Diversified Opportunities, Inc.
Form 8-K/A
June 23, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 8-K/A

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

Date of report June 23, 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. dolla**rs**," "**dollars**" and "**$**" refer to the legal currency of the United States.

Explanatory Note: This Form 8-K/A amends the Company s Current Report on Form 8-K dated May 9, 2011 (the Original 8-K) filed with the SEC on May 13, 2011. Because the filing date of the Original 8-K was within 45 days after the most recent quarter end of Sugarmade, Inc, a California corporation (Sugarmade-CA), the business acquired by the Company, the financial statements of Sugarmade required by Items 2.01(f) and 9.01 of Form 8-K did not include the most recent quarter end review. Accordingly, the Company is now filing the information that would be required to be included in a quarterly review for Sugarmade-CA. Additionally, this Form 8-K/A amends the Original 8-K to supply erroneously omitted or improperly formatted numbers from the Original 8-K. Accordingly, this Form 8-K/A should be read in conjunction with the Original 8-K.

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. The discussions relate to Sugarmade-CA s financial results and financial position as of and for the three months ended March 31, 2011. 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. Such information may be found within our Company s Quarterly Report on Form 10-Q as of and for the three and nine months ended March 31, 2011 filed with the Securities and Exchange Commission on April 28, 2011.

Results of Operations

Revenues

Our Company had insignificant revenues totaling $1,538 for the three months ended March 31, 2011 (we had revenues totaling $8,760 during the comparable period in 2010). 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 of our products 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 $16,539 for the three months ended March 31, 2011 ($2,622 for the comparable period in 2010). Included in costs of goods sold is a provision for inventory obsolescence totaling $15,195 in 2011 (no comparable amounts in 2010). The provision represents the reserving of inventory parts of a different grade, packaging or composition from our current customer product offerings.

Gross margin

Gross margin totaled a negative $15,001 for the three months ended March 31, 2011 ($6,138 for the comparable period in 2010). The gross margin percentage realized in both periods do not represent what we are currently estimating will be typical margin percentages going forward when we have more substantial levels of sales revenues.

Selling, general and administrative expenses

Selling, general and administrative expenses totaled $238,155 for the three months ended March 31, 2011 ($155,044 for the comparable period in 2010). Included in these expenses for 2011 and 2010 respectively were payroll and related expenses of $68,347 and $75,109. Consulting expenses totaled $83,373 in 2011 and $31,402 in 2010, while legal and auditing expenses totaled $36,027 and $23,416 in 2011 and 2010, respectively. Warehousing and storage costs totaled $2,806 and $8,705 in 2011 and 2010, respectively. Travel, meals and entertainment expenses were $14,924 in 2011 and $6,670 in 2010. Advertising and promotion totaled $10,839 in 2011 and $3,269 in 2010.

Amortization of license and supply agreement

We recognized amortization of our license and supply agreement with SCPC totaling $4,601 and $4,176 for the three months ended March 31, 2011 and 2010, respectively. The amortization represented the recognition of the cost of the SCPC agreement over its initial twenty year term.

Interest expense and interest income

Interest expense totaled $27,045 and $23,682 for the three months ended March 31, 2011 and 2010, respectively. Interest expense was primarily the result of amounts due under notes payable outstanding through March 31, 2011. Interest income totaled $6,350 in 2011 and $2,543 in 2010 and was derived almost exclusively from a note receivable due from a stockholder and former officer 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 going forward.

Net loss

Our net loss totaled $278,609 and $174,221 for the three months ended March 31, 2011 and 2010, 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 March 31, 2011, our Company had cash totaling $8,636, current assets totaling $17,527 and total assets of $557,384 (including $341,990 in intangible assets related to the license and supply agreement with SCPC). We had total current liabilities of $269,282 and a working capital deficiency of $251,755. Total liabilities were $1,297,932 (including $172,750 and $693,900 of subscriptions and notes payable, respectively, subsequently converted into common stock), resulting in a stockholders deficiency of $740,548 at March 31, 2011. Our stockholder deficiency was cured with the cash receipts and conversions of notes payable that took place from April 2011 through the date of this report.

Net cash flows consumed by operating activities totaled $180,424 for three months ended March 31, 2011. Net cash flows used in investing activities for the same period was $4,104. Cash flows received from financing activities totaled $179,550 and the overall change in cash was a decrease of $4,978.

