

SMI PRODUCTS INC  
Form 10QSB  
May 14, 2007

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

**FORM 10-QSB**

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the Quarter ended March 31, 2007

Commission File Number: 333-55166

**SMI PRODUCTS, INC.**  
(Exact name of registrant as specified in its charter)

Delaware  
(State of  
organization)

88-0363465  
(I.R.S.  
Employer  
Identification  
No.)

122 Ocean Park Blvd.  
Suite 307  
Santa Monica, California 90405  
(Address of principal executive offices)

(310) 396-1691  
Registrant's telephone number, including area code

Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

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

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

There are 755,100 shares of common stock outstanding as of April 30, 2007.

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**PART I - FINANCIAL INFORMATION****ITEM 1. INTERIM FINANCIAL STATEMENTS**

**SMI PRODUCTS, INC.**  
**(A Development Stage Company)**  
**BALANCE SHEETS**  
**March 31, 2007 and December 31, 2006**

|  | March 31, 2007<br>(unaudited) | Dec. 31, 2006<br>(audited) |
|--|-------------------------------|----------------------------|
| <b>ASSETS</b>  |                               |                            |
| Current  |                               |                            |
| Cash   | \$ —                          | \$ —                       |
| <b>Total Current Assets</b>  | <b>—</b>                      | <b>—</b>                   |
| <b>Total Assets</b>  | <b>—</b>                      | <b>—</b>                   |
| <b>LIABILITIES</b>   |                               |                            |
| Current  |                               |                            |
| Accounts payable and accrued liabilities   | \$ 11,204                     | \$ 9,078                   |
| Interest Payable   | 1,574                         | 950                        |
| Loans payable  | 132,311                       | 124,750                    |
| <b>Total Current Liabilities</b>   | <b>145,089</b>                | <b>134,778</b>             |
| <b>Total Liabilities</b>   | <b>145,089</b>                | <b>134,778</b>             |
| <b>STOCKHOLDERS' DEFICIENCY</b>  |                               |                            |
| Common stock, \$0.001 par value<br>100,000,000 shares authorized,<br>755,100 shares issued and outstanding | 755                           | 755                        |
| Preferred stock, \$0.001 par value<br>10,000,000 shares authorized,<br>-0- shares issued and outstanding   | -                             | -                          |
| Additional paid-in capital   | 54,045                        | 54,045                     |
| Deficit accumulated during the development stage   | (199,889)                     | (189,578)                  |
|  | (145,089)                     | (134,778)                  |
| <b>Total Liabilities and Stockholders' Deficiency</b>  | <b>\$ —</b>                   | <b>\$ —</b>                |

SEE ACCOMPANYING NOTES



**SMI PRODUCTS, INC.**  
**(A Development Stage Company)**  
**STATEMENTS OF OPERATIONS**  
**for the three months ended March 31, 2007 and 2006**  
**and from June 17, 1996 (Date of Inception) to March 31, 2007**

(Unaudited)

|  | Three months ended<br>March 31, |            | June 17, 1996<br>(Date of Inception) to<br>March 31, 2007 |
|--|---------------------------------|------------|---|
|  | 2007                            | 2006       |   |
| Revenues                                   | \$ -                            | \$ -       | \$ 13,668   |
| <b>Costs and Expenses:</b>                 |                                 |            |   |
| General and administrative                 | 1,788                           | 3,062      | 66,936  |
| Consulting                                 | -                               | -          | 23,801  |
| Professional Fees                          | 7,900                           | 4,176      | 122,914   |
| Taxes                                      | -                               | -          | 1,425   |
| Total Costs and Expenses                   | 9,688                           | 7,238      | 215,076   |
| <b>Other Expenses:</b>                     |                                 |            |   |
| Interest Expense                           | 623                             | -          | 1,574   |
| Write-off of accounts payable              | -                               | -          | 2,192   |
| Write-off of loans payable                 | -                               | -          | 900   |
| Total Other Expenses                       | 623                             | -          | -   |
| Net loss                                   | \$ (10,311)                     | \$ (7,238) | \$ (199,889)  |
| Basic and diluted loss per<br>common share | \$ (0.01)                       | \$ (0.01)  |   |
| Weighted average shares outstanding        | 755,100                         | 755,100    |   |

SEE ACCOMPANYING NOTES

**SMI PRODUCTS, INC.**  
**(A Development Stage Company)**  
**STATEMENTS OF CASH FLOWS**  
**for the three months ended March 31, 2007 and 2006 and**  
**from June 17, 1996 (Date of Inception) to March 31, 2007**

