



# S3 INVESTMENT COMPANY

S3 INVESTMENT COMPANY

## *Company Information & Disclosure Statement For the quarter ending March 31, 2010*

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**Item 1      Exact name of the issuer and the address of its principal executive offices.**

S3 Investment Company, Inc.  
4115 Blackhawk Plaza Circle  
Suite 20  
Danville, CA 94506  
Website: [www.s3investments.com](http://www.s3investments.com)  
Phone: 925-648-2080  
Fax: 925-736-2863

**Item 2      Shares outstanding.**

As of March 31, 2010:

Common stock – 4,900,000,000 shares authorized and 2,534,693,768 shares issued and outstanding

Series B Preferred Stock - The Company has 100,000,000 shares of preferred stock authorized, of which 15,000,000 shares are designated as Series B Preferred Stock, of which 12,000,000 shares are issued and outstanding. The Series B Preferred Stock does not have voting rights and can be converted into shares of common stock on a 1:1 basis. In lieu of voting rights, the Series B Preferred Stock is entitled to elect two directors at each shareholder meeting.

Series D Preferred Stock - The Company has 100,000,000 shares of preferred stock authorized, of which 25,000,000 shares are designated as Series D Preferred Stock, of which 25,000,000 shares are issued and outstanding as of March 31, 2010. The Series D Preferred Stock has voting rights with each share being entitled to the voting equivalent of 200 shares of common stock.

Trading symbol: SIVC  
Cusip number: 78484Q202

**The number of shares or total amount of the securities outstanding for each class of securities authorized.**

**Common stock**

- (i) Period ending March 31, 2010
- (ii) 4,900,000,000 shares of common stock authorized
- (iii) 2,534,693,768 shares of common stock issued and outstanding
- (iv) 2,034,348,527 shares of common stock in the public float
- (v) The number of beneficial shareholder of common stock unknown.
- (vi) There are 198 shareholders of record of common stock

**Preferred stock**

- (i) Period ending March 31, 2010
- (ii) 15,000,000 shares of Series B Preferred Stock authorized and 25,000,000 shares of Series D Preferred Stock authorized
- (iii) 12,000,000 shares of Series B Preferred Stock issued and outstanding and 25,000,000 shares of Series D Preferred Stock issued and outstanding
- (iv) No shares of Series B and Series D Preferred Stock in the public float
- (v) There are 10 beneficial shareholders of Series B Preferred Stock and 3 beneficial shareholders of Series D Preferred Stock
- (vi) There are 10 shareholders of record of Series B Preferred Stock and 3 shareholders of Series D Preferred Stock

**Item 3 Interim Financial Statements.**

A balance sheet, statement of income and statement of cash flows for the quarter ending March 31, 2010 is attached as Exhibit A.

**Item 4 Management's Discussion and Analysis or Plan of Operation.**

The following discussion and analysis should be read in conjunction with our financial statements and the notes referenced in Item 3 above.

**Revenue recognition**

Revenues are recognized from financial services contracts as amounts become billable per their respective contract terms in accordance with Staff Accounting Bulletin ("SAB") 101, as amended by SAB 104. We consider amounts to be earned once evidence of an arrangement has been obtained, services are delivered, fees are fixed or determinable, and collectability is reasonably assured. Our sole revenue generating operation is through our subsidiary, Redwood Capital, Inc.. Revenue is generated by providing services to assist private Chinese companies through the various stages of the process of a reverse merger into a publicly-traded shell, and concurrent capital funding (collectively, an Alternate Public Offering, or "APO"). As the total fees to be paid are typically provided as a percentage of the total capital raised from each APO, the fees are typically not fixed until the completion of such

transactions. As such, we recognize revenue from each transaction upon the successful closing of each APO.

### **Deferred Transaction Costs**

Once a contractual agreement has been reached, any contractual advances we make on behalf of our clients to certain third parties are deferred during the contractual period and expensed once each transaction has closed. Once expensed, these deferred costs are included in cost of sales.

Deferred amounts are monitored regularly for impairment. Impairment losses are recorded when projected undiscounted operating cash flows of the related contract are not sufficient to recover the carrying amount of contract assets. Deferred transition costs were \$35,303 and \$69,525 as of March 31, 2010 and June 30, 2009, respectively, and are included in current assets.

### **Cash and cash equivalents**

We consider all liquid investments with a maturity of three months or less from the date of purchase that are readily convertible into cash to be cash equivalents.

We maintain our cash in bank deposit accounts which, at times, may exceed federally insured limits. We have not experienced any losses in such accounts and believe we are not exposed to any significant credit risk on cash and cash equivalents.

### **Concentration of Risk**

All of our revenues are derived from transactions in foreign countries. The economic and political instability of some foreign countries may affect our ability and our customers to complete any Alternative Public Offerings currently in progress. Such circumstances could cause a possible loss of sales, which would affect operating results adversely.

### **Marketable Securities**

Pursuant to Statement of Financial Accounting Standard No. ("SFAS") 115 "*Accounting for Certain Investments in Debt and Equity Securities*" and SFAS 159 "*Fair Value Option for Financial Assets and Liabilities*" we determine the appropriate classification of investment securities at the time they are acquired and evaluate the appropriateness of such classification at each balance sheet date. At March 31, 2010 and June 30, 2009, all marketable equity securities were classified as available-for-sale-securities. Marketable equity securities for which there is an active market are carried at estimated fair market value based on market prices with any unrealized holding gains and losses, net of the related deferred tax effect, reported as a separate component of stockholders' equity. Realized gains and losses

from sales of securities available for sale are determined on a specific identification basis and are included in other income and expense.

### **Property – office equipment**

Office equipment is depreciated on a straight-line basis over the estimated useful life of the asset of three to five years. Office equipment is stated at cost net of accumulated depreciation and is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable.

### **Long-Lived Assets**

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or group of assets may not be recoverable. Recoverability of long-lived assets or groups of assets is assessed based on a comparison of the carrying amount to the estimated future net cash flows. If estimated future undiscounted net cash flows are less than the carrying amount, the asset is considered impaired and expense is recorded at an amount required to reduce the carrying amount to fair value.