Subsequent to March 31, 2011, we converted notes payable with a principal balance of $693,900 into 252,070 shares of our common stock. Beginning in April 2011, we also sold 2,185,600 shares of common stock and warrants to purchase an additional 2,185,600 shares of common stock to investors in exchange for net proceeds totaling $2,652,000 (gross proceeds of $2,732,000, less issuance costs of $80,000). Additionally, we made a cash payment totaling $210,000 to two shareholders of DVOP in exchange for shares previously owned by them. On May 9, 2011 (the closing date of the Sugarmade Acquisition), we had a cash balance totaling approximately $1,738,000 (amount is net of operating expenses incurred and paid by the Company through the date of closing) and notes payable totaling $262,000. The balance of notes payable and related accrued interest were repaid by June 3, 2011.

Our Company has entered into an operating credit facility with SCPC whereby we are able to finance the purchase of all of our Company s products for resale from them on an interest-free basis. Qualifying orders placed with SCPC are not required to be paid for by our Company until up to thirty days after we receive payment from our customers. This credit facility allows us to grow our business quickly without the capital constraints posed by the need for financing our working capital requirements. 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 operating credit facility with SCPC, 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 SCPC, we are currently forecasting that we have adequate financial resources to achieve cash flow break-even. We have nevertheless 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 December 31, 2010.

Should we not achieve our forecasted operating results or should strategic opportunities present themselves such that additional financial resources would present attractive investing opportunities for our Company, we may decide in the future to issue debt or sell our Company s equity securities in order to raise additional cash. 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.

Capital Expenditures

Our current plans do not call for our Company to expend significant amounts for capital expenditures for the foreseeable future beyond office furniture and information technology related equipment as we add employees to our Company. SCPC produces our products that we market and our warehousing facilities are contracted for with third parties (and therefore do not require us to make capital purchases in this area).

Critical Accounting Policies

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. 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 or our inventory is less than cost, we make provisions in order to reduce its carrying value to its estimated market value.

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. Our management currently believes there is no impairment of our long-lived assets. There can be no assurance, however, that market conditions will not change or demand for our products under development will continue. Either of these could result in future impairment of long-lived assets.

Stock based compensation

Future stock based compensation cost will be 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 will estimate the fair value of employee stock options granted using the Black-Scholes 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 will use comparable public company data among other information to estimate the expected price volatility and the expected forfeiture rate. There were no options or warrants issued or outstanding from our Company s inception through March 31, 2011.

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 9.01 FINANCIAL STATEMENTS AND EXHIBITS

(a)

Financial Statements

Filed at the end of this Current Report are the unaudited consolidated financial statements of Sugarmade, Inc. as of and for the three months ended March 31, 2011 and 2010.

(d) Exhibits

Exhibit No.

Description

2.1

Exchange Agreement, dated April 23, 2011, among the Company, Sugarmade-CA and the Sugarmade-CA shareholders (incorporated by reference to Exhibit 2.1 of the registrant s current report on Form 8-K, filed with the SEC on April 27, 2011).

4.1

Form of Warrant issued to Sugarmade-CA warrant holders in connection with private placement.

4.2

Form of Warrant issued to Sugarmade-CA consultants.

4.3

Form of Warrant issued in connection with the Share Cancellation Agreement.

4.4

Form of Convertible Note Issued to note holders of Sugarmade-CA.

10.1

Share Cancellation Agreement, dated April 23, 2011, among the Company and three of its shareholders.

10.2

Form of Subscription Agreement dated between January 15, 2011 and May 6, 2011 among Sugarmade-CA and certain investors identified therein.

10.3

Conversion Agreement dated April 11, 2011 to April 22, 2011 among Sugarmade-CA and certain note holders of Sugarmade-CA identified therein.

10.4

Registration Rights Agreement dated May 9, 2011 among the Company, Sugarmade-CA and the shareholders identified therein.

10.5

Purchase Agreement dated October 26, 2009 between Sugarmade CA and Sugarmade Inc.

10.6

License and Supply Agreement dated January 1, 2011 between The Sugar Cane Paper Co. Ltd and Sugarmade-CA.

10.7

Lease Agreement dated January 10, 2011 between Sugarmade-CA and Michael Frangis.with respect to the premises located at 2280 Lincoln Avenue, Suite 200, San Jose CA 95125.

10.8

Consulting Agreement dated February 1, 2011 between Sugarmade-CA and Joseph Abrams with respect to strategic advisory services.

10.9

Diversified Opportunities, Inc. 2011 Stock Option/Stock Issuance Plan.

21.1

List of subsidiaries.