(Unaudited)

|  | Three months ended<br>March 31, |            | June 17, 1996<br>(Date of<br>Inception) to<br>March 31,<br>2007 |
|--|---------------------------------|------------|---|
|  | 2007                            | 2006       |   |
| Cash flows used in operating activities  |                                 |            |   |
| Net loss   | \$ (10,311)                     | \$ (7,238) | \$ (199,889)  |
| <i>Adjustments to reconcile net loss to<br/>Net cash used in operating activities:</i> |                                 |            |   |
| Non-cash expenses  | -                               | 2,100      | 4,200   |
| <i>Changes in operating assets and liabilities:</i>                                    |                                 |            |   |
| Increase (Decrease) in accounts payable  | 2,127                           | (70)       | 11,205  |
| Increase in interest payable   | 624                             | -          | 1,574   |
| Net cash used in operating activities  | (7,561)                         | (5,208)    | (182,911)   |
| Cash flows provided by financing activities  |                                 |            |   |
| Issuance of common stock   | -                               | -          | 50,600  |
| Increase in loans payable  | 7,561                           | 5,339      | 132,311   |
| Net cash provided by financing activities  | 7,561                           | 5,339      | 182,911   |
| Net increase (decrease) in cash  | -                               | 131        | -   |
| Cash, beginning of period  | -                               | 281        | -   |
| Cash, end of period  | \$ -                            | \$ 412     | \$ -  |
| Supplemental disclosure of cash flow information                                       |                                 |            |   |
| Cash paid for:   |                                 |            |   |
| Interest   | \$ -                            | \$ -       | \$ -  |
| Income taxes   | \$ -                            | \$ -       | \$ -  |

SEE ACCOMPANYING NOTES

**SMI PRODUCTS, INC.**  
**(A Development Stage Company)**  
**STATEMENTS OF STOCKHOLDERS' DEFICIENCY**  
**for the period June 17, 1996 (Date of Inception) to March 31, 2007**

**(Unaudited)**

|                            | Number<br>of Shares | Amount | Additional<br>Paid-in<br>Capital | Deficit<br>Accumulated<br>During the<br>Development<br>Stage | Total    |
|----------------------------|---------------------|--------|----------------------------------|--|----------|
| Issued for services        |                     |        |                                  |  |          |
| - at \$0.00002             | 500,000             | \$ 1   | \$ 99                            | \$ -   | 100      |
| Net loss for the period    | -                   | -      | -                                | (117)  | (117)    |
| Balance, December 31, 1996 | 500,000             | 1      | 99                               | (117)  | (17)     |
| Net loss for the year      |                     |        |                                  | (200)  | (200)    |
| Balance, December 31, 1997 | 500,000             | 1      | 99                               | (317)  | (217)    |
| Net loss for the year      |                     |        |                                  | (200)  | (200)    |
| Balance, December 31, 1998 | 500,000             | 1      | 99                               | (517)  | (417)    |
| Net loss for the year      |                     |        |                                  | (200)  | (200)    |
| Balance, December 31, 1999 | 500,000             | 1      | 99                               | (717)  | (617)    |
| Stock split                | -                   | 4,999  | (4,999)                          | -  | -        |
| Issued for cash            |                     |        |                                  |  |          |
| - at \$0.01                | 250,000             | 2,500  | 22,500                           | -  | 25,000   |
| - at \$0.50                | 5,000               | 51     | 25,449                           | -  | 25,500   |
| Net loss for the year      | -                   | -      | -                                | (36,522)   | (36,522) |
| Balance, December 31, 2000 | 755,100             | 7,551  | 43,049                           | (37,239)   | 13,361   |
| Net loss for the year      | -                   | -      | -                                | (22,303)   | (22,303) |
| Balance, December 31, 2001 | 755,100             | 7,551  | 43,049                           | (59,542)   | (8,942)  |
| Net loss for the year      | -                   | -      | -                                | (15,587)   | (15,587) |
| Balance, December 31, 2002 | 755,100             | 7,551  | 43,049                           | (75,129)   | (24,529) |
| Net loss for the year      | -                   | -      | -                                | (16,157)   | (16,157) |
| Balance, December 31, 2003 | 755,100             | 7,551  | 43,049                           | (91,286)   | (40,686) |
| Net loss for the year      | -                   | -      | -                                | (18,077)   | (18,077) |
| Balance, December 31, 2004 | 755,100             | 7,551  | 43,049                           | (109,363)  | (58,763) |
| Net loss for the year      | -                   | -      | -                                | (18,861)   | (18,861) |
| Balance, December 31, 2005 | 755,100             | 7,551  | 43,049                           | (128,224)  | (77,624) |
| Additional paid-in capital | -                   | -      | 4,200                            | -  | 4,200    |