### **Stock-based compensation**

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123(R), "Share-Based Payment". This pronouncement amends SFAS No. 123, "Accounting for Stock-Based Compensation", and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees". SFAS No. 123(R) requires that companies account for awards of equity instruments issued to employees under the fair value method of accounting and recognize such amounts in their statements of operations. Under SFAS No. 123(R), the Company is required to measure compensation cost for all stock-based awards at fair value on the date of grant and recognize compensation expense in the consolidated statements of operations over the service period that the awards are expected to vest.

We account for stock-based compensation issued to non-employees and consultants in accordance with the provisions of SFAS 123(R) and the Emerging Issues Task Force consensus in Issue No. 96-18 ("EITF 96-18"), "Accounting for Equity Instruments that are Issued to Other Than Employees for Acquiring or in Conjunction with Selling, Goods or Services". Common stock issued to non-employees in exchange for services is accounted for based on the fair value of the services received.

We have no outstanding stock options or warrants at March 31, 2010 or at June 30, 2009.

## **Fair value of financial instruments**

SFAS 159, “*Fair Value Option for Financial Assets and Liabilities*” and SFAS No. 107, “*Disclosures about Fair Value of Financial Instruments*”, require that the Company disclose estimated fair values of financial instruments. The carrying amounts reported in the statements of financial position for current assets and current liabilities qualifying as financial instruments are a reasonable estimate of fair value as the assets have been valued according to their respective active market quotes.

## **Research and development costs**

Redwood Group International Ltd. has incurred consulting expenses of \$4,800 which can be classified as research and development activities for the nine months ended March 31, 2010. There were no research and development costs for the period ending June 30, 2009.

## **RESULTS OF OPERATIONS**

We have accumulated deficit of \$(10,196,835) at March 31, 2010 and \$(10,525,683) at June 30, 2009.

In order to continue as a going concern and achieve a profitable level of operations, we will require, among other things, additional capital resources. We plan to raise additional capital through the sale of common stock and continuing the practice of issuing common stock as consideration for certain employee and marketing services. We are unable to provide any assurances that we will be successful in accomplishing any of these plans.

## **REVENUES**

Nine months ended March 31, 2010 our net revenues were \$775,665. This revenue was attributed by the successful closing of the China Construction Corp. (Beijing Concrete) deal of \$619,585 in a combination of both cash and CHNC securities. The closing of the Biostar deal also attributed \$65,000 of which \$42,500 has been received in cash and the remaining \$22,500 remains accounts receivable. The remaining \$91,167 of revenue was for advisory services related to the closing of the Boyuon deal in Q1 of this fiscal year, which was collected in Q3, 2010

## **GROSS PROFIT**

The gross profit for the nine months ended March 31, 2010 is \$725,993.

The gross profit is a result of revenues minus costs of \$58,325 related to closing the Beijing Concrete (CHNC) deal and writing off costs related to deals that did not go to closing.

## **ADMINISTRATIVE EXPENSES**

From March 31, 2009 to 2010, Administrative Expenses decreased from \$89,106 to \$20,119 representing a decrease of \$68,987. Administrative expenses consist primarily of accounting and audit fees. Due to higher efficiencies and a decision not to register our financial statements with the OTC bulletin board service, we experienced a decrease in accounting and audit fees. As an audit is not required for our filings with the Pink Sheets bulletin board service, this contributed to the decrease as well.

## **CONSULTING EXPENSES**

From March 31, 2009 to 2010, Consulting Expenses increased from \$281,533 to \$558,272, representing an increase of \$276,739. The Board of Directors has authorized us to reserve 30% of all equity securities received from each transaction closed for bonuses to be paid to any of our contributing consultants. These securities have been reserved and are marked-to-market using the stock price as of the last day of the quarter. As these securities have yet to be issued to the consultants, to the extent that the stock price rises or falls, consulting expenses increase or decrease. These fluctuations are expected to continue until these securities are issued. The increase in consulting expenses is directly related to an increase in stock price for securities held as bonus securities to our consultants.

## **INTEREST EXPENSE**

From March 31, 2009 to 2010, Interest Expense decreased from \$960,172 to \$165,893, resulting in a decrease of \$794,279. The decrease in interest expense is related to the accretion of interest generated by the 'put option' feature in the Notes Payable, which were funded during the latter half of the year ended June 30, 2008. The put option features were such that the Note holders would receive either 200% or 300% of the face value of each Note, payable in either common shares of the Company or equity shares received as commission from financing transactions closed. These put options were fully valued at June 30, 2008.

## **GENERAL AND ADMINISTRATIVE EXPENSES**

From March 31, 2009 to 2010, General and Administrative Expenses decreased from \$158,424 to \$152,576, representing a decrease of \$5,848. General and administrative expenses consist primarily of administrative personnel costs, local taxes as well as facilities expenses, travel and entertainment expenses, and supplies expense.

## **DERIVATIVE CHARGES**

From March 31, 2009 to 2010, derivative recovery/(charges) decreased from \$619,122 to \$34,118 resulting from the change in the fair value measured in the derivative liability of certain beneficial conversion features embedded in our notes payable. The borrowings have provided us working capital as well as Pre-RTO

investments into the client companies for the fiscal years ended June 30, 2009 and 2008.

## **LIQUIDITY AND CAPITAL RESOURCES**

At March 31, 2010 we had net working capital of \$2,656,555 and cash of \$37,650 compared to net working capital of \$183,203 and cash of \$169,583 at June 30, 2009. We were able to successfully pay off our notes payable in the six months ended December 31, 2009, which depleted some of our cash, but improved our working capital as much of the interest and put options were forgiven. We were able to negotiate a debt payoff arrangement to provide us with increased working capital to fund our operations in the nine months ended March 31, 2010. We anticipate collecting on accounts receivable in Q3 and closing deal in the fourth quarter of fiscal year ending June 30, 2010, which will provide additional working capital to fund our operations.

