Diversified Opportunities, Inc.
Form 8-K
May 13, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 8-K

CURRENT REPORT PURSUANT
TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934

Date of report (Date of earliest event reported) May 9, 2011

DIVERSIFIED OPPORTUNITIES, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of Incorporation)

000-23446	**94-300888**
(Commission File Number)	(IRS Employer Identification No.)

2280 Lincoln Avenue, Suite 200, San Jose CA 95125
(Address of Principal Executive Offices)

408-265-6233
(Registrant's Telephone Number, Including Area Code)

1042 N. El Camino Real, B-261, Encinitas, CA 92024-1322
(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements, which reflect our views with respect to future events and financial performance. These forward-looking statements are subject to certain uncertainties and other factors that could cause actual results to differ materially from such statements. These forward-looking statements are identified by, among other things, the words "anticipates", "believes", "estimates", "expects", "plans", "projects", "targets" and similar expressions. Statements in this report concerning the following are forward looking statements:

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future financial and operating results;

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our ability to fund operations and business plans, and the timing of any funding or corporate development transactions we may pursue;

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the ability of our suppliers to provide products or services in the future of an acceptable quality on a timely and cost-effective basis;

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expectations concerning market acceptance of our products;

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current and future economic and political conditions;

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overall industry and market trends;

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management s goals and plans for future operations; and

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other assumptions described in this report underlying or relating to any forward-looking statements.

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statement was made. Except to the extent required by applicable securities laws, we undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Important factors that may cause actual results to differ from those projected include the risk factors specified below.

USE OF DEFINED TERMS

Except where the context otherwise requires and for the purposes of this report only:

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"we," "us," "our" and "Company" refer to the combined business of Diversified Opportunities, Inc., and its consolidated subsidiaries, including SugarMade, Inc.;

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"Exchange Act" refers to the United States Securities Exchange Act of 1934, as amended;

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"SEC" refers to the United States Securities and Exchange Commission;

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"Securities Act" refers to the United States Securities Act of 1933, as amended;

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Sugarmade-CA refers to the business and operations of our subsidiary, Sugarmade, Inc., prior to the completion of the Sugarmade Acquisition; and

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"U.S. dollars," "**dollars**" and "**$**" refer to the legal currency of the United States.

ITEM 1.01 ENTRY INTO A MATERIAL DEFINITIVE AGREEMENT

On May 9, 2011 (the "**Closing Date**") we completed the remaining conditions and closed the previously announced Exchange Agreement dated April 23, 2011 (the **Exchange Agreement**) with Sugarmade, Inc., a California corporation (**Sugarmade-CA**) and certain shareholders of Sugarmade-CA (the **Sugarmade Acquisition**). Pursuant to the terms of the Exchange Agreement, we issued (i) 8,864,108 shares of the Company's common stock to the Sugarmade-CA shareholders, in exchange for the same number of shares of stock of Sugarmade-CA issued and outstanding as of the Closing Date; (ii) warrants to purchase up to 2,330,400 shares of our Company s common stock to current Sugarmade-CA warrant holders on a one-for-one basis in exchange for warrants that they held in Sugarmade-CA; and (iii) options to purchase up to 920,000 shares of our Company s common stock to current Sugarmade-CA option holders on a one-for-one basis in exchange for options that they held in Sugarmade-CA.

Also effective May 9, 2011, we entered into a Cancellation Agreement (the "**Cancellation Agreement**") with Sugarmade-CA and three of our stockholders, including Kevin Russeth our director and Chief Executive Officer, who previously held an aggregate of 9,000,000 shares of our common stock. In order to induce Sugarmade-CA to enter into the Exchange Agreement and in consideration of warrants to purchase up to 200,000 shares of common stock, the three stockholders agreed to cancel an aggregate of 8,500,000 shares of their common stock. In addition the stockholders agreed to redeem a further 262,500 shares of their common stock in exchange for cash proceeds totaling $210,000.

This summary is qualified in its entirety by reference to the complete text of the Exchange Agreement which is incorporated by reference into this report as described below.

