltd.).

We believe the products we acquire from our contract manufacturers are the only commercially scalable tree-free paper products able to meet U.S. customer product quality specifications (moisture content, multi-sheet feeding, etc.).In addition, we believe that our competitors lack economical access to the hundreds of thousands of metric tons of bagasse and bamboo available to our contract manufacturers. Through our contract manufacturers, we believe we can supply commercial quantities of our products.

Regulation

Our contract manufacturers are subject to extensive regulation by various Chinese national and local agencies concerning compliance with environmental control statutes and regulations. The major environmental regulations applicable to SCPC s contract manufacturers include:

The Environmental Protection Law of the PRC

The Law of PRC on the Prevention and Control of Water Pollution

Implementation Rules of the Law of PRC on the Prevention and Control of Water Pollution

The Law of PRC on the Prevention and Control of Air Pollution

Implementation Rules of the Law of PRC on the Prevention and Control of Air Pollution

The Law of PRC on the Prevention and Control of Solid Waste Pollution

The Law of PRC on the Prevention and Control of Noise Pollution

Our contract manufacturers are also subject to periodic inspections by local environmental protection authorities. Our contract manufacturers have received certifications from the relevant PRC government agencies in charge of environmental protection indicating that their business operations are in material compliance with the relevant PRC environmental laws and regulations. To our knowledge, our contract manufacturers are not currently subject to any pending actions alleging any violations of applicable PRC environmental laws.

These regulations impose limitations (including but not limited to effluent and emission limitations) on the discharge of materials into the environment as well as require the contract manufacturers to obtain and operate in compliance with conditions of permits and other governmental authorizations. Future regulations could materially increase our contract manufacturers capital requirements and certain of their operating expenses in future years. Such increases in the contract manufacturers required outlays to comply with such regulation could result in higher costs being passed to our Company and could have a negative effect on the competitiveness of our product offerings.

Our Employees

We have approximately eleven full-time employees as of October 10, 2012. None of our employees are subject to collective bargaining agreements.

Backlog

We do not have any material order backlog as of the date of this Annual Report.

Seasonality

We do not expect that our business will experience significant seasonality.

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Item 1A Risk Factors

Investment in our common stock involves a high degree of risk. You should carefully consider the risks described below together with all of the other information included in this herein before making an investment decision. If any of the following risks actually occur, our business, financial condition or results of operations could suffer. In that case, the market price of our common stock could decline, and you may lose all or part of your investment. You should also read the section entitled "Special Notes Regarding Forward-Looking Statements" above for a discussion of what types of statements are forward-looking statements as well as the significance of such statements in the context of this report.

RISKS RELATED TO OUR BUSINESS

We have a very limited operating history. Prior to the Sugarmade Acquisition, our Company was a shell company with no or nominal operations. Sugarmade-CA recently completed its funding and the related acquisition with our Company. Sugarmade-CA was formed in 2009 to market paper products manufactured from tree-free materials. Sugarmade-CA does not currently have significant operating revenues and has a very limited operating history. Because Sugarmade-CA has a limited operating history, we do not have any historical financial data upon which to base planned operations.

The segments of the paper industry in which we operate are highly competitive and increased competition could affect our sales and profitability. We compete in different markets within the paper industry on the basis of the uniqueness of our products, the quality of our products, customer service, price and distribution. All of our markets are highly competitive. Our competitors vary in size and many have greater financial and marketing resources than we do. While we believe that our products offer unique advantages because of their tree-free composition, if we cannot maintain quality and pricing that are comparable to traditional products we may not be able to develop, or may lose, market share. In some of our markets, the industry s capacity to make products exceeds current demand levels. Competitive conditions in some of our segments may cause us to incur lower net selling prices, reduced gross margins and net earnings.

Our tree-free products could encounter low consumer acceptance in our primary target markets, including our initial target market of North America. The tree-free paper market in North America is relatively young with little publically available data on the size of the market in relation to the overall paper industry. There is only anecdotal data referencing the growing demand in the United States and abroad for paper products from tree-free sources. Our product is relatively new to consumers and does not have a significant sales history in many of our target markets. Should our tree-free products not be accepted by consumers in these markets, particularly in the markets of our initial focus in North America, we could experience sales and operating results substantially less than we expect to achieve. Such results could jeopardize our Company s financial well-being and subject an investor to the loss of all or a portion of his investment in our Company.

Our business and financial performance may be adversely affected by downturns in the target markets that we serve or reduced demand for the types of products we sell. Demand for our products is often affected by general economic conditions as well as product-use trends in our target markets. These changes may result in decreased demand for our products. The occurrence of these conditions is beyond our ability to control and, when they occur, they may have a significant impact on our sales and results of operations. Our products are comparably priced with paper products comprised of 30% recycled materials. Both our products and paper products comprised of 30% recycled materials are typically higher in cost than paper products made from virgin pulp wood. The inability or unwillingness of our customers to pay a premium for our products due to general economic conditions or a downturn in the economy may have a significant adverse impact on our sales and results of operations.

Changes within the paper industry may adversely affect our financial performance. Changes in the identity, ownership structure and strategic goals of our competitors and the emergence of new competitors in our target markets may harm our financial performance. New competitors may include foreign-based companies and commodity-based domestic producers who could enter our specialty markets if they are unable to compete in their traditional markets. The paper industry has also experienced consolidation of producers and distribution channels. Further consolidation could unite other producers with distribution channels through which we intend to sell our products, thereby limiting access to our target markets.

Any interruption in delivery from our suppliers will impair our ability to distribute our products and generate revenues. We are dependent on third party contract manufacturers for the production of our products. We have no manufacturing facilities and we rely on third party contract manufacturers to provide us with an adequate and reliable supply of products on a timely basis. Any interruption in the distribution from these suppliers could affect our ability to distribute our products. Additionally, our suppliers are located in the People s Republic of China (PRC). Any legislation or consumer preferences in the United States or other countries requiring products which are made in the United States or such other countries may have a material adverse impact on our sales and results of operations.

Uncertainties with respect to the PRC legal system could limit the legal protections available for us to pursue any claim against our third party contract manufacturers, and therefore our ability to protect our contract rights. We rely on third party contract manufacturers for our supply of products. These third party suppliers operate entirely within the PRC. The PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involve uncertainties, which may limit legal protections available to us in the event that we needed to bring a claim against our suppliers. Courts in the PRC may recognize and enforce foreign judgments in accordance with the requirements of the PRC Civil Procedures Law based on treaties between China and the country where the judgment is made or on reciprocity between jurisdictions. The PRC does not have any treaties or other arrangements that provide for the reciprocal recognition and enforcement of foreign judgments with the United States. So it is uncertain whether a PRC court would enforce a judgment rendered by a court in the United States. Any litigation we may try to bring in the PRC may be protracted and result in substantial costs and diversion of resources and management attention.