## **OPERATING ACTIVITIES**

Net cash used in operating activities was \$86,357 for the nine months ended March 31, 2010 compared to the net cash of \$536,941 for the nine months ended March 31, 2009. The primary reason for the decrease in cash used was partially due to the generation of net income for the nine months ended March 31, 2010. Additionally, we were able to pay off our notes payable, which resulted in additional forgiveness of debt, which further reduced the cash used for operations.

## **INVESTING ACTIVITIES**

Net cash provided by investing activities was \$360,779 for the nine months ended March 31, 2010 compared to net cash used of \$1,259 for the nine months ended March 31, 2009. The primary reason for the increase in cash provided is that the cash proceeds from sales of marketable securities increased in the nine months ended March 31, 2009.

## **FINANCING ACTIVITIES**

Cash used in financing activities was \$(315,203) for the nine months ending March 31, 2010 compared to cash provided of \$438,122 for the nine months ended March 31, 2009. This increase was mostly due to the pay off of our notes payable in the nine months ended March 31, 2010. Additionally, we were successful in selling some of our common stock to a private investor during the nine months ended March 31, 2009.

## **SUBSEQUENT EVENTS**

Subsequent to the quarter ended March 31, 2010, the company issued 294,285,714 shares of common stock to officers and directors of the Company for accrued compensation and bonuses, 469,000,000 shares of common stock were issued to Matthew Totty and Xiaoxin Wu as consideration for bonus on services rendered,

17,000,000 common shares were issued to a third party for services rendered and 33,333,333 common shares were issued to settle \$10,000 payable. These shares were issued based upon the exemption from registration found in Section 4(2) of the Securities Act.

**Item 5        Legal Proceedings.**

None.

**Item 6        Default Upon Senior Securities.**

None.

**Item 7        Other Information.**

None.

**Item 8        Exhibits.**

**Articles of Incorporation and Bylaws.**

<b>Exhibit</b>	<b>Exhibit Description</b>	<b>Incorporated by reference</b>		
		<b>Securities Exchange Commission Form</b>	<b>Exhibit</b>	<b>Filing date</b>
3(i)a	Articles of Incorporation	SB-2	3.1	11/5/2001
3(i)b	Amendment to Articles of Incorporation dated 06/30/01	SB-2	3.3	11/5/2001
3(i)(c)	Amendment to Articles of Incorporation dated 01/16/02	SB-2	3.4	11/5/2001
3(i)(d)	Amendment to Articles of Incorporation dated 07/13/06	8-K	3.3	7/19/2006
3(i)(e)	Amendment to Articles of Incorporation dated 02/12/07	8-K	3.2	02/12/2007
3(i)(f)	Amendment to Articles of Incorporation dated 04/02/03	S-1	3(i)(f)	11/18/2007
3(i)(g)	Amendment to Articles of Incorporation dated 10/06/04	S-1	3(i)(g)	11/18/2007
3(i)(h)	Amendment to Articles of Incorporation dated 04/16/07	S-1	3(i)(h)	11/18/2007
3(i)(i)	Amendment to Articles of Incorporation dated 09/07/07	S-1	3(i)(i)	11/18/2007
3(ii)a	Bylaws	SB-2	3.2	11/5/2001

**Item 9        Issuer's Certifications.**

See attached EXHIBIT B.



## **EXHIBIT A**

S3 Investment Company, Inc.  
Consolidated Balance Sheets  
(unaudited)  
ASSETS

	March 31, 2010	June 30, 2009
Current Assets		
Cash	\$ 37,650	169,583
Accounts Receivable	85,978	45,439
Notes Receivable	25,427	-
Prepaid expense	12,111	6,161
Marketable Equity Securities - available for sale	3,937,318	2,240,312
Deferred Transaction Costs	35,303	69,525
Total Current Assets	4,133,786	2,531,020
Property - office equipment net of depreciation	1,925	1,787
Other Assets		
Goodwill	45,000	45,000
Total Other Assets	45,000	45,000
Total Assets	\$ 4,180,711	2,577,807

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities		
Accounts payable	\$ 242,959	86,991
Accrued interest	134,073	201,271
Accrued Expenses	469,962	331,012
Notes Payable	-	29,700
Judgments Payable	47,840	134,717
Convertible Notes Payable, net of unamortized discount	582,397	609,897
Derivative Liability	-	954,229
Total Current Liabilities	1,477,231	2,347,817
Total Liabilities	1,477,231	2,347,817

Stockholders' Equity

Series B Preferred Stock, Authorized 15,000,000 Shares, \$0.001 Par Value, 12,000,000 shares issued and outstanding	12,000	12,000
Series D Preferred Stock, Authorized 25,000,000 Shares, \$0.001 Par Value, 25,000,000 and 0 shares issued and outstanding, respectively	25,000	-
Common Stock, Authorized 4,900,000,000 Shares, \$0.001 Par Value, 2,534,693,768 and 1,762,177,742 shares issued and outstanding, respectively	2,534,694	1,762,178
Additional Paid in Capital	9,101,141	9,511,505
Accumulated Comprehensive Income	1,227,480	(530,010)
Retained deficit	(10,196,835)	(10,525,683)

Total Stockholders' Equity	<u>2,703,480</u>	<u>229,990</u>
Total Liabilities and Stockholders' Equity	\$ <u>4,180,711</u>	<u>2,577,807</u>

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

S3 Investment Company, Inc.  
Consolidated Statements of Operations

	For the Nine Months Ended March 31,	
	2010	2009
Revenues	\$ <u>777,665</u>	\$ <u>939,770</u>
Total Revenues	<u>777,665</u>	<u>939,770</u>
Project-Related Costs	<u>51,672</u>	<u>283,055</u>
Gross Profit	<u>725,993</u>	<u>656,715</u>
Operating Expenses		
Administrative fees	20,119	89,106
Consulting	558,272	281,533
Depreciation expense	921	1,182
Interest expense	165,893	960,172
Investor relations	14,770	26,339
Professional fees	53,000	54,250
General & Administrative expense	<u>152,576</u>	<u>158,424</u>
Total Operating Expenses	<u>965,552</u>	<u>1,571,006</u>
Net Gain (Loss) from continuing operations	<u>(239,558)</u>	<u>(914,291)</u>
Loss on abandonment of entity		
Recovery/(Loss) from discontinued operations	<u>-</u>	<u>29,602</u>
Total Loss from disposal activities	<u>-</u>	<u>29,602</u>
Other Income (Expense)		
Derivative		
Charges	34,118	619,122
Gain from forgiveness of debt	489,511	12,752
gain from legal settlement	-	90,000
Realized gain on sale of stock	<u>44,777</u>	<u>-</u>
Total Other Expense	<u>568,406</u>	<u>721,874</u>
Income (Loss) Before Income Taxes	328,848	(162,815)
Income Tax Expense	<u>-</u>	<u>-</u>
Net Gain (Loss)	<u>\$ <u>328,848</u></u>	<u>\$ <u>(162,815)</u></u>