ITEM 2.ITEM COMPLETION OF ACQUISITION OR DISPOSITION OF ASSETS 2.01

On May 9, 2011, we completed the acquisition of Sugarmade-CA pursuant to the Exchange Agreement. The Sugarmade Acquisition was accounted for as a recapitalization effected by a share exchange, wherein Sugarmade-CA is considered the acquirer for accounting and financial reporting purposes. The assets and liabilities of the acquired entity have been brought forward at their book value and no goodwill has been recognized.

We have included the information that would be required if we were filing a general form for registration of securities on Form 10, including a complete description of the business and operations of Sugarmade-CA in Item 5.06 below, which is incorporated herein by reference.

ITEM 3.ITEM UNREGISTERED SALES OF EQUITY SECURITIES 3.02

On May 9, 2011, in connection the Exchange Agreement we issued: (i) 8,864,108 shares of our common stock to the shareholders of Sugarmade-CA; (ii) 2,330,400 warrants to purchase shares of our common stock to warrantholders of

Sugarmade-CA; (iii) 920,000 options to purchase shares of our common stock to option holders of Sugarmade-CA; and (iv) 200,000 warrants to Kevin Russeth, our Chief Executive Officer, Steven Davis and Jonathan Shultz in connection with the Cancellation Agreement.

The shares were issued in exchange for a like number of shares of common stock of Sugarmade-CA. The warrants issued to the warrantholders of Sugarmade-CA were issued in exchange for a like number of warrants to purchase common stock of Sugarmade CA. The options issued to the option holders of Sugarmade-CA were issued in exchange for a like number of options to purchase common stock of Sugarmade-CA. The 200,000 warrants were issued in partial consideration of the agreement to cancel 8,500,000 shares of the Company's outstanding common stock under the terms of the Cancellation Agreement.

The warrants issued to the former Sugarmade-CA warrant holders and to Messrs. Russeth, Davis and Shultz grant the holder the immediately vested right to purchase shares of our common stock at $1.25 per share for a period of three years. The options granted to the option holders of Sugarmade-CA to purchase shares of our common stock have terms ranging from five to ten years with vesting periods of up to three years and exercise prices of $1.25 per share.

We did not receive any cash consideration in connection with the Sugarmade Acquisition. The number of our shares issued to the shareholders of Sugarmade-CA was determined based on an arms-length negotiation. The issuance of our shares, warrants and options to those shareholders was made in reliance on the exemption provided by Section 4(2) of the Securities Act for the offer and sale of securities not involving a public offering, and Regulation D promulgated under the Securities Act.

Between May 9, 2011 and May 12, 2011, we issued units including a total of 100,000 shares and two-year warrants to purchase up to 100,000 shares of common stock at $1.50 per share in exchange for gross proceeds totaling $125,000.

In instances described above where we issued securities in reliance upon Regulation D, we relied upon Rule 506 of Regulation D. The parties who received the securities in such instances made representations that such party (a) is acquiring the securities for his, her or its own account for investment and not for the account of any other person and not with a view to or for distribution, assignment or resale in connection with any distribution within the meaning of the Securities Act, (b) agrees not to sell or otherwise transfer the purchased shares unless they are registered under the Securities Act and any applicable state securities laws, or an exemption or exemptions from such registration are available, (c) has knowledge and experience in financial and business matters such that he, she or it is capable of evaluating the merits and risks of an investment in us, (d) had access to all of our documents, records, and books pertaining to the investment and was provided the opportunity to ask questions and receive answers regarding the terms and conditions of the offering and to obtain any additional information which we possessed or were able to acquire without unreasonable effort and expense, and (e) has no need for the liquidity in its investment in us and could afford the complete loss of such investment. Management made the determination that the investors in instances where we relied on Regulation D are accredited investors (as defined in Regulation D) based upon management's inquiry into their sophistication and net worth. In addition, there was no general solicitation or advertising for securities issued in reliance upon Regulation D.