If we fail to maintain satisfactory relationships with our larger customers, our business may be harmed. We do not have and are unlikely to enter into long-term fixed quantity supply agreements with our customers. Due to competition or other factors, we could lose future business from our customers, either partially or completely. Additionally, during our last fiscal year we produced certain batches of paper which did not meet the quality standards required by our customers which resulted in dissatisfaction by those customers. This dissatisfaction may have also harmed our reputation and ability to sell our products to those customers and other customers in the future. The future loss of one or more of our significant customers or a substantial future reduction of orders by any of our significant customers, or the unwillingness of a customer to purchase our products again due to concerns over the quality of the paper they previously purchased, could harm our business and results of operations. Moreover, our customers may vary their order levels significantly from period to period and customers may not continue to place orders with us in the future at the same levels as in prior periods. In the event that in the future we lose any of our larger customers, we may not be able to replace that revenue source. This could harm our financial results.

The costs of complying with environmental regulations may increase substantially and adversely affect our consolidated financial condition, liquidity or results of operations. Our Company s third party contract manufacturers are subject to various environmental laws and regulations that govern discharges into the environment and the handling and disposal of hazardous substances and wastes. Environmental laws impose liabilities and clean-up responsibilities for releases of hazardous substances into the environment. However, many PRC laws and regulations are uncertain in their scope, and the implementation of such laws and regulations in different localities could have significant differences. In certain instances, local implementation rules and/or the actual implementation are not necessarily consistent with the regulations at the national level. We cannot assure you that the relevant PRC government authorities will not determine that our suppliers have failed to comply with certain laws or regulations. Our Company s suppliers will likely continue to incur substantial capital and operating expenses in order to comply with current laws. Any future changes in these laws or their interpretation by government agencies or the courts may significantly increase our suppliers capital expenditures and operating expenses and decrease the amount of funds available for investment in other areas of their operations. In addition, our Company s suppliers may be required to eliminate or mitigate any adverse effects on the environment caused by the release of hazardous materials, whether or not SCPC s suppliers had knowledge of or were responsible for such release. Our suppliers may also incur liabilities for personal injury and property damages as a result of discharges into the environment. If costs or liabilities related to environmental compliance increase significantly for our suppliers, such costs could be passed along to us in the form of higher prices paid for supplied materials. Our consolidated financial condition, liquidity or results of operations may be adversely affected in the event that we were forced to absorb such costs.

If our third party contract manufacturers were to suffer a catastrophic loss, unforeseen or recurring operational problems at any of its facilities, we could suffer significant product shortages, sales declines and/or cost increases. The paper making and converting facilities of our third party suppliers as well as their distribution warehouses could suffer catastrophic loss due to fire, flood, terrorism, mechanical failure or other natural or human caused events. If any of these facilities were to experience a catastrophic loss, it could disrupt our supply of products for sale, delay or reduce shipments and reduce our revenues. These expenses and losses may not be adequately covered by property or business interruption insurance. Even if covered by insurance, our inability to deliver our products to customers, even on a short-term basis, may cause us to lose market share on a more permanent basis.

Our ability to protect the intellectual property and proprietary technology related to the production of our products is uncertain. Our future success may depend on our ability to protect the proprietary rights and the intellectual property upon which our tree-free products are based. SCPC holds several patents in the People s Republic of China related to the production of tree-free paper, and under the terms of our supply agreement with SCPC, we have the right to request SCPC to file for counterpart patent protection in Sugarmade s territories and for copyright protection for the name Sugarmade, but we have not yet made such requests. Should we make such a request to SCPC, any patent applications may not be issued as patents, or may not be issued in a form that will be advantageous to us, or we may not be able to obtain copyright protection for the name Sugarmade . Additionally, our Company is in the process of applying for a provisional patent in the US to protect its new formulation and process for its most recent tree free pulp and paper product.. The provisional patent application which the Company plans to file is intended to allow us to establish an early effective filing date with the United States Patent and Trademark Office (USPTO) for the filing of the planned final non-provisional patent for our paper product. However, we may not be able to file the provisional patent application or the planned final non-provisional patent for our paper product. Additionally, any patents obtained in the future may be challenged by re-examination or otherwise invalidated or eventually be found unenforceable. Both the patent application process and the process of managing patent disputes can be time consuming and expensive. Even if any patents were to be granted, competitors may attempt to challenge or invalidate the patents, or may be able to design alternative techniques or devices that avoid infringement of the patents, or develop products with functionalities that are comparable to the tree-free products which we sell. In the event a competitor infringes upon our intellectual property rights, litigation to enforce such rights or to defend patents granted (or to be granted) against challenge, even if successful, could be expensive and time consuming and could require significant time and attention from our management. We may not have sufficient resources to enforce our intellectual property rights.

We may become involved in claims concerning intellectual property rights, and we could suffer significant litigation or related expenses in defending our or SCPC s intellectual property rights or defending claims that we infringed the rights of others. We consider our licensed intellectual property to be a material asset. We may lose market share and suffer a decline in our revenue and net earnings if we cannot successfully defend one or more trademarks or patents we have secured or licensed. We do not believe that any of our products infringe the valid intellectual property rights of third parties. However, we may be unaware of intellectual property rights of others that may cover some of our products or services. In that event, we may be subject to significant future claims for damages. Any litigation regarding patents or other intellectual property could be costly and time-consuming and could divert our management and key personnel from our business operations. Claims of intellectual property infringement might also require us to enter into licensing agreements which would reduce our operating margins, or in some cases, we may not be able to obtain license agreements on terms acceptable to us.

FINANCIAL RISKS

Our current business plan requires that our Company raise additional equity by the end of 2013. We do not currently have sufficient revenues to cover our operating expenses and have never been profitable. We cannot be certain that our Company will ever generate sufficient revenues and gross margin to achieve profitability in the future. Our business plan requires that our Company needs to raise additional equity by the end of 2013. However, there are no arrangements in place for any such financing at this time. We cannot provide any assurances as to whether we will be able to secure any necessary financing, or the terms of any such financing transaction if one were to occur. Our failure to raise additional capital would seriously harm our business and operating results. If we fail to raise additional capital by the end of 2013, our business will be materially and adversely affected and an investor could suffer the loss of a significant portion or all of his investment in our Company.

If we cannot establish profitable operations, we will need to raise additional capital to continue our operations, which may not be available on commercially reasonable terms, or at all, and which may dilute your investment. We incurred a net loss for the year ended June 30, 2012 of nearly of $4,321,000 and had negative cash flows from operations in excess of $2,212,000. For the year ended June 30, 2011, we incurred a net loss in excess of $3.3 million and had negative cash flows from operations in excess of $930,000. Achieving and sustaining profitability will require us to increase our revenues and manage our product, operating and administrative expenses. We cannot guarantee that we will be successful in achieving profitability. If we are unable to generate sufficient revenues to pay our expenses and our existing sources of cash and cash flows are otherwise insufficient to fund our activities, we will need to raise additional funds to continue our operations. We do not have any arrangements in place for additional funds. If needed, those funds may not be available on favorable terms, or at all. Furthermore, if we issue equity or debt securities to raise additional funds, our existing stockholders may experience dilution, and the new equity or debt securities may have rights, preferences and privileges senior to those of our existing stockholders. If we are unsuccessful in achieving profitability and we cannot obtain additional funds on commercially reasonable terms or at all, we may be required to curtail significantly or cease our operations, which could result in the loss of all of your investment in our stock.