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|                            |            |          |           |                       |
|----------------------------|------------|----------|-----------|-----------------------|
| Net loss for the year      | -          | -        | (61,354)  | (61,354)              |
| Balance, December 31, 2006 | 755,100 \$ | 7,551 \$ | 47,249 \$ | (189,578)\$ (134,778) |
| Reverse Stock Split        | -          | (6,796)  | 6,796     | - -                   |
| Net loss for the period    | -          | -        | -         | (10,311) (10,311)     |
| Balance, March 31, 2007    | 755,100    | 755      | 54,045    | (199,889) (145,089)   |

The number of shares issued and outstanding has been restated to give retroactive effect for a 5,000 for one forward stock split on January 15, 2000 and a one for 10 reverse stock split on February 9, 2007. The par value and contributed surplus were adjusted during the year ended December 31, 2000 and the period ended March 31, 2007 to adjust the par value amounts in conformity with the number of shares then issued.

SEE ACCOMPANYING NOTES



**SMI PRODUCTS, INC.**  
**(A Development Stage Company)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**March 31, 2007**

**(Unaudited)**

**1. SIGNIFICANT ACCOUNTING POLICIES**

The accompanying unaudited condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-QSB and Item 310 of Regulation S-B. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for annual financial statements. In the opinion of management, all adjustments, consisting of normal recurring accruals considered necessary for a fair presentation, have been included. Operating results for the three months ended March 31, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007. For further information, refer to the financial statements and footnotes thereto included in the Form 10-KSB for the year ended December 31, 2006.

***Business description***

The financial statements presented are those of SMI Products, Inc. (the "Company"). The Company was incorporated in the State of Nevada on June 17, 1996. The Company completed a reincorporation merger effective February 9, 2007 with its wholly-owned subsidiary, SMI Products, Inc., a Delaware corporation and from and after such date became a Delaware corporation. From inception through August 11, 2006, the Company was a development stage company in the business of internet real estate mortgage services. From and after August 11, 2006, the Company ceased its prior business. The Company's business plan now consists of exploring potential targets for a business combination with the Company through a purchase of assets, share purchase or exchange, merger or similar type of transaction.

The Company has been exploring sources to obtain additional equity or debt financing. The Company has also indicated its intention to participate in one or more as yet unidentified business ventures, which management will select after reviewing the business opportunities for their profit or growth potential.

***Uses of estimates in the preparation of financial statements***

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

***Stock Based Compensation***

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123R, Share-Based Payment, which addresses the accounting for share-based payment transactions. SFAS No. 123R eliminates the ability to account for share-based compensation transactions using APB No. 25, and generally requires instead, that such transactions be accounted and recognized in the statement of operations, based on their fair value. SFAS No. 123R will be effective for public companies that file as small business issuers as of the first interim or annual reporting period that begins after December 15, 2005. The Company has no outstanding stock options at March 31, 2007. Therefore, the adoption of this standard does not have an impact on the Company's financial position and results of

operations.

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## **2. STOCKHOLDERS' DEFICIENCY**

### ***Common stock***

The Company has 755,100 shares of its common stock issued and outstanding as of April 30, 2007. Dividends may be paid on outstanding shares as declared by the Board of Directors. Each share of common stock is entitled to one vote.

### ***Preferred stock***

No shares of preferred stock have been issued or are outstanding. Dividends, voting rights and other terms, rights and preferences of the preferred shares have not been designated, but may be designated by the Board of Directors from time to time.

## **3. INCOME TAXES**

No provision for income taxes has been provided in these financial statements due to the net loss. At March 31, 2007, the Company has net operating loss carryforwards, which expire commencing in 2017, totaling approximately \$199,889. The potential tax benefit of these losses, if any, has not been recorded in the financial statements.