In instances described above where we indicate that we relied upon Section 4(2) of the Securities Act in issuing securities, our reliance was based upon the following factors: (a) the issuance of the securities was an isolated private transaction by us which did not involve a public offering; (b) there were only a limited number of offerees; (c) there were no subsequent or contemporaneous public offerings of the securities by us; (d) the securities were not broken down into smaller denominations; and (e) the negotiations for the sale of the stock took place directly between the offeree and us.

ITEM 5.01 CHANGES IN CONTROL OF REGISTRANT

We had 9,199,192 shares of common stock outstanding immediately prior to the Closing Date. After giving effect to the cancellations and redemptions described in the Cancellation Agreement, the Company had 436,692 shares of common stock outstanding immediately prior to the closing of the Sugarmade Acquisition. In connection with the closing of the Sugarmade Acquisition (and assuming all of the former Sugarmade-CA shareholders exchange their Sugarmade-CA shares for shares of Company common stock), up to an additional 8,864,108 shares of Company common stock will be issued to the shareholders of Sugarmade-CA. As a result of the Sugarmade Acquisition, the shareholders of the Company which existed prior to the closings would own approximately 4.7% of the outstanding common stock of the Company, and the former Sugarmade-CA shareholders would own approximately 95.3% of the outstanding common stock of the Company, which resulted in a change of control of the Company.

Reference is made to the beneficial ownership table disclosure set forth under Item 5.06 of this Current Report, which disclosure is incorporated herein by reference, regarding the identity of the persons who acquired control of the Company, and their percentage ownership of voting securities of the Company as of the Closing Date.

ITEM 5.02 DEPARTURE OF DIRECTORS OR CERTAIN OFFICERS; ELECTION OF DIRECTORS; APPOINTMENT OF CERTAIN OFFICERS; COMPENSATORY ARRANGEMENTS OF CERTAIN OFFICERS

Upon the closing of the Exchange Agreement, as of May 9, 2011, Kevin Russeth, our sole director, submitted his resignation letter pursuant to which he resigned immediately from all offices of our company that he holds. Mr. Russeth also resigned from his position as our director effective ten days following our filing of a Schedule 14F-1 with the SEC and mailing the Schedule 14F-1 to our registered stockholders. The resignation of Mr. Russeth is not in connection with any known disagreement with us on any matter.

On May 9, 2011, in connection with the closing of the Exchange Agreement, Mr. Scott Lantz was appointed to our Board of Directors. We also appointed Clifton Kuok Wai Leung, Sandy Salzberg, C. James Jensen and Ed Roffman to our Board of Directors with such appointment to be effective ten days following our filing of a Schedule 14F-1 with the SEC and mailing the Schedule 14F-1 to our registered stockholders.

On May 9, 2011 Scott Lantz became our Chief Executive Officer, Chief Financial officer and Treasurer. For certain biographical and other information regarding the newly appointed officer and directors, see the disclosure under Item 5.06 of this report, which disclosure is incorporated herein by reference.

ITEM 5.06 CHANGE IN SHELL COMPANY STATUS

On May 9, 2011, we acquired Sugarmade-CA in a reverse acquisition transaction. Prior to the transactions contemplated by the Exchange Agreement, we were a shell company as defined in Rule 12b-2 under the Exchange Act. As a result of the transactions contemplated by the Exchange Agreement, we are no longer a shell company. The information with respect to the transaction set forth in Item 2.01 is incorporated herein by reference.

FORM 10 DISCLOSURE

We are providing below the information that would be included in a Form 10 if we were to file a Form 10. Please note that the information provided below relates to the combined enterprises after the acquisition of Sugarmade-CA, except that information relating to periods prior to the date of the reverse acquisition only relate to Sugarmade-CA unless otherwise specifically indicated.

DESCRIPTION OF BUSINESS

Business

We are a distributor of paper products that are derived from non-wood sources. 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 a manufacturer and 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.

We believe that our Company has a unique advantage in the market to provide paper products derived from earth-friendly sources to much of the world s population. SCPC s 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.