We are dependent upon our production credit borrowing arrangement with SCPC and Norco Sourcing (Hong Kong) Co. Ltd in order to fund our working capital and liquidity requirements. We have signed an agreement with SCPC and most recently secured a line of credit with Norco Sourcing (Hong Kong) Co. Ltd (Norco) to provide our Company with credit facilities to fund the production of our paper products. Our plans going forward are dependent upon SCPC and Norco in providing such financing upon the terms we have agreed to and there are currently no other alternate financing plans in place. Should there be an interruption in either SCPC s or Norco willingness or ability to provide such financing per the terms of the agreements, we could face a severe liquidity shortfall that

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could cause our Company s operations to fail and which could consequently result in the loss of an investor s investment with our Company.

We may not have the ability to pay our convertible notes when due. Our Company has issued convertible promissory notes in August and September 2012 totaling $215,000 which must be repaid by our Company within 9 months after their date of issuance. Our Company does not have sufficient capital to repay the notes as of the date of this report, and may not have sufficient capital to repay the notes when due. Our Company s inability to repay the notes when due would permit the noteholders to exercise their default remedies against our Company which could have a material adverse effect on our Company.

Conversion of our convertible notes into common stock could result in additional dilution to our stockholders. Upon satisfaction of certain conversion conditions (including conditions outside of our control, such as the closing of a financing), the notes may be converted into shares of Company common stock by the noteholders. If shares of our common stock are issued due to conversion of some or all of the convertible notes, the ownership interests of existing stockholders would be diluted.

Our financial statements have been prepared assuming that our Company will continue as a going concern. We have generated losses to date and have limited working capital. These factors raise substantial doubt about our ability to continue as a going concern. Our financial statements do not include any adjustments that might result from this uncertainty. The report of our independent registered public accounting firm included an explanatory paragraph expressing substantial doubt about our ability to continue as a going concern in their audit report included herein. If we cannot generate the required revenues and gross margin to achieve profitability or obtain additional capital on acceptable terms, we will need to substantially revise our business plan or cease operations and an investor could suffer the loss of a significant portion or all of his investment in our Company.

Fluctuations in exchange rates could adversely affect our cost of goods sold and consequently our profit margins. The price we pay for product from our third party suppliers in China will be directly affected by the foreign exchange rate between U.S. dollars and the Chinese Renminbi ("RMB") and between those currencies and other currencies in which our sales may be denominated. Because substantially all of our product purchases will be from our suppliers in China, fluctuations in the exchange rate between the U.S. dollar and the RMB will affect the prices that we effectively pay for product. Since July 2005, the RMB has no longer been pegged to the U.S. dollar. Although the People's Bank of China regularly intervenes in the foreign exchange market to prevent significant short-term fluctuations in the exchange rate, the RMB may appreciate or depreciate significantly in value against the U.S. dollar in the medium to long term. Moreover, it is possible that in the future PRC authorities may lift restrictions on fluctuations in the RMB exchange rate and lessen intervention in the foreign exchange market. Very limited hedging transactions are available in China to reduce our exposure to exchange rate fluctuations. To date, we have not entered into any hedging transactions. While we may enter into hedging transactions in the future, the availability and effectiveness of these transactions may be limited, and we may not be able to successfully hedge our exposure at all.

As we transition from a Company with insignificant revenues to what we hope will be a Company generating substantial revenues, we may not be able to manage our growth effectively, which could adversely affect our

operations and financial performance. The ability to manage and operate our business as we execute our growth strategy will require effective planning. Significant rapid growth could strain our internal resources, leading to a lower quality of customer service, reporting problems and delays in meeting important deadlines resulting in loss of market share and other problems that could adversely affect our financial performance. Our efforts to grow could place a significant strain on our personnel, management systems, infrastructure and other resources. If we do not manage our growth effectively, our operations could be adversely affected, resulting in slower growth and a failure to achieve or sustain profitability.

We do not expect to pay dividends for the foreseeable future, and we may never pay dividends and, consequently, the only opportunity for investors to achieve a return on their investment is if a trading market develops and investors are able to sell their shares for a profit or if our business is sold at a price that enables investors to recognize a profit. We currently intend to retain any future earnings to support the development and expansion of our business and do not anticipate paying cash dividends for the foreseeable future. Our payment of any future dividends will be at the discretion of our Board of Directors after taking into account various factors, including but not limited to our financial condition, operating results, cash needs, growth plans and the terms of any credit agreements that we may be a party to at the time. In addition, our ability to pay dividends on our common stock may be limited by state law. Accordingly, we cannot assure investors any return on their investment, other than in connection with a sale of their shares or a sale of our business. At the present time there is a limited trading market for our shares. Therefore, holders of our securities may be unable to sell them. We cannot assure investors that an active trading market will develop or that any third party will offer to purchase our business on acceptable terms and at a price that would enable our investors to recognize a profit.

Our net operating loss (NOL) carry-forward is limited. We have recorded a valuation allowance amounting to our entire net deferred tax asset balance due to our lack of a history of earnings, possible statutory limitations on the use of tax loss carry-forwards generated in the past and the future expiration of our NOL. This gives rise to uncertainty as to whether the net deferred tax asset is realizable. Internal Revenue Code Section 382, and similar California rules, place a limitation on the amount of taxable income that can be offset by carry-forwards after a change in control (generally greater than a 50% change in ownership). As a result of these provisions, it is likely that given our acquisition of Sugarmade-CA, future utilization of the NOL will be severely limited. Our inability to use our Company s historical NOL, or the full amount of the NOL, would limit our ability to offset any future tax liabilities with its NOL.

CORPORATE AND OTHER RISKS

Limitations on director and officer liability and indemnification of our Company s officers and directors by us may discourage stockholders from bringing suit against an officer or director. Our Company s certificate of incorporation and bylaws provide, with certain exceptions as permitted by governing state law, that a director or officer shall not be personally liable to us or our stockholders for breach of fiduciary duty as a director, except for acts or omissions which involve intentional misconduct, fraud or knowing violation of law, or unlawful payments of dividends. These provisions may discourage stockholders from bringing suit against a director for breach of fiduciary duty and may reduce the likelihood of derivative litigation brought by stockholders on our behalf against a director.

We are responsible for the indemnification of our officers and directors. Should our officers and/or directors require us to contribute to their defense, we may be required to spend significant amounts of our capital. Our certificate of incorporation and bylaws also provide for the indemnification of our directors, officers, employees, and agents, under certain circumstances, against attorney's fees and other expenses incurred by them in any litigation to which they become a party arising from their association with or activities on behalf of our Company. This indemnification policy could result in substantial expenditures, which we may be unable to recoup. If these expenditures are significant, or involve issues which result in significant liability for our key personnel, we may be unable to continue operating as a going concern.