24.1

Power of Attorney (included on signature page).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

DIVERSIFIED OPPORTUNITIES, INC

Date: June 23, 2011

/s/ Scott Lantz

Scott Lantz

Chief Executive Officer and Chief Financial Officer

INDEX TO FINANCIAL STATEMENTS

Sugarmade, Inc. Unaudited Condensed Financial Statements as of March 31, 2011 and December 31, 2010 and for the three months ended March 31, 2011 and March 31, 2010

Sugarmade, Inc. and Subsidiary
Condensed Consolidated Balance Sheets (Unaudited at March 31, 2011)
March 31, 2011 and December 31, 2010

	March 31, 2011	December 31, 2010
Assets		
Current assets:		
Cash	$ 8,636	$ 13,614
Inventory	-	17,439
Other current assets	8,891	2,707
Total current assets	17,527	33,760
License and supply agreement with Sugar Cane Paper Co., Ltd., net of accumulated amortization	341,990	346,591
Note receivable and amounts due from stockholder	197,867	187,413
	$ 557,384	$ 567,764
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable and accrued liabilities, including amounts due to related parties of $9,750 in 2010	$ 187,331	$ 115,046
Accrued interest, including amounts due to related parties of $4,997 (2010 - $5,902)	36,949	21,080
Notes payable due to shareholders	16,300	126,300
Accrued compensation and personnel related payables	28,702	28,177
Total current liabilities	269,282	290,603

Convertible notes payable		603,000		549,000
Convertible notes payable to related parties		252,900		252,900
Funds received for future stock sale		172,750		-
Total liabilities		1,297,932		1,092,503
Commitments and contingencies				
Stockholders deficit				
Preferred stock (no par value, 20,000,000 shares authorized, none issued and outstanding)		-		-
Common stock (no par value, 50,000,000 shares authorized, 788,107 shares issued and outstanding		279,530		216,730
Accumulated deficit		(1,020,078)		(741,469)
Total stockholders' deficit		(740,548)		(524,739)
	$	557,384	$	567,764

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

Sugarmade, Inc. and Subsidiary
Condensed Consolidated Statements of Operations (Unaudited)
For the three months ended March 31, 2011 and 2010

		2011		2010
Sales revenues	$	1,538	$	8,760
Cost of goods sold:				
Materials and freight costs		1,344		2,622
Provision for inventory obsolescence		15,195		-
		16,539		2,622
Gross margin		(15,001)		6,138
Operating expenses:				
Selling, general and administrative expenses		238,155		155,044
Amortization of license and supply agreement		4,601		4,176
Total operating expenses		242,756		159,220
Loss from operations		(257,757)		(153,082)
Nonoperating income (expense):				
Interest expense:				
Related parties		(8,853)		(13,489)
Other		(18,349)		(10,193)
Interest income (including $6,350 and $2,474 in 2011 and 2010 from shareholder note receivable)		6,350		2,543
		(20,852)		(21,139)

Net loss	$	(278,609)	$	(174,221)
Basic and diluted net loss per share	$	(0.35)	$	(0.24)
Basic and diluted weighted average common shares outstanding used in computing net loss per share		788,107		729,729

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

Sugarmade, Inc. and Subsidiary

Condensed Consolidated Statements of Cash Flows (Unaudited)

For the three months ended March 31, 2011 and 2010

		2011		2010
Cash flows from operating activities:				
Net loss	$	(278,609)	$	(174,221)
Adjustments to reconcile net loss to cash flows from operating activities:				
Amortization of license and supply agreement		4,601		4,176
Interest income from note receivable from stockholder		(6,350)		(2,474)
Provision for inventory obsolescence		15,195		-
Changes in operating assets and liabilities:				
Inventory		2,244		(33,835)
Other assets		(6,184)		805
Accounts payable and accrued liabilities		72,285		40,491
Accrued interest		15,869		3,979
Accrued compensation and personnel related payables		525		3,808
Cash flows from operating activities		(180,424)		(157,271)
Cash flows from investing activities:				
Additions to notes receivable from stockholder		(4,104)		(109,000)
Cash flows from financing activities:				
Proceeds from funds received for future stock sale		172,750		-
Additions to notes payable due to related parties		2,800		-
Repayments of notes payable due to related parties		(50,000)		(15,000)
Proceeds from the issuances of convertible notes payable		54,000		269,900
Cash flows from financing activities		179,550		254,900

Change in cash during period		(4,978)		(11,371)
Cash, beginning of period		13,614		29,872
Cash, end of period	$	8,636	$	18,501

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

Sugarmade Inc. (formerly Simple Earth, Inc.) and Subsidiary

Notes to Condensed Consolidated Financial Statements

1.