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. Globally, pulp for paper and related uses is expected to continue to consume an increasing share of all wood production, from forty percent (40%) in 1998 to an estimated nearly sixty percent (60%)

over the next fifty years. During that same time span, easily accessible and inexpensive sources of wood will continue disappearing. 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 has released an estimated 120 billion tons of carbon dioxide (CO^2 - the major global warming gas) into the atmosphere. The pulp and paper industry is the third-largest industrial polluter in both Canada and the United States, releasing an estimated 220 million pounds of toxic pollution into the air, ground and water each year. In the United States, paper-producing companies are the third-largest energy consumer. 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 bagasse and bamboo contain significantly higher amounts of cellulose (2.5 times or more) than wood fiber. Additionally, both sugar cane and bamboo can be harvested in 7-10 months. 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 four tons of raw material to produce one ton of finished products. Our process greatly reduces the carbon footprint and environmental damages from paper production.

History

On October 26, 2009, we (operating at the time as Simple Earth, Inc.) acquired all of the outstanding common stock of Sugarmade, Inc. (SMI), a California corporation incorporated in March 2009 to import, sell and distribute sustainable and environmentally friendly non-tree-based paper products. During 2010, we began doing business as Sugarmade, Inc. (Sugarmade-CA). On February 1, 2011, Sugarmade-CA changed its legal name to Sugarmade, Inc. and dissolved the SMI legal entity. Our Company intends to change its name to Sugarmade, Inc. and operate under that name.

The Industry and the Overall Market

Currently, the U.S. paper industry is a $230 billion industry. The U.S. alone consumes over 110 million tons of paper products each year. Our area of focus includes (but SCPC s manufacturing capabilities are not limited to):

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. 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. Paper sales have increased roughly four percent annually since the onset of the Internet age. Worldwide, paper constitutes approximately 42% of the wood harvested in the world. The U.S. alone consumes nearly 30% of the world s paper products. The average American consumes over 700 pounds of paper per year, including the paper products that are the focus of our market strategy.

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 instead of elemental chlorine gas in our manufacturing process. Elemental chlorine gas produces dioxin (a known carcinogen) as a by-product.

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 (e.g. copy paper is 80% bagasse and 20% bamboo).

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. 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)	Waste Water (gallons)	Solid Waste (lbs)
**Sugarmade™	-	10	1,957	3,953	72
*Virgin Pulp	4	30	5,882	22,219	1,909
*30% Recycled	3	27	5,144	18,665	1,693
*100% Recycled	-	22	3,422	10,372	1,189

*Data from EDF Paper Calculator **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.

Our Partner SCPC: Capacity, License and Territory

SCPC is a 56 year-old paper products company and is among the largest bagasse and bamboo pulping companies in the world. With over a half-century of experience, research, and business development effort, SCPC contends that it is the largest producer of 100% tree-free paper products in the Asian markets. SCPC converts plant material from the waste residuals of sugar cane (bagasse) and bamboo to commercial grade tree-free fibers. SCPC s processes are proprietary and patented and previously virtually all of its paper products were marketed and consumed in the Asian markets. SCPC has been selling tree-free paper products into the Asian markets for over fifty years.

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.

SCPC provides us with readily available commercial scale, having annual tree-free paper production capacity of over 350,000 metric tons. At current price levels, 350,000 metric tons of products represents the manufacturing capacity to support annual revenues up of to $420 million. Moreover, with metric ton quantities of sugar cane and bamboo residual waste material locally available (in China) to SCPC for tree-free pulp, we see little risk of product supply constraints. We believe that our exclusive relationship with SCPC, together with SCPC's intellectual property rights and access to source materials provides us with a substantial barrier to entry for potential competitors.

While our Company is independent of SCPC, Clifton Leung the Chief Executive Officer and Chairman of SCPC is an incoming member of our Board of Directors and significant shareholder of our Company. Mr. Leung s involvement in our Company is invaluable both for his industry expertise and the attendant alignment of the interests of both SCPC and our Company. We are neither a factory representative, commissioned sales agency nor simply a middleman. The LSA and our relationship and ongoing participation of SCPC s Mr. Leung provides assurances that we will not compete with others for the products manufactured by SCPC.