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

S3 Investment Company, Inc.  
Consolidated Statements of Stockholders' Equity (Deficit)

	Preferred Stock		Common Stock		Additional	Subscription	Accumulated	Minority	Retained
	Shares	Amount	Shares	Amount	Paid in	Receivable	Other	Interest	Earnings
					Capital		Comprehensive		(Deficit)
Balance June 30, 2008	13,000,000	\$ 13,000	1,436,535,311	\$ 1,436,535	\$ 9,424,761	\$ -	\$ -	\$ -	\$ (10,641,685)
Common stock issued for services			5,000,000	5,000	25,000				
Common stock issued for cash			100,000,000	100,000	150,000				
Common stock issued in settlement of convertible notes payable			220,642,431	220,643	(88,256)				
Net unrealized loss from investments held for sale for the period ended June 30, 2009							\$ (530,010)		
Series C Preferred cancelled (not required for loan)	(1,000,000)	\$ (1,000)							\$ 1,000
Net Income for the period ended June 30, 2009									115,002
Balance June 30, 2009	12,000,000	\$ 12,000	1,762,177,742	\$ 1,762,178	\$ 9,511,505	\$ -	\$ (530,010)	\$ -	\$ (10,525,683)
Common stock issued in settlement of convertible notes payable			247,500,000	247,500	(123,750)				
Net unrealized loss from investments held for sale for the period ended Sep 30, 2009							\$ 409,771		

Net Income for the period ended Sep 30, 2009										161,395
Balance Sep 30, 2009	12,000,000	\$ 12,000	2,009,677,742	\$ 2,009,678	\$ 9,387,755	\$ -	\$ (120,239)	\$ -	\$ (10,364,288)	
Common stock issued in settlement of liability			65,641,026	65,641	(45,641)					
Net unrealized loss from investments held for sale for the period ended Dec 31, 2009							\$ 613,891			
Net Income for the period ended Dec 31, 2009										322,604
Balance Dec 31, 2009	12,000,000	\$ 12,000	2,075,318,768	\$ 2,075,319	\$ 9,342,114	\$ -	\$ 493,652	\$ (585,849)	\$ (10,041,684)	
Common stock issued in settlement of liability			459,375,000	459,375	(240,972)					
Preferred Stock issued for bonuses	25,000,000	\$ 25,000								
Net unrealized loss from investments held for sale for the period ended Mar 31, 2010							\$ 733,828			
Net Income for the period ended Mar 31, 2010										(155,151)
Balance Mar 31, 2010	37,000,000	\$ 37,000	2,534,693,768	\$ 2,534,694	\$ 9,101,141	\$ -	\$ 1,227,480	\$ -	\$ (10,196,835)	

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

S3 Investment Company, Inc.  
Consolidated Statements of Cash Flows  
(unaudited)

	For the Nine Months Ended March 31,	
	2010	2009
Cash Flows from Operating Activities:		
Net Gain (Loss)	\$ 328,848	\$ (162,815)
Adjustments to Reconcile Net Loss to Net Cash Provided by Operations:		
Depreciation and amortization	921	1,183
Accretion of interest	(13,271)	960,175
Forgiveness of interest	(187,340)	-
Change in market value	40,452	(619,122)
Expiration/forgiveness of put option	(401,600)	-
Stock issued to settle notes payable	399,715	-
Stock issued for services		30,000
Realized gain on investments	(7,030)	-
Changes in Operating Assets and Liabilities:		
(Increase) decrease in accounts receivable	40,539	-
(Increase) decrease in prepaid expenses	5,950	(4,833)
Marketable securities received for services		(527,770)
Change in capitalized projects	34,222	51,199
Increase in accounts payable and accrued liabilities	(155,050)	26,079
Net Cash Provided (Used) by Operating Activities	86,357	(245,904)
Cash Flows from Investing Activities:		
Proceeds from sale of securities	361,838	-
Purchase of office equipment	(1,059)	(1,259)
Retirement of office equipment		
Net Cash Provided (Used) by Investing Activities	360,779	(1,259)
Cash Flows from Financing Activities:		
Issuance of promissory note	582,397	200,622
Bridge Loan	(25,000)	-
Payment on notes payable	(915,377)	(12,500)
Issuance of stock for financing activities	42,777	-
Proceeds from sale of stock for cash	-	250,000
Net Cash Provided (Used) by Financing Activities	(315,203)	438,122
Increase (decrease) in Cash	131,933	190,959
Cash and Cash Equivalents at Beginning of Period	169,583	112,326
Cash and Cash Equivalents at End of Period	\$ 37,650	\$ 303,285
Supplemental cash flow information:		

Non-Cash Investing and Financing Activities:

Stock issued for Services	\$	-	\$	30,000
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The accompanying notes are an integral part of these consolidated financial statements.



**S3 INVESTMENT COMPANY, INC.**  
**Notes to the Consolidated Financial Statements**  
**March 31, 2010**

**Note 1 – Organization and Business Activities**

This summary of significant accounting policies of S3 Investment Company, Inc. is presented to assist in understanding the Company's financial statements. The financial statements and notes are representations of the Company's management who are responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the consolidated financial statements.