## **4. LOANS PAYABLE**

At March 31, 2007 the Company was indebted to Fountainhead Capital Partners Limited, a shareholder holding approximately 73.5% of the Company's issued and outstanding common shares, in the amount of \$132,311, comprising (i) six convertible promissory notes aggregating a principal balance of \$92,558 due and payable on August 11, 2007; (ii) a convertible promissory note with a principal balance of \$31,637 due on September 30, 2007, and (iii) a convertible promissory note with a principal balance of \$8,116 due on March 31, 2008. The principal balance of the convertible promissory notes and all accrued interest thereunder are convertible, in whole or in part, into shares of the Company's common stock at the option of the payee or other holder thereof at any time prior to maturity, upon ten days advance written notice to the Company. The number of shares of the Company's common stock issuable upon such conversion shall be determined by the Board of Directors of the Company based on what it determines the fair market value of the Company is at the time of such conversion. Upon conversion, the notes shall be cancelled and a replacement note in identical terms shall be promptly issued by the maker to the holder thereof to evidence the remaining outstanding principal amounts thereof as of the date of the conversion, if applicable. In the event of a stock split, combination, stock dividend, recapitalization of the Company or similar event, the conversion price and number of shares issuable upon conversion shall be equitably adjusted to reflect the occurrence of such event. The following is a summary of loans payable to related parties:

## **5. GOING CONCERN**

The accompanying financial statements included above contemplate the realization of assets and the satisfaction of liabilities in the normal course of business. As a result of the factors described below, there is substantial doubt that the Company will be able to continue as a going concern. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.**

*The following discussion should be read in conjunction with our unaudited financial statements and the notes thereto.*

### ***Forward-Looking Statements***



This quarterly report contains forward-looking statements and information relating to us that are based on the beliefs of our management as well as assumptions made by, and information currently available to, our management. When used in this report, the words "believe," "anticipate," "expect," "estimate," "intend", "plan" and similar expressions, as they relate to us or our management, are intended to identify forward-looking statements. These statements reflect management's current view of us concerning future events and are subject to certain risks, uncertainties and assumptions, including among many others: a general economic downturn; a downturn in the securities markets; federal or state laws or regulations having an adverse effect on proposed transactions that we desire to effect; Securities and Exchange Commission regulations which affect trading in the securities of "penny stocks,"; and other risks and uncertainties. Should any of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this report as anticipated, estimated or expected. The accompanying information contained in this registration statement, including, without limitation, the information set forth under the heading "Management's Discussion and Analysis or Plan of Operation -- Risk Factors" identifies important additional factors that could materially adversely affect actual results and performance. You are urged to carefully consider these factors. All forward-looking statements attributable to us are expressly qualified in their entirety by the foregoing cautionary statement.

### ***Overview***

We are a blank check company whose plan of operation over the next twelve months is to seek and, if possible, acquire an operating business or valuable assets by entering into a business combination. We will not be restricted in our search for business combination candidates to any particular geographical area, industry or industry segment, and may enter into a combination with a private business engaged in any line of business, including service, finance, mining, manufacturing, real estate, oil and gas, distribution, transportation, medical, communications, high technology, biotechnology or any other. Management's discretion is, as a practical matter, unlimited in the selection of a combination candidate. Management will seek combination candidates in the United States and other countries, as available time and resources permit, through existing associations and by word of mouth. This plan of operation has been adopted in order to attempt to create value for our shareholders. For further information on our plan of operation and business, see PART I, Item 1 of our Annual Report on Form 10-KSB for the fiscal year ending 2006.

### ***Plan of Operation***

We do not intend to do any product research or development. We do not expect to buy or sell any real estate, plant or equipment except as such a purchase might occur by way of a business combination that is structured as an asset purchase, and no such asset purchase currently is anticipated. Similarly, we do not expect to add additional employees or any full-time employees except as a result of completing a business combination, and any such employees likely will be persons already then employed by the company acquired.

Our principal business activity prior to August 11, 2006 was the business of internet real estate mortgage services. From and after August 11, 2006, the Company ceased its prior business. The Company's business plan now consists of exploring potential targets for a business combination with the Company through a purchase of assets, share purchase or exchange, merger or similar type of transaction. We have had only nominal operations or revenues since our inception. We anticipate no operations unless and until we complete a business combination as described above.