Our executive officers, directors and insider stockholders beneficially own or control a substantial portion of our outstanding common stock, which may limit your ability and the ability of our other stockholders, whether acting alone or together, to propose or direct the management or overall direction of our Company. Additionally, this concentration of ownership could discourage or prevent a potential takeover of our Company that might otherwise result in an investor receiving a premium over the market price for his shares. A substantial portion of our outstanding shares of common stock is beneficially owned and controlled by a group of insiders, including our directors and executive officers. Accordingly, any of our existing outside principal stockholders together with our directors, executive officers and insider shareholders would have the power to control the election of our directors and the approval of actions for which the approval of our stockholders is required. If you acquire shares of our common stock, you may have no effective voice in the management of our Company. Such concentrated control of our Company may adversely affect the price of our common stock. Our principal stockholders may be able to control matters requiring approval by our stockholders, including the election of directors, mergers or other business combinations. Such concentrated control may also make it difficult for our stockholders to receive a premium for their shares of our common stock in the event we merge with a third party or enter into different transactions which require stockholder approval. These provisions could also limit the price that investors might be willing to pay in the future for shares of our common stock.

Certain provisions of our Certificate of Incorporation may make it more difficult for a third party to effect a change-of-control. Our certificate of incorporation authorizes the Board of Directors to issue up to 10,000,000 shares of preferred stock. The preferred stock may be issued in one or more series, the terms of which may be determined at the time of issuance by the Board of Directors without further action by the stockholders. These terms may include preferences as to dividends and liquidation, conversion rights, redemption rights and sinking fund provisions. The issuance of any preferred stock could diminish the rights of holders of our common stock, and therefore could reduce the value of such common stock. In addition, specific rights granted to future holders of preferred stock could be used to restrict our ability to merge with, or sell assets to, a third party. The ability of the Board of Directors to issue preferred stock could make it more difficult, delay, discourage, prevent or make it more costly to acquire or effect a change-in-control, which in turn could prevent our stockholders from recognizing a gain in the event that a favorable offer is extended and could materially and negatively affect the market price of our common stock.

We are dependent for our success on a few key executive officers. Our inability to retain those officers would impede our business plan and growth strategies, which would have a negative impact on our business and the value of your investment. Our success depends on the skills, experience and performance of key members of our management team. Each of those individuals may voluntarily terminate his employment with our Company at any time. Were we to lose one or more of these key executive officers, we would be forced to expend significant time and money in the pursuit of a replacement, which would result in both a delay in the implementation of our business plan and the diversion of limited working capital. We do not maintain a key man insurance policy on any of our executive officers.

CAPITAL MARKET RISKS

Our common stock is thinly traded, so you may be unable to sell at or near ask prices or at all if you need to sell your shares to raise money or otherwise desire to liquidate your shares. There is limited market activity in our stock and we are too small to attract the interest of many brokerage firms and analysts. We cannot give you any assurance that a broader or more active public trading market for our common stock will develop or be sustained. While we are trading on OTCMarkets, the trading volume we will develop may be limited by the fact that many major institutional investment funds, including mutual funds, as well as individual investors follow a policy of not investing in OTC stocks and certain major brokerage firms restrict their brokers from recommending OTC stocks because they are considered speculative, volatile, thinly traded and the market price of the common stock may not accurately reflect the underlying value of our Company. The market price of our common stock could be subject to wide fluctuations in response to quarterly variations in our revenues and operating expenses, announcements of new products or services by us, significant sales of our common stock, including short sales, the operating and stock price performance of other companies that investors may deem comparable to us, and news reports relating to trends in our markets or general economic conditions.

The application of the penny stock rules to our common stock could limit the trading and liquidity of the common stock, adversely affect the market price of our common stock and increase your transaction costs to sell those shares. As long as the trading price of our common stock is below $5 per share, the open-market trading of our common stock will be subject to the penny stock rules, unless we otherwise qualify for an exemption from the penny stock definition. The penny stock rules impose additional sales practice requirements on certain broker-dealers who sell securities to persons other than established customers and accredited investors (generally those with assets in excess of $1,000,000 or annual income exceeding $200,000 or $300,000 together with their spouse). These regulations, if they apply, require the delivery, prior to any transaction involving a penny stock, of a disclosure schedule explaining the penny stock market and the associated risks. Under these regulations, certain brokers who recommend such securities to persons other than established customers or certain accredited investors must make a special written suitability determination regarding such a purchaser and receive such purchaser s written agreement to a transaction prior to sale. These regulations may have the effect of limiting the trading activity of our common stock, reducing the liquidity of an investment in our common stock and increasing the transaction costs for sales and purchases of our common stock as compared to other securities. The stock market in general and the market prices for penny stock companies in particular, have experienced volatility that often has been unrelated to the operating performance of such companies. These broad market and industry fluctuations may adversely affect the price of our stock, regardless of our operating performance. Stockholders should be aware that, according to Securities and Exchange Commission (SEC) Release No. 34-29093, the market for penny stocks has suffered in recent years from patterns of fraud and abuse. Such patterns include 1) control of the market for the security by one or a few broker-dealers that are often related to the promoter or issuer; 2) manipulation of prices through prearranged matching of purchases and sales and false and misleading press releases; 3) boiler room practices involving high-pressure sales tactics and unrealistic price projections by inexperienced sales persons; 4) excessive and undisclosed bid-ask differential and markups by selling broker-dealers; and 5) the wholesale dumping of the same securities by promoters and broker-dealers after prices have been manipulated to a desired level, along with the resulting inevitable collapse of those prices and with consequent investor losses. The occurrence of these patterns or practices could increase the volatility of our share price.

We may not be able to attract the attention of major brokerage firms, which could have a material adverse impact on the market value of our common stock. Security analysts of major brokerage firms may not provide coverage of our common stock since there is no incentive to brokerage firms to recommend the purchase of our common stock. The absence of such coverage limits the likelihood that an active market will develop for our common stock. It will also likely make it more difficult to attract new investors at times when we require additional capital.

We may be unable to list our common stock on NASDAQ or on any securities exchange. Although we may apply to list our common stock on NASDAQ or the American Stock Exchange in the future, we cannot assure you that we will be able to meet the initial listing standards, including the minimum per share price and minimum capitalization requirements, or that we will be able to maintain a listing of our common stock on either of those or any other trading venue. Until such time as we qualify for listing on NASDAQ, the American Stock Exchange or another trading venue, our common stock will continue to trade on OTC Markets or another over-the-counter quotation system where an investor may find it more difficult to dispose of shares or obtain accurate quotations as to the market value of our common stock. In addition, rules promulgated by the SEC impose various practice requirements on broker-dealers who sell securities that fail to meet certain criteria set forth in those rules to persons other than established customers and accredited investors. Consequently, these rules may deter broker-dealers from recommending or selling our common stock, which may further affect the liquidity of our common stock. It would also make it more difficult for us to raise additional capital.

Future sales of our equity securities could put downward selling pressure on our securities, and adversely affect the stock price. There is a risk that this downward pressure may make it impossible for an investor to sell his or her securities at any reasonable price, if at all. Future sales of substantial amounts of our equity securities in the public market, or the perception that such sales could occur, could put downward selling pressure on our securities, and adversely affect the market price of our common stock.

Item 7 - Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis is intended as a review of significant factors affecting our financial condition and results of operations for the periods indicated. The discussion should be read in conjunction with our consolidated financial statements and the notes presented herein. In addition to historical information, the following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. Our actual results could differ significantly from those anticipated in these forward-looking statements as a result of certain factors discussed in this annual report. See SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS above.