Products

We will have available to market, a complete suite of tree-less paper products in order to concurrently capitalize on multiple commercial market verticals. More specifically, our company will have 32 separate SKU's of tree-free paper products in order to take advantage of all the products being produced by SCPC in commercially scalable quantities. These 32 SKU's 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

Tissue (Bath/Kitchen) (7 SKU s)

a.

Paper towels multi-fold and roll

b.

Toilet paper regular roll and jumbo (janitorial) roll c.

Napkins beverage, lunch, dinner

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

We intend to primarily focus our sales and marketing efforts on the printing, writing and copy paper and industrial/commercial packaging categories.

Production and Logistics

SCPC s manufacturing facility is located in the city of Jiangmen, in the province of Guangdong in the Peoples Republic of China. Its operations include pulping (from locally available bagasse and bamboo) and conversion (from pulp to finished product). Based on discussions with SCPC management, we believe that SCPC tree-free paper production is currently operating at roughly 28% capacity.

After transport from SCPC s factory to the nearby port of Yan Tian, product is shipped to a warehouse located in Oakland, CA. 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 inventory up to 2,000 shipping containers or 1.44 million cases of copy paper.

We have access to an extensive network of third-party logistics companies. If required, we are prepared to handle the moving and transporting of our products to customers anywhere in the U.S.

Target Markets

Our initial target markets are corporate entities and government agencies. We are in 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. 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. The 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.

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. 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, nor 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 affect 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. 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. Shangi Hongtuo, Ltd.).

We believe the products we acquire from SCPC 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 SCPC. Through SCPC, we can supply commercial quantities of our products.

Regulation

SCPC is 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 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

SCPC is also subject to periodic inspections by local environmental protection authorities. SCPC has 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, SCPC is 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 SCPC to obtain and operate in compliance with conditions of permits and other governmental authorizations. Future regulations could materially increase SCPC s capital requirements and certain of their operating expenses in future years. Such increases in SCPC s 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 had approximately two full-time employees as of December 31, 2010 and five contracted positions. 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 Current Report.

Seasonality

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

RISK FACTORS

An 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 Current Report, before making an investment decision. If any of the following risks actually occurs, our business, financial condition or results of operations could suffer. In that case, the trading price of our common stock could decline, and you may lose all or part of your investment. You should read the section entitled "Special Notes Regarding Forward-Looking Statements" 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-fee 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. Our historical financial information is not a reliable indicator of future performance or prospects.

The segments of the paper industry in which we operate are highly competitive and increased competition could reduce 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 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 only supplier will impair our ability to distribute our products and generate revenues. We are dependent on a sole supplier SCPC for the production of our products. We have no manufacturing facilities and we rely on SCPC to provide us with an adequate and reliable supply of products on a timely basis. Any interruption in the distribution from our sole supplier could affect our ability to distribute our products. Additionally, our sole supplier is located outside of the United States in the 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 SCPC, and therefore our ability to protect our contract rights. We rely on SCPC for our supply of products. SCPC operates 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 SCPC. 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. The future loss of one or more of our significant customers or a substantial future reduction of orders by any of our significant customers, 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. SCPC is 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 SCPC has failed to comply with certain laws or regulations. SCPC 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 SCPC s capital expenditures and operating expenses and decrease the amount of funds available for investment in other areas of their operations. In addition, SCPC may be required to eliminate or mitigate any adverse effects on the environment caused by the release of hazardous materials, whether or not SCPC had knowledge of or were responsible for such release. SCPC 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 SCPC, such costs could be passed along to us in the form of higher prices paid for SCPC 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 SCPC 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. SCPC s paper making and converting facilities as well as its 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.

We may become involved in claims concerning intellectual property rights, and we could suffer significant litigation or related expenses in defending ours 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

If we cannot return to and sustain 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 December 31, 2010 of $598,481. 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.

Our financial statements have been prepared assuming that the 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 SCPC 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 SCPC 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 the 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 OTC Markets, 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.