S3 Investment Company, Inc. was incorporated under the laws of the State of California. The Company originally incorporated with the name of Retail Windows, Inc. on April 19, 2000 to engage in any lawful activity as shall be appropriate under laws of the State of California. On June 30, 2001 it amended its Articles of Incorporation to change name to Axtion Foods, Inc. Prior to April 2003, Axtion Foods, Inc. was engaged in the development, manufacturing and distribution of health bars and health drinks. The business plan was not fully implemented and on April 16, 2003 it changed its name to S3I Holdings, Inc. and acquired 100% of the issued and outstanding capital stock of Securesoft Systems, Inc., a Delaware corporation, making Securesoft Systems, Inc (Securesoft) a wholly-owned subsidiary of the Company.

Securesoft Systems, Inc., was incorporated in September 1999. It developed and marketed enterprise compliance and risk management software solutions, but discontinued operations in the last quarter of the fiscal year ended June 30, 2005. It subsequently filed for bankruptcy protection under Chapter 7.

On April 12, 2004 the Company's Board of Directors elected to be regulated as a business development company under the Investment Company Act of 1940. As a business development company ("BDC"), the Company was required to maintain at least 70% of its assets invested in "eligible portfolio companies", which are loosely defined as any domestic company which is not publicly traded or that has assets less than \$4 million. Based on the BDC format, Securesoft became the first portfolio company. The Company added two new portfolio Investments in November, 2004: Sino UJE, Ltd. ('Sino'), a Hong Kong company, and Redwood Capital, Inc., a privately held investment advisory group.

In August 2005, the Board of Directors determined that the Company's continued focus on operations outside the United States, and the limited nature of the Company's portfolio, did not lend itself to the structure of a business development company nor require reporting under the Investment Company Act of 1940. Further, the Company's management had several discussions with the Securities and Exchange Commission during which the Commission expressed the opinion that the Company's capital structure was in violation of certain provisions of the Investment Company Act of 1940; namely, that the Company's preferred stock was issued in violation of Section 18 and convertible debentures were issued in violation of Section 61. On August 26, 2005, the Board of Directions approved a motion to withdraw the Company's election to be treated as Business Development Company under the 1940 Act and on April 5, 2006 the Company's

shareholders approved the withdrawal petition. On April 6, 2006, the Company filed an N-54C, which formally withdrew the Company's BDC election.

As mentioned above, the Company acquired 51% of the common stock of Sino during November, 2004; however, during the fiscal year 2007 the Company abandoned the operations of Sino UJE, Ltd. The Company recorded a recovery of \$29,602 from the discontinued operations of Sino for the three months ended September 30, 2008.

The Company's sole operating business is its wholly-owned subsidiary, Redwood Capital, Inc., which was acquired during November, 2004. Redwood Capital, Inc. provides specialized advisory and capital market services primarily to clients in China. The Company's focus is to introduce private companies in China to the American capital markets through its extensive investment banking relationships.

## **Note 2 - Going Concern**

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the company as a going concern. However, the Company has an accumulated deficit of \$(10,196,835) as of March 31, 2010. These conditions raise substantial doubt as to the Company's ability to continue as a going concern.

In order to continue as a going concern and achieve a profitable level of operations, the Company will require, among other things, additional capital resources. Management's plans to obtain such resources for the Company include raising additional capital through the sale of common stock and continuing the practice of issuing common stock as consideration for certain employee and marketing services. Management cannot provide any assurances that the Company will be successful in accomplishing any of its plans.

The ability of the Company to continue as a going concern is dependent upon its ability to successfully accomplish the plans described in the preceding paragraphs and eventually secure other sources of financing and attain profitable operations. The accompanying financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

## **Note 3 - Summary of Significant Accounting Policies**

### **Principles of Consolidation**

The accompanying consolidated financial statements include the accounts of S3 Investment Company, Inc., Redwood Capital, Inc. and Redwood Group International Ltd. (collectively the "Company"). All significant inter-company accounts and transactions have been eliminated in consolidation.

### **Use of estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Revenue recognition**

Revenues are recognized from financial services contracts as amounts become billable per their respective contract terms in accordance with Staff Accounting Bulletin (“SAB”) 101, as amended by SAB 104. The Company considers amounts to be earned once evidence of an arrangement has been obtained, services are delivered, fees are fixed or determinable, and collectability is reasonably assured. The Company’s sole revenue generating operation is through its subsidiary, Redwood Capital, Inc. Revenue is generated by providing services to assist private Chinese companies in raising capital in the United States and Canada. As the total fees to be paid are typically provided as a percentage of the total capital raised, the fees are typically not fixed until the completion of such transactions. As such, the Company recognizes revenue from each transaction upon the successful closing of each closed transaction.

**Deferred Transaction Costs**

Once a contractual agreement has been reached, any contractual advances the Company makes on behalf of its clients to certain third parties are deferred during the contractual period and expensed once each transaction has closed. Once expensed, these deferred costs are included in cost of sales.

Deferred amounts are monitored regularly for impairment. Impairment losses are recorded when projected undiscounted operating cash flows of the related contract are not sufficient to recover the carrying amount of contract assets. Deferred transition costs were \$35,303 and \$69,525 as of March 31, 2010 and June 30, 2009, respectively, and are included in current assets.

**Cash and cash equivalents**

The Company considers all liquid investments with a maturity of three months or less from the date of purchase that are readily convertible into cash to be cash equivalents.

The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

**Concentration of Risk**

All of the Company’s revenues are derived from transactions in foreign countries. The economic and political instability of some foreign countries may affect the ability of the Company and its customers to complete any Alternative Public Offerings currently in progress. Such circumstances could cause a possible loss of sales, which would affect operating results adversely.

**Marketable Securities**

Pursuant to Statement of Financial Accounting Standard No. (“SFAS”) 115 “Accounting for Certain Investments in Debt and Equity Securities” management determines the appropriate classification of investment securities at the time they are acquired and evaluates the appropriateness of such classification at each balance sheet date. At March 31, 2010 and June 30, 2009, all marketable securities were classified as available-for-sale-securities and appropriately stated at fair value based on quoted market prices and other observable market data, with any unrealized holding gains and losses, net of the related deferred tax effect, reported as a separate component of stockholders’

equity. Realized gains and losses from sales of securities available for sale are determined on a specific identification basis and are included in other income and expense.