### ***Results of Operations for Fiscal Quarter Ended March 31, 2007 Compared To March 31, 2006***

During the first fiscal quarter of 2007, we had no revenues and incurred a net loss of \$(10,311), as compared to a net loss of \$(7,238) in the first fiscal quarter of 2006. General and administrative expenses in the first quarter of 2007 related to accounting and legal fees, miscellaneous filing fees and expenses, transfer agent fees and other miscellaneous expenses, none of which were related party expenses. General and administrative expenses in the first quarter of 2006 related to accounting and legal fees, miscellaneous filing fees and expenses, transfer agent fees and

other miscellaneous expenses, none of which were related party expenses. We paid no rent or salaries and had no operations during the quarter.

***Liquidity and Capital Resources***

We had \$-0- cash on hand at the end of the first quarter of 2007 and had no other assets to meet ongoing expenses or debts that may accumulate. Since inception, we have accumulated a deficit of \$199,889. As of March 31, 2007 we had accrued expenses totaling \$11,204 consisting of amounts due to the Company's stock transfer agent, auditors and EDGAR filingservice.

We have no commitment for any capital expenditure and foresee none. However, we will incur routine fees and expenses incident to our reporting duties as a public company, and we will incur expenses in finding and investigating possible acquisitions and other fees and expenses in the event we make an acquisition or attempt but are unable to complete an acquisition. Our cash requirements for the next twelve months are relatively modest, principally accounting expenses and other expenses relating to making filings required under the Securities Exchange Act of 1934 (the "Exchange Act"), which should not exceed \$25,000 in the fiscal year ending December 31, 2007. Any travel, lodging or other expenses which may arise related to finding, investigating and attempting to complete a combination with one or more potential acquisitions could also amount to thousands of dollars.

The existence and amounts our debt may make it more difficult to complete, or prevent completion of, a desirable acquisition.

We will only be able to pay our future debts and meet operating expenses by raising additional funds, acquiring a profitable company or otherwise generating positive cash flow. As a practical matter, we are unlikely to generate positive cash flow by any means other than acquiring a company with such cash flow. We believe that management members or shareholders will loan funds to us as needed for operations prior to completion of an acquisition. Management and the shareholders are not obligated to provide funds to us, however, and it is not certain they will always want or be financially able to do so. Our shareholders and management members who advance money to us to cover operating expenses will expect to be reimbursed, either by us or by the company acquired, prior to or at the time of completing a combination. We have no intention of borrowing money to reimburse or pay salaries to any of our officers, directors or shareholders or their affiliates. There currently are no plans to sell additional securities to raise capital, although sales of securities may be necessary to obtain needed funds. Our current management has agreed to continue their services to us and to accrue sums owed them for services and expenses and expect payment reimbursement only.

Should existing management or shareholders refuse to advance needed funds, however, we would be forced to turn to outside parties to either loan money to us or buy our securities. There is no assurance whatever that we will be able at need to raise necessary funds from outside sources. Such a lack of funds could result in severe consequences to us, including among others:

- failure to make timely filings with the SEC as required by the Exchange Act, which also probably would result in suspension of trading or quotation in our stock and could result in fines and penalties to us under the Exchange Act;
- curtailing or eliminating our ability to locate and perform suitable investigations of potential acquisitions; or
- inability to complete a desirable acquisition due to lack of funds to pay legal and accounting fees and acquisition-related expenses.

We hope to require potential candidate companies to deposit funds with us that we can use to defray professional fees and travel, lodging and other due diligence expenses incurred by our management related to finding and investigating a candidate company and negotiating and consummating a business combination. There is no assurance that any potential candidate will agree to make such a deposit.

### ***Going Concern***

Our independent auditors have added an explanatory paragraph to their audit issued in connection with the financial statements for the period ended December 31, 2006, relative to our ability to continue as a going concern. We had negative working capital of \$145,089 as of March 31, 2007, we had an accumulated deficit of \$199,889 incurred

through March 31, 2007 and recorded losses of \$61,354 and \$10,311 for the fiscal year ended December 31, 2006 and three months ended March 31, 2007, respectively. The going concern opinion issued by our auditors means that there is substantial doubt that we can continue as an ongoing business for 12 month period ending December 31, 2007 and thereafter. The financial statements do not include any adjustments that might result from the uncertainty about our ability to continue our business.

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### ***Off-Balance Sheet Arrangements***

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

### ***Risk Factors That May Affect Future Operating Results***

*You should carefully consider the risks described below before making an investment decision. The risks and uncertainties described below are not the only ones facing our Company. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations. If any of the following risks actually occur, our business, financial condition, or results of operations could be materially adversely affected. In such case, the trading price of our common stock could decline and you could lose all or part of your investment. You should also refer to the other information about us contained in this Form 10-QSB, including our financial statements and related notes.*

### **We have had no operating history nor any revenues or earnings from operations.**

We have had no operating history nor any revenues or earnings from operations. We have no significant assets or financial resources. We have operated at a loss to date and will, in all likelihood, continue to sustain operating expenses without corresponding revenues, at least until the consummation of a business combination.