Overview and Financial Condition

Discussions with respect to our Company s operations included herein refer to our operating subsidiary, Sugarmade-CA. Our Company purchased Sugarmade-CA on May 9, 2011. We have no operations other than those of Sugarmade-CA. Information with respect to our Company s nominal operations prior to the Sugarmade Acquisition is not included herein.

Results of Operations

Revenues

Our Company had net revenues totaling $141,750 and $37,629 for the years ended June 30, 2012 and 2011, respectively, an increase of $104,121 (276.7%). Our net revenues for the year ended June 30, 2012 consist of gross sales totaling $237,156 and returns and allowances of $95,405. During the fourth quarter of 2012, we became aware of quality issues surrounding our copy paper products. We were able to trace the reported problems with paper quality back to manufacturing issues with our third party contract manufacturer. Our Company has since implemented additional quality assurance procedures both during and at the completion of the production processes and believes that all known issues have been addressed. As a result of the production difficulties, we issued full refunds to our customers for the poor quality paper, and as of the date of this report, we are working to deliver fully tested, quality paper to our customers to meet continuing demand.

Cost of goods sold

Total cost of goods sold increased by $248,588 from $59,083 for the year ended June 30, 2011 to $307,671 for the year ended June 30 2012. Cost of goods sold in fiscal 2012 includes a provision for inventory obsolescence totaling $195,880 resulting from inventory quality issues we discovered during the three months ended June 30, 2012. It was our management s assessment that based on a thorough review of the inventory and the extent of the quality issues discovered, our Company s inventory was materially impaired. Upon further analysis and estimations of our inventory s future marketability, we recorded a charge for inventory obsolescence. For the year ended June 30, 2011, the cost of goods sold also reflected a charge for inventory obsolescence totaling $32,634 resulting from a package redesign impacting the entire on hand inventory at that time.

Gross margin

Gross margin was a negative $165,921 for the year ended June 30, 2012 compared to a negative margin of $21,454 for the year ended June 30, 2011. The overall negative gross margin for both years resulted from the provision for inventory obsolescence discussed above. We had a positive gross margin from sales before our provision for inventory obsolescence in both fiscal 2012 and 2011.

Selling, general and administrative expenses

Selling, general and administrative expenses totaled $3,817,320 and $3,072,306 for the years ended June 30, 2012 and 2011, respectively. Included in these expenses were payroll and related expenses of $1,255,462 and $1,148,252 during the years ended June 30, 2012 and 2011, respectively. Included in our payroll and related expenses are charges for share based compensation totaling $204,404 for the year ended June 30, 2012 and 99,737 for the year ended June 30, 2011. Consulting expenses totaled $1,880,747 and 1,545,912 during the years ended June 30, 2012 and 2011, respectively, while legal and auditing expenses totaled $104,783 and $141,056 during the years ended June 30, 2012 and 2011, respectively. Included in consulting expenses are noncash charges for the issuance of common stock for services totaling $1,633,900 for the year ended June 30, 2012 and $2,027,938 for the year ended June 30, 2011.

Freight and shipping costs totaled $77,183 for the year ended June 30, 2012 compared to $8,980 for the year ended June 30, 2011. The increased freight charges during 2012 reflected both increased customer sales compared to 2011 as well as the additional charges incurred in shipping additional product to our customers to replace their inventory of paper with reported quality issues. Travel expenses totaled $156,149 and 38,986 during the years ended June 30, 2012 and 2011, respectively. The increased travel related expenditures in 2012 resulted from additional travel and lodging for both the operations and sales teams. Advertising and promotion totaled $61,281 and $23,975 during the years ended June 30, 2012 and 2011, respectively.

Amortization of license and supply agreement

We recognized amortization of our license and supply agreement with SCPC totaling $18,403 and $18,402 during the years ended June 30, 2012 and 2011, respectively. The amortization represented the recognition of the cost of the SCPC agreement over its initial twenty year term on a straight line basis. During the three months ended June 30, 2012, our management determined the value of the license and supply agreement with SCPC had been impaired as a result of changes in our manufacturing processes, enhancements to our product formulation and the limitations on our production credit facility. During the year ended June 30, 2012, our company diversified our manufacturing and process management options to include other third party contract manufacturers. Additionally, we developed a new formulation for the tree-free pulp, which has improved our overall paper quality. Finally, we have been working to secure additional credit options to allow us to produce paper for inventory purposes and for sale to distribution partners. Based on this assessment, the fair value of the remaining intangible asset was deemed negligible and as such the entire intangible asset totaling $318,983 was charged to operations during the three months ended June 30, 2012.

Interest expense and interest income

Interest expense totaled $2,156 for the year ended June 30, 2012 as compared to $93,584 for the year ended June 30, 2011. Interest expense in fiscal 2012 resulted from expenses incurred in connection with a note payable to a bank with an outstanding balance totaling $150,000 from December 2011 through June 20, 2012. Interest expense in 2011 was primarily the result of amounts accrued and paid in cash under notes payable outstanding through April 2011. Interest income totaled $1,376 and $20,275 during the years ended June 30, 2012 and 2011, respectively. During the year ended June 30, 2011, a total of $693,900 in principal under outstanding promissory notes was converted to equity while principal outstanding totaling $162,000 was repaid in cash. Interest income for the year ended June 30, 2011 was derived almost exclusively from a note receivable due from a stockholder of our Company (which note resulted in a charge to operations in fiscal 2011 totaling $159,902.)

Net loss

Net loss totaled $4,321,407 and $3,345,373 during the years ended June 30, 2012 and 2011, respectively. Net noncash amounts included in our net loss in both years were $2,374,401 and 2,318,737, respectively. Non-cash amounts reflected primarily share based compensation, issuances of common stock for services, the write-off of the intangible asset, provisions for inventory obsolescence and the loss on forgiveness of a note receivable.

Liquidity and Capital Resources

We have primarily financed our operations through the sale of unregistered equity, warrants and convertible notes payable. As of June 30, 2012, our Company had cash totaling $192,100, current assets totaling $334,723 and total assets of $364,249. We had total liabilities of $425,017 (all current) and negative working capital of $90,294. Stockholders equity reflected a deficit of $60,768.

Net cash used by operating activities was $2,191,959 for the year ended June 30, 2012, an increase of $1,259,113 from the comparable figure of $932,876 for the year ended June 30, 2011. The increase in net cash used by operating activities was related to increased activities incurred in ramping up our business operations over the previous year as well as inventory purchases during 2012.

Net cash flows from investing activities for year ended June 30, 2012 resulted from equipment and furniture purchases totaling $6,868.

Net cash provided by financing activities totaled $804,438 for the year ended June 30, 2012 as compared to $2,498,000 for the year ended June 30, 2011. The net cash provided by financing activities for the year ended June 30, 2012 was mainly attributable to proceeds from the sales of our common stock and cash provided from a note payable with our bank. During April 2011, we converted notes payable with a principal balance of $693,000 into 504,140 shares of our common stock and repaid the balance of the principal outstanding totaling $162,000 in cash. Through June 2012, we have raised cash totaling $659,438 in connection with the sale of 292,222 shares of our common stock and warrants to purchase up to an additional 233,778 shares of our common stock, of which 193,778 were exercised to purchase shares of our common stock.