**Property – office equipment**

Office equipment is depreciated on a straight-line basis over the estimated useful life of the asset of three to five years. Office equipment is stated at cost net of accumulated depreciation and is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable.

**Long-Lived Assets**

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or group of assets may not be recoverable. Recoverability of long-lived assets or groups of assets is assessed based on a comparison of the carrying amount to the estimated future net cash flows. If estimated future undiscounted net cash flows are less than the carrying amount, the asset is considered impaired and expense is recorded at an amount required to reduce the carrying amount to fair value.

**Stock-based compensation**

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123(R), “Share-Based Payment”. This pronouncement amends SFAS No. 123, “Accounting for Stock-Based Compensation”, and supersedes APB Opinion No. 25, “Accounting for Stock Issued to Employees”. SFAS No. 123(R) requires that companies account for awards of equity instruments issued to employees under the fair value method of accounting and recognize such amounts in their statements of operations. Under SFAS No. 123(R), the Company is required to measure compensation cost for all stock-based awards at fair value on the date of grant and recognize compensation expense in the consolidated statements of operations over the service period that the awards are expected to vest.

The Company accounts for stock-based compensation issued to non-employees and consultants in accordance with the provisions of SFAS 123(R) and the Emerging Issues Task Force consensus in Issue No. 96-18 (“EITF 96-18”), “Accounting for Equity Instruments that are Issued to Other Than Employees for Acquiring or in Conjunction with Selling, Goods or Services”. Common stock issued to non-employees in exchange for services is accounted for based on the fair value of the services received.

The Company had no outstanding stock options or warrants at December 31, 2009 or at June 30, 2009.

**Fair value of financial instruments**

SFAS 159, “*Fair Value Option for Financial Assets and Liabilities*” and SFAS No. 107, “*Disclosures about Fair Value of Financial Instruments*”, require that the Company disclose estimated fair values of financial instruments. The carrying amounts reported in the statements of financial position for current assets and current liabilities qualifying as financial instruments are a reasonable estimate of fair value as the assets have been valued according to their respective active market quotes.

**Research and development costs**

The Company invested \$4,800 on research and development activities for Redwood Group International Ltd. for the nine months ended March 31, 2010. The company did not spend and funds on the same in 2009.

**Derivative Financial Instruments**

The Company's derivative financial instruments consist of embedded derivatives related to the Convertible Notes Payable ("the Notes") entered into in January, 2008, which have been paid off at December 31, 2009. At June 30, 2008, these Notes contained interrelated embedded derivatives, which included a variable conversion feature, a variable interest feature, and a fixed-price put feature.

Based on the complex nature of the terms of the variable conversion and interest features, the Company chose to employ a Black-Scholes model to value these features. Due to the less complex nature of the fixed-price put feature, the Company accreted the put feature incrementally over the life of the Note.

Under the provisions of EITF 00-19 "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock" and SFAS No. 133, "*Accounting for Derivative Instruments and Hedging Activities*", as a result of entering into the Notes, the Company was required to record the derivatives at their fair values as of the inception date of the agreements and at a fair value at each subsequent balance sheet date. Any change in the fair value was recorded as non-operating, non-cash income or expense at each reporting date. When the fair value of the derivatives was lower at a subsequent balance sheet date, the Company recorded non-operating, non-cash income.

**Recently Issued Accounting Pronouncements**

In April, 2009, the FASB issued Final Staff Positions ('FSP') 107-1, 'Interim Disclosures about Fair Value of Financial Instruments', 115-2, 'Recognition and Presentation of Other-Than-Temporary Impairments', and 157-4, 'Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly', to improve guidance and disclosures on fair value measurements and impairments. These FSP's apply to all instruments which have no active markets which are accessible at their respective measurement date. These FSP's are effective for periods beginning April 1, 2009; however, early adoption is encouraged. The Company has adopted these FSP's for the period beginning January 1, 2009, which resulted in a fair value adjustment in marketable securities of \$(1,453,108), which can be seen in the unrealized loss section of the balance sheet at March 31, 2009.

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations". This Statement provides greater consistency in the accounting and financial reporting of business combinations. It requires the acquiring entity in a business combination to recognize all assets acquired and liabilities assumed in the transaction, establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed, and requires the acquirer to disclose the nature and financial effect of the business combination. SFAS No. 141(R) is effective for fiscal years beginning after December 15, 2008. The Company has adopted SFAS No. 141(R) which did not have a material impact on the consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements”. This Statement amends Accounting Research Bulletin No. 51, Consolidated Financial Statements, to establish accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. The Company adopted SFAS No. 160 which did not have a material impact on the consolidated financial statements.

#### **Note 4 – Fixed Assets**

Provision for depreciation of property and equipment is computed on the straight-line method for financial reporting purposes. Depreciation is based upon estimated useful lives as follows:

Fixed Asset Schedule	March 31, 2010	June 30, 2009
Fixed Assets:		
Equipment	\$ 7,503	\$ 6,444
Less Depreciation	(5,577)	(4,657)
Net Equipment	<u>\$ 1,924</u>	<u>\$ 1,787</u>

Depreciation was \$921 and \$1,182 for the nine months ended March 31, 2010 and 2009, respectively.

Maintenance, repairs, and renewals which neither materially add to the value of the property and equipment nor appreciably prolong its life are charged to expense as incurred.

#### **Note 5 - Stockholders' Equity**

##### **Common Stock**

During the three months ended March 31, 2010, the Company had the following common stock transactions:

- 309,375,000 shares were issued to settle certain Convertible Notes Payable totaling \$185,625. The shares were issued based upon the exemption from registration found in Section 4(2) of the Securities Act.
- 150,000,000 shares were issued to settle \$32,780 payable.

##### **Preferred Stock**

During the three months ended March 31, 2010, the Company had the following preferred stock transactions:

- 25,000,000 shares of Series D preferred stock were issued to James Bickel, the Company's Chief Executive Officer, Matthew Totty and Xiaoxin Wu, as consideration for bonus on services rendered.