### **Our management does not devote its full time to our business and operations.**

Our management only devotes minimal time to our business. Management does not have any written employment agreement with us, and is not expected to enter into one. Our management serves only on a part-time basis and has had limited experience in the business activities contemplated by us, yet our Company will be solely dependent on him. We lack the funds or other incentive to hire full-time experienced management. Management has other employment or business interests to which he devotes his primary attention and will continue to do so, devoting time to the Company only on an as-needed basis.

### **We may have conflicts of interest with our management team.**

Our officers and directors may in the future be affiliated with other blank check companies having a similar business plan to that of our Company (“Affiliated Companies”) which may compete directly or indirectly with us. Certain specific conflicts of interest may include those discussed below.

- The interests of any Affiliated Companies from time to time may be inconsistent in some respects with the interests of the Company. The nature of these conflicts of interest may vary. There may be circumstances in which an Affiliated Company may take advantage of an opportunity that might be suitable for the Company. Although there can be no assurance that conflicts of interest will not arise or that resolutions of any such conflicts will be made in a manner most favorable to the Company and its shareholders, the officers and directors of the Company have a fiduciary responsibility to the Company and its shareholders and, therefore, must adhere to a standard of good faith and integrity in their dealings with and for The Company and its shareholders.
- The officers and directors of The Company may serve as officers and directors of other Affiliated Companies in the future. The Company's officers and directors are required to devote only so much of their time to The Company's affairs as they deem

appropriate, in their sole discretion. As a result, The Company's officers and directors may have conflicts of interest in allocating their management time, services, and functions among The Company and any current and future Affiliated Companies which they may serve, as well as any other business ventures in which they are now or may later become involved.

- The Affiliated Companies may compete directly or indirectly with The Company for the acquisition of available, desirable combination candidates. There may be factors unique to The Company or an Affiliated Company which respectively makes it more or less desirable to a potential combination candidate, such as age of the company, name, capitalization, state of incorporation, contents of the articles of incorporation, etc. However, any such direct conflicts are not expected to be resolved through arm's-length negotiation, but rather in the discretion of management. While any such resolution will be made with due regard to the fiduciary duty owed to the Company and its shareholders, there can be no assurance that all potential conflicts can be resolved in a manner most favorable to the Company as if no conflicts existed. Members of the Company's management who also are or will be members of management of another Affiliated Company will also owe the same fiduciary duty to the shareholders of each other Affiliated Company. Should a potential acquisition be equally available to and desirable for both the Company and the Affiliated Companies, no guideline exists for determining which company would make the acquisition. This poses a risk to the Company's shareholders that a desirable acquisition available to the Company may be made by an Affiliated Company, whose shareholders would instead reap the rewards of the acquisition. An Affiliated Company's shareholders of course face exactly the same risk. Any persons who are officers and directors of both The Company and an Affiliated Company do not have the sole power (nor the power through stock ownership) to determine which company would acquire a particular acquisition. No time limit exists in which an acquisition may or must be made by the Company, and there is no assurance when – or if – an acquisition ever will be completed.
- Certain conflicts of interest exist and will continue to exist between the Company and its officers and directors due to the fact that each has other employment or business interests to which he devotes his primary attention. Each officer and director is expected to continue to do so in order to make a living, notwithstanding the fact that management time should be devoted to the Company's affairs. The Company has not established policies or procedures for the resolution of current or potential conflicts of interest between the Company and its management. As a practical matter, such potential conflicts could be alleviated only if the Affiliated Companies either are not seeking a combination candidate at the same time as the Company, have already identified a combination candidate, are seeking a combination candidate in a specifically identified business area, or are seeking a combination candidate that would not otherwise meet the Company's selection criteria. It is likely, however, that the combination criteria of the Company and any Affiliated Companies will be substantially identical. Ultimately, the Company's shareholders ultimately must rely on the fiduciary responsibility owed to them by the Company's officers and directors. There can be no assurance that members of management will resolve all conflicts of interest in the Company's favor. The officers and directors are accountable to the Company and its shareholders as fiduciaries, which means that they are legally obligated to exercise good faith and integrity in handling the Company's affairs and in their dealings with the Company. Failure by them to conduct the Company's business in its best interests may result in liability to them. The area of fiduciary responsibility is a rapidly developing area of law, and persons who have questions concerning the duties of the officers and directors to the Company should consult their counsel.