Our capital requirements going forward will consist of financing our operations until we are able to reach a level of revenues and gross margins adequate to equal or exceed our ongoing operating expenses. Other than the production credit facility with our suppliers and borrowings with our bank, we do not have any credit agreement or source of liquidity immediately available to us.

Given estimates of our Company s future operating results and our credit arrangements with our suppliers, we are currently forecasting that we will need to secure additional financing to obtain adequate financial resources to reach profitability. As of the date of this report, we estimate that the cash necessary to implement our current business plan for the next twelve months is approximately $2,500,000. This amount does not include funds for the production of our paper products which we expect to be satisfied by our production line of credit. Similarly, the funds from the production line of credit cannot be used for operational needs. As of the date of this report, we had a cash balance of approximately $191,000. However, we cannot provide any assurances that the cash required to implement our current plan will not exceed our estimated amount of $2,500,000, or that we can achieve profitability with the estimated amounts we determined above, or that we will ever achieve profitability. We also cannot provide any assurances that we will be able to receive additional funds under our production line of credit.

Based on our need to raise additional funds to implement our business plans for the next twelve months, we have included a discussion concerning the presentation of our financial statements on a going concern basis in the notes to our financial statements and our independent public accountants have included a similar discussion in their opinion on our financial statements through June 30, 2012. We will be required in the near future to issue debt or sell our Company s equity securities in order to raise additional cash, although there are no arrangements in place for any such financing at this time. We cannot provide any assurances as to whether we will be able to secure the necessary financing, or the terms of any such financing transaction if one were to occur. The failure to secure such financing could severely curtail our plans for future growth or in more severe scenarios, the continued operations of our Company.

Capital Expenditures

Our current plans do not call for our Company to expend significant amounts for capital expenditures for the foreseeable future beyond relatively insignificant expenditures for office furniture and information technology related equipment as we add employees to our Company. We are however continually evaluating the production processes of our third party contract manufacturers to determine if there are investments we could make in their processes to achieve manufacturing improvements and significant cost savings. Any such desired investments would require additional cash above our current forecast requirements.

Critical Accounting Policies Involving Management Estimates and Assumptions

Use of estimates

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States of America requires our management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue recognition

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

Inventory

Inventory consists of finished goods paper and paper-based products ready for sale and is stated at the lower of cost or market. We value inventories using the weighted average costing method. We regularly review inventory and consider forecasts of future demand, market conditions and product obsolescence. If the estimated realizable value of our inventory is less than cost, we make provisions in order to reduce its carrying value to its estimated market value. As noted above, during the fourth quarter of fiscal 2012, our Company became aware of quality issues surrounding its copy paper products. As a result of these quality issues, our Company determined the inventory value was impaired and recorded a reserve for inventory obsolescence totaling $195,880 at June 30, 2012.

For the year ended June 30, 2011, we had valuation reserves against inventory totaling $15,321, representing the entire remaining balance of inventory.

Valuation of long-lived assets

We evaluate long-lived assets for impairment whenever events or changes in circumstances indicate their net book value may not be recoverable. When such factors and circumstances exist, we compare the projected undiscounted future cash flows associated with the related asset or group of assets over their estimated useful lives against their respective carrying amount. Impairment, if any, is based on the excess of the carrying amount over the fair value, based on market value when available, or discounted expected cash flows, of those assets and is recorded in the period in which the determination is made. For the year ended June 30, 2012, it was determined that our Company s intangible assets value were impaired resulting in the complete write-down of the intangible asset. As a result of the write-down, our Company recorded a charge totaling $318,983 which is included in the accompanying statement of operations for the year ended June 30, 2012.

Stock based compensation

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

Net loss per share

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

Recent accounting pronouncements

For discussion of recently issued and adopted accounting pronouncements, please see Note 1 to the Sugarmade financial statements included herein.

Item 10 Directors, Executive Officers and Corporate Governance

The names of our current officers and directors, as well as certain information about them, are set forth below:

Name	Age	Position
Scott Lantz	37	Chief Executive Officer, Chief Financial Officer, Chairman and Director
Clifton Kuok Wai Leung	32	Director
Sandy Salzberg	52	Director
C. James Jensen	71	Director
Ed Roffman	62	Director

Scott Lantz. Mr. Lantz was appointed as our Chief Executive Officer, Chief Financial Officer, Chairman of the Board of Directors and a Director of our Company on May 9, 2011. Mr. Lantz has served has the Chief Executive Officer, Chief Financial Officer, Chairman of the Board of Directors and a Director of our subsidiary since December 2009 and was a co-founder of our subsidiary in 2009. From November 2002 to February 2009, Mr. Lantz was employed by The Margarita King, a privately held consumer packaged goods company, during which time he served as its Chief Operating Officer and its Vice President of Sales.

Clifton Kuok Wai Leung. Mr. Leung was appointed to our Board of Directors on June 14, 2011. Mr. Leung has served as a member of the Board of Directors of our subsidiary since October 2009, and is also the Chief Executive Officer and 100% owner of SCPC since early 2006.

Sandy Salzberg. Mr. Salzberg was appointed to our Board of Directors on June 14, 2011. Mr. Salzberg has served as a member of the Board of Directors of our subsidiary since August 2010. Since April 2003, Mr. Salzberg is the President of Shasta Inc. Prior to that, from May 1988 to June 1991 Mr. Salzberg served as Area Vice President with PepsiCo s Frito-Lay Snack division. From March 1986 to April 2001, Mr. Salzberg was a Regional Vice President at the Frito-Lay Snack Division of PepsiCo. Mr. Salzberg has a Bachelor s Degree in Marketing from the University of Washington.

C. James Jensen. Mr. Jensen was appointed to our Board of Directors on June 14, 2011. Mr. Jensen was appointed to the Board of Directors of our subsidiary in April 2011. Mr. Jensen is the co-founder and managing partner of Mara Gateway Associates, L.P, a privately owned real estate investment company since 1983. Additionally, Mr. Jensen is the co-managing partner of Stronghurst, LLC, an advisory and financial services firm since March 2006. Mr. Jensen has previously served as the Chairman and Chief Executive Officer of Thousand Trails, Inc., an industry leader of private campground resorts from 1981 to 1987;

Ed Roffman. Mr. Roffman was appointed to our Board of Directors on June 14, 2011. Mr. Roffman was appointed to the Board of Directors of our subsidiary April 2011. Since April 2012, Mr. Roffman was the Chief Financial Officer is Alphabird, Inc., an audience acquisition company. Mr. Roffman has also been an independent business consultant since April 2006. Mr. Roffman currently serves on the board and is chairman of the audit committee of Westinghouse Solar (formerly Akeena Solar), a designer and distributor of solar modules. During the past five years Mr. Roffman has also served on the Boards and audit committees of Silverstar Holdings and Adex Media.

In evaluating director nominees, our Company considers the following factors:

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The appropriate size of the Board;

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Our needs with respect to the particular talents and experience of our directors;

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The knowledge, skills and experience of nominees;

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Experience with accounting rules and practices; and

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The nominees other commitments.