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 herein and any other periodic reports (to be) filed with the Securities and Exchange Commission.

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 other operations 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 insignificant revenues totaling $40,792 for the year ended December 31, 2010 (we had no revenues in 2009). Our Company had its first sale in January 2010. Our activities to date have been primarily centered on establishing relationships with our supplier and potential customers, recruiting an executive management team and instituting systems to control and grow our future operations. Going forward, we plan to heavily market our tree-free paper products and educate potential customers concerning their quality, suitability and environmental advantages over traditional tree-based paper products. While we are optimistic about the prospects for our Company, since this is a relatively new product offering with significantly different characteristics compared with existing paper products on the market (and we have not recognized significant revenues to date), there can be no assurance about whether or when our products will generate sufficient revenues with adequate margins in order for our Company to be profitable.

Cost of goods sold

Cost of goods sold totaled $53,483 in 2010 (there were no corresponding amounts in 2009). Included in costs of goods sold were materials and freight costs totaling $35,944 as well as a charge for inventory obsolescence totaling

$17,539.

Gross margin

Gross margin was a negative $12,691 in 2010 with no corresponding amounts in 2009. We had a slightly positive gross margin from sales before our provision for inventory obsolescence. The gross margin percentage realized in 2010 is not indicative of anticipated future results due to the lack of product sales volume to date.

Selling, general and administrative expenses

Selling, general and administrative expenses totaled $480,156 and $130,042 in 2010 and 2009, respectively. Included in these expenses were payroll and related expenses of $183,591 and $22,860 in 2010 and 2009, respectively. Consulting expenses totaled $170,892 in 2010 and $10,030 in 2009, while legal and auditing expenses totaled $45,964 and $86,691 in 2010 and 2009, respectively. Warehousing and storage costs totaled $25,511 and $3,156 in 2010 and 2009, respectively. Travel expenses were $11,474 in 2010 and $2,181 in 2009. Advertising and promotion totaled $4,165 in 2010 with no corresponding amounts in 2009.

Amortization of license and supply agreement

We recognized amortization of our license and supply agreement with SCPC totaling $18,400 and $3,067 in 2010 and 2009, respectively. The amortization represented the recognition of the cost of the SCPC agreement over its initial twenty year term on a twenty year basis.

Interest expense and interest income

Interest expense totaled $105,766 and $9,879 in 2010 and 2009, respectively. Interest expense was primarily the result of amounts due under notes payable outstanding through December 31, 2010. Interest income totaled $18,532 in 2010 and was derived almost exclusively from a note receivable due from a stockholder of our Company. In connection with the Sugarmade Acquisition an aggregate of $693,900 in principal under outstanding promissory notes was converted to equity. Accordingly, we expect that interest expense to be substantially less for the balance of 2011.

Net loss

Net loss totaled $598,481 and $142,988 in 2010 and 2009, respectively.

Liquidity and Capital Resources

We have primarily financed our operations from our inception in March 2009 through the sale of unregistered equity and convertible notes payable. As of December 31, 2010, our Company had cash totaling $13,614, current assets totaling $33,760 and total assets of $567,764 (including $368,058 in intangible assets related to the license and supply agreement with SCPC). We had total current liabilities of $290,603 and a working capital deficiency of $256,843. Total liabilities were $1,092,503 (including notes payable totaling $928,200), resulting in a stockholders deficiency of $524,739.

Net cash used by operating activities was $474,358 for year ended December 31, 2010, an increase of $386,400 from $87,958 for the year ended December 31, 2010. The increase of net cash used by operating activities was related to a full year's worth of operating expenses and the additional costs incurred in ramping up our business operations.

Net cash used in investing activities for year ended December 31, 2010 was $163,000 compared to $346,000 for the year ended December 31, 2009. The investment in for the year ended December 31, 2010 related to additional advances to a shareholder under a note receivable. The investment for the year ended December 31, 2009 primarily related to the acquisition of SMI.

Net cash provided by financing activities was $621,100 for the year ended December 31, 2010, compared to $463,830 for the year ended December 31, 20