Our Certificate of Incorporation excludes personal liability on the part of its directors to the Company for monetary damages based upon any violation of their fiduciary duties as directors, except as to liability for any acts or omissions which involve intentional misconduct, fraud or a knowing violation of law or for improper payment of dividends. This exclusion of liability does not limit any right which a director may have to be indemnified and does not affect any director's liability under federal or applicable state securities laws. Therefore, our assets could be used or attached to satisfy any liabilities subject to this indemnification.

**Our proposed operations are purely speculative.**

The success of our proposed plan of operation will depend to a great extent on the operations, financial condition and management of the identified target company. While business combinations with entities having established operating histories are preferred, there can be no assurance that we will be successful in locating candidates meeting these criteria. If we complete a business combination, the success of our operations will be dependent upon management of the target company and numerous other factors beyond our control. No combination candidate has been identified for acquisition by management, nor has any determination been made as to any business for the Company to enter, and shareholders will have no meaningful voice in any such determinations. There is no assurance that the Company will be successful in completing a combination or originating a business, nor that the Company will be successful or that its shares will have any value even if a combination is completed or a business originated.

**We are subject to the penny stock rules.**

Our securities may be classified as penny stock. The Securities and Exchange Commission has adopted Rule 15g-9 which establishes the definition of a "penny stock," for purposes relevant to us, as any equity security that has a market price of less than \$5.00 per share or with an exercise price of less than \$5.00 per share whose securities are admitted to quotation but do not trade on the Nasdaq SmallCap Market or on a national securities exchange. For any transaction involving a penny stock, unless exempt, the rules require delivery of a document to investors stating the risks, special suitability inquiry, regular reporting and other requirements. Prices for penny stocks are often not available and investors are often unable to sell this stock. Thus, an investor may lose his investment in a penny stock and consequently should be cautious of any purchase of penny stocks.

**We may have significant difficulty in locating a viable business combination candidate.**

We are and will continue to be an insignificant participant in the business of seeking mergers with and acquisitions of business entities. A large number of established and well-financed entities, including venture capital firms, are active in mergers and acquisitions of companies which may be merger or acquisition target candidates for us. Nearly all of these competitors have significantly greater financial resources, technical expertise and managerial capabilities than we do and, consequently, we will be at a competitive disadvantage in identifying possible business opportunities and successfully completing a business combination. Moreover, we will also compete with numerous other small public companies in seeking merger or acquisition candidates.

**It is possible that the per share value of your stock will decrease upon the consummation of a business combination.**

A business combination normally will involve the issuance of a significant number of additional shares. Depending upon the value of the assets acquired in a business combination, the current shareholders of the Company may experience severe dilution of their ownership due to the issuance of shares in the combination. Any combination effected by the Company almost certainly will require its existing management and board members to resign, thus shareholders have no way of knowing what persons ultimately will direct the Company and may not have an effective voice in their selection.

**Any business combination that we engage in may have tax effects on us.**

Federal and state tax consequences will, in all likelihood, be major considerations in any business combination that we may undertake. Currently, a business combination may be structured so as to result in tax-free treatment to both companies pursuant to various federal and state tax provisions. We intend to structure any business combination so as to minimize the federal and state tax consequences to both us and the target company; however, there can be no assurance that a business combination will meet the statutory requirements of a tax-free reorganization or that the parties will obtain the intended tax-free treatment upon a transfer of stock or assets. A non-qualifying reorganization could result in the imposition of both federal and state taxes which may have an adverse effect on both parties to the transaction.

**ITEM 3. CONTROLS AND PROCEDURES**

Within 90 days of the filing of this Form 10-QSB, an evaluation was carried out by Geoffrey Alison, our President, CEO and Treasurer, of the effectiveness of our disclosure controls and procedures, as of the end of the period covered by this report on Form 10-QSB. Disclosure controls and procedures are procedures that are designed with the objective of ensuring that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934, such as this Form 10-QSB, is recorded, processed, summarized and reported, within the time period specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and is

communicated to our management, including our principal executive and principal financial officer, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure. Based on that evaluation, Mr. Alison concluded that as of March 31, 2007, and as of the date that the evaluation of the effectiveness of our disclosure controls and procedures was completed, our disclosure controls and procedures were effective to satisfy the objectives for which they are intended.