Our Company s goal is to assemble a Board of Directors that brings our Company a variety of perspectives and skills derived from high quality business, professional and personal experience. Other than the foregoing, there are no stated minimum criteria for director nominees.

Specific talents and qualifications that we considered for the members of our Company s Board of Directors are as follows:

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Mr. Lantz, in addition to his role as a director and Chairman of the Board, is our Company s Chief Executive Officer. We feel that the senior member of our management team is the appropriate person to lead our Board of Directors.

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Mr. Leung, in addition to his role as a director, is SCPC s Chief Executive Officer. The combination of the desirability of a close working relationship between our Company and SCPC as well as the significant equity ownership of Mr. Leung, makes his membership on our Board of Directors highly desirable to our Company.

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Mr. Salzberg has deep experience in consumer products marketing. With 28 years at senior level positions in Fortune 100 consumer packaged goods companies, Mr. Salzberg has had experience in both domestic and international markets and within multiple segments of retail and wholesale product marketing channels. During his tenure as the president of Shasta Beverages, Inc. and earlier while serving as the Regional Vice President with PepsiCo's Frito-Lay Snack division, he has been a key contributor in increasing sales and achieving high growth rates at both organizations. We believe Mr. Salzberg's strong record of sales growth achievement are a significant asset and complement to Mr. Lantz's sales talents and will significantly benefit our Company's Board of Directors.

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Mr. Jensen s broad experience in executive senior management and investment management within public companies will provide additional guidance in areas such as strategic planning, sales and marketing, revenue growth and distribution. The board and company will also gain valuable insight from Mr. Jensen in the areas of national and international sales and distribution models.

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Mr. Roffman s extensive financial and accounting experience and his training as a certified public accountant bring a valuable asset to our Board. Mr. Roffman's experience on public company boards has provided extensive audit committee experience as well as additional insight into the practices of other Boards and their committees. He has also been designated to head the audit committee and serve as the financial expert for our Company s Board of Directors.

There are no family relationships among any of our officers or directors.

Corporate Governance

Leadership Structure

Scott Lantz acts as our Chairman and Chief Executive Officer. Our Board of Directors consists of five board members, three of which are independent directors, constituting a majority of independent directors. Our Board of

Directors has determined that its leadership structure is appropriate and effective for our Company given its stage of operations.

Board Committees

We presently have an audit committee and a compensation committee. The audit committee is primarily responsible for reviewing the services performed by our independent auditors and evaluating our accounting policies and system of internal controls. The audit committee is comprised of Messrs. Roffman, Salzman and Jensen. The compensation committee is primarily responsible for reviewing and approving our salary and benefits policies (including stock options) and other compensation of our executive officers. The compensation committee is comprised of Messrs. Salzman, Jensen and Lantz. We presently do not have a nominating committee and do not foresee the need for such a committee at this time. The responsibilities of the nominating committee would be primarily responsible for nominating directors and setting policies and procedures for the nomination of directors. The nominating committee would also be responsible for overseeing the creation and implementation of our corporate governance policies and procedures. Until there is a need for a nominating committee, these decisions will continue to be made by our Board of Directors.

Director Independence

The Board has determined that Messrs. Salzberg, Jensen and Roffman are independent as the term "independent" is defined by the rules of NASDAQ Rule 5605.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires our Company s directors and officers, and persons who own more than ten-percent (10%) of our Company s common stock, to file with the Securities and Exchange Commission reports of ownership on Form 3 and reports of changes in ownership on Forms 4 and 5. Such officers, directors and ten-percent stockholders are also required to furnish our Company with copies of all Section 16(a) reports they file. Based solely on our review of the copies of such forms received by our Company and on written representations from certain reporting persons, we believe that all Section 16(a) reports applicable to our officers, directors and ten-percent stockholders with respect to the fiscal year ended June 30, 2012 were timely filed.

Item 13 - Certain Relationships and Related Party Transactions and Director Independence

Transactions with Related Persons

Our Company closely reviews transactions between our Company and persons or entities considered to be related parties (collectively related parties). Our Company considers entities to be related parties where an executive officer, director or a 5% or more beneficial owner of our common stock (or an immediate family member of these persons) has a direct or indirect material interest. Transactions of this nature require the approval of our management and our Board of Directors. We believe such transactions were at terms comparable to those we could have obtained from unaffiliated third parties. Since July 1, 2010, we have not had any transactions in which any of our related parties had or will have a direct or indirect material interest, nor are any such transactions currently proposed, except as noted below.

Transactions with Related Persons, Promoters and Certain Control Persons

The following includes a summary of any transaction occurring since July 1, 2010, or any proposed transaction, in which we were or are to be a participant and the amount involved exceeded or exceeds the lesser of $120,000 or one percent of our average total assets at year end for the two most recently completed fiscal years, and in which any related person had or will have a direct or indirect material interest (other than compensation described under "Executive Compensation" above). We believe the terms obtained or consideration that we paid or received, as applicable, in connection with the transactions described below were comparable to terms available or the amounts that would be paid or received, as applicable, in arm's-length transactions.

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On October 1, 2012, our Company obtained a $3 million dollar production line of credit line from Norco Sourcing (Hong Kong) Company Ltd (Norco). One of our directors, Clifton Leung, has a forty-five percent (45%) ownership interest in Norco. The line of credit is intended to allow our Company to produce product for inventory purposes without the need for customer purchase orders as a requirement to order product from its contract manufacturer. The line of credit will bear interest at 9% per annum and require payment 60 days after shipment of the product. For the initial three to four months, the line will fund the full cost of the production, after which our Company will pay a 40% deposit for subsequent productions. Additionally, once our Company utilizes the line of credit, we will grant Norco 100,000 share of Common stock and warrants to purchase 100,000 shares of the Company s common stock at an exercise price of $0.01 per share. Similarly, once our Company outstanding balance on the line exceeds $1,000,000 dollars, our Company will issue an additional 100,000 shares of stock and warrants to purchase 100,000 shares of stock at an exercise price of $0.01 per share. Finally, if our Company exceeds $2,000,000 balance on the line, our Company will again issue 100,000 shares of stock and warrants to purchase 100,000 shares of stock at an exercise price of $0.01 per share. The line of credit constitutes an oral agreement between Norco and the Company and has not been memorialized in a written agreement executed between the parties. The Company has not received any funds under the line of credit as of the date of this report.

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On August 17, 2012, our Company issued a convertible promissory note in the amount of $25,000 to C. James Jensen, one of our directors, as part of a financing involving seven accredited investors. The convertible promissory note must be repaid by our Company within 9 months from the date of issuance; accrues interest at the rate of 14%; and is convertible at the election of the note holder at such time as our Company has raised a minimum of $500,000 in equity in a subsequent equity financing, at the conversion price which is the lower of 80% of the per share purchase price paid for the securities by the investors in the subsequent financing, or $.50 per share. Unless this promissory note is converted or repaid earlier, our Company must pay the noteholder the amount of the then accrued interest on the three month anniversary, six month anniversary, and nine month anniversary of the issue date. In connection with the issuance of the promissory notes, Mr. Jensen received two-year warrants to purchase 3,750 shares of common stock at $.50 per share, and two-year warrants to purchase 6,250 shares of common stock at $.01 per share.