## Warrants

During the nine months ended March 31, 2010, Hunterwise Financial Group, LLC assigned four warrants to Redwood Capital, Inc.

1) Energroup Holdings Group	57,955 shares of common stock
2) Boyuan Construction Group	21,888 shares of common stock
3) Boyuan Construction Group	10.94 shares of common stock
4) China Infrastructure Construction	46,154 share of common stock

## Note 6 – Marketable Securities

The Company's wholly-owned subsidiary, Redwood Capital, Inc., provides investment banking services to Chinese companies seeking access to U.S. and foreign capital. Redwood Capital, Inc. receives, as payment for services, both cash consideration and common shares of stock in the respective entities. The stock received is carried as an investment and reflects the fair market value of the stock on the date received.

At March 31, 2010 and June 30, 2009, the Company owns equity securities in Boyuan General Construction Group (CDNX: BOY.V) ('Boyuan'). The Company has classified these securities as available-for-sale and accounts for them at fair value, as determined by the Toronto Stock Exchange. As these securities are traded in Canadian dollars, the Company additionally translates the securities into US dollars at each balance sheet date, with any resulting gains or losses accumulating in 'Other Comprehensive Income'.

At March 31, 2010 and June 30, 2009, the Company held an investment in Energroup Holdings (OTC BB: ENHD), a Company which reversed merged with the Dalian Chuming Group, a pork processing company based in China. The Company has classified these securities as available-for-sale and accounts for them at fair value, as determined by the OTC BB stock exchange.

At March 31, 2009, the Company held an investment in China Infrastructure Construction Corporation (OTC BB: CHNC), a Company through its subsidiaries in Hong Kong and the People's Republic of China ("PRC" or "China"), engages in production of ready-mixed concrete and other special high-performance concrete for developers and the construction industry in the PRC.

The following table summarizes the equity investments held by the Company:

	Equity Securities Classified as Available-for-Sale			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value
March 31, 2010	\$ 2,708,840	\$1,228,480 -		\$ 3,937,320
June 30, 2009	\$ 2,770,322	\$ -	\$ (530,010)	\$ 2,240,312

During the nine months ended March 31, 2010, the Company realized \$24,271 in gains from the sales of its equity securities.

Of the total shares received in Boyuan, 18% remain restricted from sale due to certain lock-up rules as determined by the Toronto Stock Exchange. The Company received 10% of its total shares upon the close of the transaction and an additional 15% on September 1, 2009. The Company will receive additional increments of 15% of the total in 6-month intervals beginning March 1, 2010.

During the nine months ended December 31, 2009, the Company entered into a Note Payable whereby it utilized the securities owed as collateral to secure the funds.

Additionally, the Board of Directors approved a 30% 'securities bonus' from each transaction closed to be set-aside for key contractors as additional amounts payable. As of March 31, 2010, \$61,723 has been transferred to a key contractor.

The following table summarizes the amount of securities held in escrow and/or set-aside as amounts payable to its contractors:

	March 31, 2010	June 30, 2009
<b>Marketable Securities</b>		
Unrestricted	\$ 826,483	\$ 1,254,673
Restricted as collateral or Escrow	\$2,571,375	373,119
Restricted as amounts payable	<u>\$539,461</u>	<u>612,520</u>
	<u>\$ 3,937,319</u>	<u>\$ 2,240,312</u>

## **Note 7 - Goodwill**

Goodwill represents the excess of cost over fair value of net assets acquired through acquisitions. In accordance with SFAS No. 142 issued in June 2001, goodwill recorded by the Company has not been amortized and will be evaluated on an annual basis, or sooner if deemed necessary, in connection with other long-lived assets, for potential impairment.

During the fiscal year ending Jun 30, 2005, the Company acquired the business and all related assets of Redwood Capital, Inc. The purchase price of \$120,000 was satisfied by the Company issuing common and preferred stock. The acquisition was an arm's length transaction and has been accounted for using the purchase method.

The following table summarizes the estimated fair value of the assets acquired and equity assumed at the date of acquisition. The purchase price allocation is based upon management's best estimate of the relative fair values of the identifiable assets acquired and liabilities assumed.



Goodwill	\$ 45,000
Net assets acquired	45,000

Common stock	\$	<u>75,000</u>
Net liabilities assumed	\$	\$75,000

The Company executed a note payable with a private third party for \$95,000 during May 2000. The note bears interest at 8% per year and matured May 2001. The Company presently has a balance owed of \$29,700, which is shown as a current liability in the accompanying consolidated financial statements. The Company is in default on this convertible debenture as it has not repaid the outstanding amount at December 31, 2009. The Company has accrued approximately \$21,394 and \$20,206 in interest on this note at December 31, 2009 and June 30, 2009, respectively. Correspondence to contact debt holder has been initiated since year 2008, with no response. This note and accrued interest have been recorded off the balance sheet as of March 31, 2010 as forgiven debt and the interest reversed.

**Senior Convertible Notes A & B**

**Senior Note A:** To obtain funding for the Company's ongoing operations, the Company entered into a note payable with four accredited investors in January, 2008 of up to \$600,000. At June 30, 2009, the Company had borrowed \$301,667 from the Note, which bears interest at 10% per annum from the date of issuance. Effective July 1, 2008, as a result of not accomplishing a listing on the OTCBB stock listing, which was a milestone required in the lending documents, the interest rate increased to 12% per annum.

Both principal and interest on the note were convertible into common stock at the rate of 60% of the lowest daily closing bid price of the Company's common stock during the 5 trading days prior to the conversion date, but in no event less than \$0.0006 per share, which expires on the maturity date of the Note, December 2008. The Company determined that the beneficial conversion feature of both the principal and interest represents derivative liabilities which had to be bifurcated from the Note and separately stated. Due to their complex nature, the Company used the Black-Scholes model to value the beneficial variable principal and interest conversion features. The initial fair value assigned to the variable principal conversion feature of Note A was \$161,766, which was recorded as a discount to the Note. This discount was amortized to interest expense over the term of the Note, which matured in January 2009. Accordingly, the Company recognized \$40,663 during the three months ending September 30, 2008. As no interest had accrued at the date of issuance, the Company did not assign a value to this conversion feature at the date of issuance. It had; however assigned a value to this feature to the extent that its value exceeds or is less than the total accrued interest at June 30, 2008 (see Note 10). The Company had no additional accrual at December 31, 2009 nor at June 30, 2009 as the conversion feature had expired in February, 2009.