Summary of significant accounting policies

Nature of business

Sugarmade, Inc. (hereinafter referred to as we or the/our Company) was incorporated in the state of California on March 2, 2009 under the name Simple Earth, Inc. On October 26, 2009, we acquired all of the outstanding common stock of Sugarmade, Inc. (SMI) and during 2010 we began doing business as Sugarmade, Inc. On February 1, 2011, we changed the legal name of our Company to Sugarmade, Inc. and dissolved the SMI legal entity. Our Company is principally engaged in the business of marketing and distributing environmentally friendly non-tree-based paper products.

Basis of presentation

We have prepared the accompanying unaudited condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and disclosures required by generally accepted accounting principles for complete financial statements. In the opinion of our management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included. Operating results for the three months ended March 31, 2011 are not necessarily indicative of the results that may be expected for the entire year. For further information, see our consolidated financial statements and related disclosures thereto for the year ended December 31, 2010 in our Current Report on Form 8-K filed with the Securities and Exchange Commission on May 13, 2011.

Principles of consolidation

The consolidated financial statements include the accounts of our Company and its wholly-owned subsidiary, SMI. All significant intercompany transactions and balances have been eliminated in consolidation.

Going concern

Our consolidated financial statements have been prepared assuming that we will continue as a going concern. Such assumption contemplates the realization of assets and satisfaction of liabilities in the normal course of business. However, we have incurred significant net losses, have a net working capital deficiency and have a deficiency of stockholders equity as of and through March 31, 2011. These factors among others raise a substantial doubt about our ability to continue as a going concern. We are dependent upon sufficient future profitable operations and additional sales of debt or equity securities in order to meet our operating cash requirements. We believe that our Company s sale of common stock and warrants for net cash proceeds totaling $2,652,000 through the date of this report and the conversion of notes payable totaling $693,900 to shares of our common stock subsequent to March 31, 2011 has generated sufficient cash to allow our Company (as management currently forecasts future operations) to operate through December 31, 2011. However, there exists the possibility that additional funding might be required by our Company and that such funding will not be available at suitable terms or at all. These consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Use of estimates

The preparation of 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. Cash received in connection with the sales of our products prior to their being recognized as revenue is recorded as deferred revenue.

Sugarmade Inc. (formerly Simple Earth, Inc.) and Subsidiary

Notes to Condensed Consolidated Financial Statements

Cash and cash equivalents

We consider all investments with a remaining maturity of three months or less at purchase to be cash equivalents. Cash equivalents primarily represent funds invested in money market funds, bank certificates of deposit and U.S. government debt securities whose cost equals fair market value. At both March 31, 2010 and December 31, 2010, our Company had no cash equivalents.

From time to time, we may maintain bank balances in excess of amounts insured by the Federal Deposit Insurance Corporation. We have not experienced any losses with respect to cash. Management believes our Company is not exposed to any significant credit risk with respect to its cash and cash equivalents.

Accounts receivable

Accounts receivable are carried at their estimated collectible amounts, net of any estimated allowances for doubtful accounts. We grant unsecured credit to our customers deemed credit worthy. Ongoing credit evaluations are performed and potential credit losses estimated by management are charged to operations on a regular basis. At the time any particular account receivable is deemed uncollectible, the balance is charged to the allowance for doubtful accounts. Since we cannot necessarily predict future changes in the financial stability of our customers, we cannot guarantee that our allowance for doubtful accounts will be adequate.

From time to time, we may have a limited number of customers with individually large amounts due. Any unanticipated change in a customer s creditworthiness could have a material effect on our results of operations in the period in which such changes or events occurred. We had only insignificant amounts of accounts receivable (currently classified with other current assets) and no allowance for doubtful accounts as of March 31, 2011 and December 31, 2010.

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 or our inventory is less than cost, we make provisions in order to reduce its carrying value to its estimated market value.

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. Our management currently believes there is no impairment of our long-lived assets. There can be no assurance, however, that market conditions will not change or demand for our products under development will continue. Either of these could result in future impairment of long-lived assets.

Income taxes

We provide for federal and state income taxes currently payable, as well as for those deferred due to timing differences between reporting income and expenses for financial statement purposes versus tax purposes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in income tax rates is recognized as income or expense in the period that includes the enactment date.

Sugarmade Inc. (formerly Simple Earth, Inc.) and Subsidiary

Notes to Condensed Consolidated Financial Statements