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Effective May 11, 2012, our Company entered into a Share Cancellation Agreement with Clifton Leung, a director and shareholder of our Company, pursuant to which Mr. Leung agreed to the cancellation of 500,000 shares of Company common stock held by him. In consideration for the cancellation, our Company agreed to pay Mr. Leung $5,000 representing a price of $0.01 per share of common stock. Our Company accounted for this transaction as a purchase and immediate retirement of treasury shares. Effective June 30, 2012, Mr. Leung forgave the amount owed to him from the share cancellation agreement.

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On January 19, 2012, our Board of Directors approved a grant of 36,000 shares of our Company s common stock (subject to a 1 year repurchase option by our Company) to Ed Roffman, a director, for the provision of services to our Company in the areas of finance and public reporting. The shares were issued in reliance upon the exemption from registration afforded by Section 4(2) of the Securities Act as transactions by an issuer not involving any public offering.

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On May 9, 2011, our Company completed the Cancellation Agreement with Kevin Russeth, Steven Davis and Jonathan Shultz. At the time of the Cancellation Agreement, Mr. Russeth was our sole director and was our Chief Executive Officer and Chief Financial Officer. In addition, each of Messrs. Russeth, Davis and Shultz were stockholders of our Company holding in excess of 10% of our outstanding common stock. Under the terms of the Cancellation Agreement, Messrs. Russeth, Davis and Shultz cancelled 8,500,000 shares of our common stock held by them in exchange for Sugarmade-CA's agreement to consummate the transactions contemplated by the Exchange Agreement and 200,000 warrants to purchase shares of our common stock. The warrants are three year warrants to purchase common stock at a price of $1.25 per share. Also under the terms of the Cancellation Agreement, Messrs. Russeth and Shultz agreed to redeem an aggregate of 262,500 shares of our outstanding common stock in exchange for cash payments aggregating to $210,000.

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On April 27, 2011, Sugarmade-CA entered into a sales and marketing consulting agreement with Mr. C. James Jensen, a member of our Board of Directors. As part of this agreement, Sugarmade-CA issued to Mr. Jensen 100,000 shares of its common stock (subject to a 2 year repurchase option) valued at $0.30 per share. Our Company took a charge for $30,000 for this issuance.

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On April 27, 2011, Sugarmade-CA issued 100,000 shares of common stock to Mr. Ed Roffman, a member of our Board of Directors, for services rendered as the Head of the Audit committee and financial expert. The shares issued are subject to a 3 year repurchase option by our Company, valued at $0.30 per share. Our Company took a charge for $30,000 for this issuance.

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On April 27, 2011, Sugarmade-CA issued a total of 2,484,299 and 800,000 shares of common stock to Scott Lantz our Chief Executive Officer and Clifton Leung, a member of its Board of Directors, respectively, in exchange for nominal cash consideration. The shares were valued at $0.30 per share. Our Company took a charge for the shares issued to Mr. Lantz and Mr. Leung totaling $745,269 and $240,000 respectively.

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On April 27, 2011, Sugarmade-CA issued two-year warrants to purchase up to 600,000 shares of our common stock with an exercise price of $1.25 per share to George Mainas, Kevin Kearney and Garrett Cecchini in exchange for consulting services performed on its behalf. Our Company took a charge of $24,000 for the issuance of these warrants.

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In 2010, Sugarmade-CA loaned money to Ethan Farid Jinian in exchange for a note payable secured by shares of stock in our Company. At the time of the loan, Mr. Jinian was a former director and executive officer of Sugarmade-CA and was a 5% stockholder. The loans bore interest at a rate of 14 percent per annum. The largest amount outstanding under the loan was $163,000. On April 30, 2011, with the Mr. Jinian unable to repay the balance of the note and with his concurrence, we foreclosed on all principal and accrued interest owed to our Company, taking back the shares of our common stock we held as security for all borrowings. The cancellation of the borrower s stock held as security for his borrowings resulted in a reduction of the note receivable balance and stockholders equity totaling $35,977. The remaining balance of borrowings outstanding and the related accrued interest due to our Company were fully reserved, resulting in a charge of $159,902 recorded in the quarter ended June 30, 2011.

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In December 2010, Sugarmade-CA received short term loans from various shareholders totaling $50,000 at zero percent interest and reflected in our Company s December 31, 2010 Balance Sheet as Loans Due to Shareholders. These loans were subsequently paid back in January 2011.

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On November 22, 2010, Sugarmade-CA entered into an agreement with George Mainas and Garrett Cecchini for consulting services performed on its behalf in exchange for 500,000 shares of common stock which were issued on May 9, 2011. The shares were valued at $0.80 per share and our Company took a charge for $200,000 for each of the issuances to Mr. Mainas and Mr. Cecchini.

Item 15 Exhibits, Financial Statement Schedules

(a)

Exhibits

<u>Num.</u>

<u>Description</u>31

Certification pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act, as amended, by Chief Executive Officer and principal financial officer (10)

32

Certification pursuant to 18 U.S.C. §1350 by Chief Executive Officer and principal financial officer (10)

(10) Filed as an Exhibit to this report.

SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Sugarmade, Inc., a Delaware corporation

By: /s/ SCOTT LANTZ

Scott Lantz, President, Chief Executive Officer, Chief Financial Officer and Director

April 22, 2013

POWER OF ATTORNEY

We, the undersigned directors and/or officers of Sugarmade, Inc. hereby severally constitute and appoint Scott Lantz, acting individually, his true and lawful attorney-in-fact and agent, with full power of substitution and re-substitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this report, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

In accordance with the requirements of the Securities Act of 1933, this report has been signed by the followings persons in the capacities and on the dates stated.

SIGNATURE	Title	Date
/S/ STEPHEN P. PINTO	Chairman	April __, 2013

STEPHEN P. PINTO

/S/ CLIFTON KUOK WAI LEUNG	Director	April __, 2013
CLIFTON KUOK WAI LEUNG		
/S/ SANDY SALZBERG	Director	April __, 2013
SANDY SALZBERG		
/S/ JONATHAN LEONG	Director	April __, 2013
JONATHAN LEONG		
/S/ HENRY MICHON	Director	April __, 2013
HENRY MICHON		
/S/ KEVIN KEARNEY	Director	April __, 2013
KEVIN KEARNEY		
/S/ SCOTT LANTZ	Director	April __, 2013
SCOTT LANTZ		

EXHIBIT 31

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

I, Scott Lantz, certify that:

1. I have reviewed the Annual Report on Form 10-K for the fiscal year ended June 30, 2012 (the Form 10-K) and this Amendment No. 2 to the Form 10-K (together referred to herein as this report) of Sugarmade, Inc.:

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's Board of Directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: April 22, 2013

/s/ Scott Lantz

Scott Lantz,

Chief Executive Officer and principal financial officer

Exhibit 32

SUGARMADE, INC.

In connection with the Annual Report of Sugarmade, Inc. (the Company) on Amendment No. 2 to Form 10-K/A for the period ending June 30, 2012, as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Scott Lantz, Chief Executive Officer and principal financial officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 22, 2013

/s/ Scott Lantz
Scott Lantz
Chief Executive Officer and principal financial officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.