There were no changes in our internal control over financial reporting identified in connection with the evaluation performed that occurred during the fiscal year covered by this report that has materially affected or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II - OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

There are no legal proceedings which are pending or have been threatened against us or any of our officers, directors or control persons of which management is aware.

### **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES**

Except as may have previously been disclosed on a current report on Form 8-K or a quarterly report on Form 10-QSB, we have not sold any of our securities in a private placement transaction or otherwise during the past three years.

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

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

On September 25, 2006, the Company's board of directors and stockholders holding an aggregate of 5,551,000 shares of the Company's common stock, representing approximately 73.5% of the total shares entitled to vote, consented in writing, without a meeting, to the following:

The Company agreeing to the adoption of the Agreement and Plan of Merger (the "Reincorporation Merger Agreement") between the Company and SMI Products, Inc., a Delaware corporation formed by us ("SMI-Delaware"), in the form of Exhibit A attached to the Company's Schedule 14C Information Statement ("Information Statement") filed with the U.S. Securities and Exchange Commission on October 19, 2006. The Reincorporation Merger Agreement provides for the merger of the Company with and into SMI Delaware (the "Reincorporation Merger"), and resulted in:

- a change of domicile of the Company from the State of Nevada to the State of Delaware;
- The right of the Company's shareholders to receive one (1) share of common stock, par value \$0.001 per share, of SMI-Delaware for each ten (10) shares of the Company's common stock, par value \$0.001 per share, owned as of the effective time of the reincorporation merger;
- the persons presently serving as the Company's executive officers and directors serving in their same respective positions with SMI Delaware;
- the adoption of a new Certificate of Incorporation under the laws of Delaware in the form of Exhibit B attached to the Information Statement, pursuant to which the Company's authorized capital stock will be changed from 100,000,000 shares of authorized capital stock, all of which are common stock, par value \$0.001 per share, to 110,000,000 shares of authorized capital stock, consisting of 100,000,000 shares of common stock, par value \$0.001 per share, and 10,000,000 shares of "blank check" preferred stock, par value

\$0.001 per share, with the right conferred upon the Board of Directors to set the dividend, voting, conversion, liquidation and other rights, as well as the qualifications, limitations and restrictions, with respect to the preferred stock as the Board of Directors may determine from time to time; and the adoption of new Bylaws under the laws of the State of Delaware in the form of Exhibit C attached to the Information Statement.



Copies of the Company's Information Statement were mailed to the stockholders of the Company approximately December 21, 2006 and the action was deemed effective twenty (20) calendar days following such mailing.

Effective February 9, 2007, SMI-Nevada completed its reincorporation in the State of Delaware by merging with and into its wholly-owned subsidiary, SMI-Delaware, pursuant to an Agreement and Plan of Merger dated as of February 9, 2007. In the merger, each ten outstanding shares of SMI-Nevada's Common Stock was converted into one share of Common Stock of SMI-Delaware. Additionally, the new Certificate of Incorporation of SMI-Delaware adopted under the laws of the State of Delaware, changed our authorized capital stock from 100,000,000 shares of authorized capital stock, all of which are common stock, par value \$0.001 per share, to 110,000,000 shares of authorized capital stock, consisting of 100,000,000 shares of common stock, par value \$0.001 per share, and 10,000,000 shares of "blank check" preferred stock, par value \$0.001 per share, with the right conferred upon the Board of Directors to set the dividend, voting, conversion, liquidation and other rights, as well as the qualifications, limitations and restrictions, with respect to the preferred stock as the Board of Directors may determine from time to time.

Other than the foregoing, no matters were submitted to a vote or for the written consent of security shareholders, through the solicitation of proxies or otherwise, during the first fiscal quarter of 2007, and no meeting of shareholders was held.

#### **ITEM 5. OTHER INFORMATION**

Not applicable.

#### **ITEM 6. EXHIBITS**

| Exhibit No. | Description  |
|-------------|--|
| 31          | Certification of Principal Executive Officer and Principal Financial Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| 32          | Certification of Principal Executive Officer and Principal Financial Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

**SIGNATURES**

In accordance with the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

**SMI PRODUCTS, INC.**

Date: May 14, 2007

By: */s/ Geoffrey Alison*

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Geoffrey Alison  
Director, CEO, President and Treasurer

**EXHIBIT INDEX**

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