The Note held a feature whereby the principal could be 'put', or sold back to the Company for a value of 200% of the face value of the note, payable in marketable securities (Energroup Holdings, or 'ENHD' stock) owned by the Company. Accordingly, the Company had placed all of its holdings of marketable securities in ENHD into an escrow account as collateral. The Company determined this put-feature to be derivative in nature, which requires bifurcation and separate statement. Due to the fixed nature of the put value, the Company has accreted a liability of \$301,667 June 30, 2009, based upon the anticipated future value of the put option at maturity, which is recorded in the derivatives liability section of the consolidated balance sheets at June 30, 2009 (see Note 10).

The Company settled the debt in August, 2009 as follows:

Cash	\$301,667
Issuance of Common Shares	\$43,251
<u>Issuance of Equity Securities</u>	<u>\$116,032</u>
Total Value of Settlement	\$460,950

The Company issued a total of 86,625,000 shares of common stock for the value of \$43,251 represented above.

Prior to the settlement of the debt, the Company had accrued \$139,340 in interest and penalties related to the Note. The derivative put feature was valued at \$301,667 prior to the settlement of the debt. The total of the principal, interest, penalties and derivative features was \$742,674. As the total value was less than the settled value, the Company recognized \$281,724 in forgiveness of indebtedness which can be seen in the consolidated statement of operations.

**Senior Convertible Note B** – To obtain bridge funding for reverse merger transactions which Redwood Capital, Inc. has currently in-progress, the Company entered into a note payable with four accredited investors in February, 2008 for up to \$800,000. At June 30, 2009 the Company had borrowed \$280,730, from the Note, which bears interest at 10% per annum from the date of issuance. Interest on the note is convertible into common stock at the rate of 60% of the of the monthly closing bid price of the Common Stock on the last trading day of such month. The Company determined that this beneficial conversion feature represents a derivative liability which must be bifurcated from the Note and separately stated. As no interest had accrued at the date of issuance, the Company determined that no discount related to this beneficial conversion feature had occurred at the date of issuance. The Company values this feature at each reporting date up to the Note's maturity and, to the extent that it exceeds or is less than the total accrued interest, records a value to derivative liability. As the Note matured on December 19, the beneficial conversion feature is now fully valued.

The Note could be 'put', or sold back to the Company for a value of 300% of the face value of the note, which was payable as 100% of the face value in cash and 200% payable in marketable securities which Redwood Capital, Inc. is anticipated to receive upon closing its reverse merger transactions which are currently in-progress. The Company has determined this put-feature to be derivative in nature, which requires bifurcation and separate statement. Due to the fixed nature of the put value, the Company has accreted a liability of \$561,460 based upon the anticipated future

value of the put option at maturity, which was recorded in the derivatives liability section of the consolidated balance sheets at June 30, 2009.

The Company settled the debt in August, 2009 as follows:

Cash	\$280,730
Issuance of Common Shares	\$80,499
Issuance of Equity Securities	\$215,958
Total Value of Settlement	\$577,187

The Company issued a total of 160,875,000 shares of common stock for the value of \$80,499 represented above.

Prior to the settlement of the debt, the Company had accrued \$41,725 in interest related to the Note. The derivative put feature was valued at \$433,179 prior to the settlement of the debt. The total of the principal, interest, penalties and derivative features was \$755,274. As the total value was less than the settled value, the Company recognized \$178,087 in forgiveness of indebtedness which can be seen in the consolidated statement of operations.

**Note C** – On October 14, 2008, the Company borrowed \$40,000 in bridge capital from certain accredited investors. The Note bears no monthly interest; however, it does contain a balloon payment of \$40,000 in addition to the principal, at its maturity, which will be at the closing of the Company's next financial transaction closing. The balloon payment of \$40,000 is payable in shares of common stock anticipated to be received at the next financial transaction closing. At September 30, 2009, the Company had \$27,500 in principal remaining outstanding on this Note. The cash portion of this note was paid in full December, 2009. The stock portion of the note was satisfied with 20,000 Boyuan shares in January, 2010.

**Redwood Capital, Inc. Note Payable** – On September 11, 2009, the Company's subsidiary, Redwood Capital, Inc., entered into a financing arrangement with Trillion Growth China LP ("Trillion") whereby it borrowed \$582,397. While the financing arrangement carries no stated interest rate, prior to September 11, 2010 (the expiration date of the financing arrangement), Redwood Capital, Inc. has agreed to provide Trillion 282,397 shares of Boyuan General Construction group (currently owned by Redwood Capital, Inc.). In addition to the Boyuan General Construction Group shares, Redwood Capital, Inc. agrees to provide \$300,000 worth of securities to Trillion from the next financing transaction closed by Redwood Capital, Inc. Should the shares earned by Redwood Capital, Inc. be received without the same conditions and with the same protective covenants as any other investor, Trillion will receive \$300,000 worth of securities at a discount of 60% of the price received by Redwood Capital, Inc.

On December 11, 2009, S3 Investment Company paid \$27,500 to Desert Hawk Mining Inc. (previously named Lucky Joe Mining) as payoff of the cash portion of Note C. The stock portion of the note will be issued in January, 2010.

The following table describes the total net value of current notes payable held by the Company at March 31, 2010 and June 30, 2009:

March 31, 2010			
	Redwood Cap	S3I Debenture	Total Notes Payable
Principal Value	\$ 582,397	\$ -	\$ 582,397
Discount	-	-	-
Net Value of Notes Payable	\$ <u>582,397</u>	\$ <u>-</u>	\$ <u>582,397</u>

June 30, 2009				
	Note A	Note B	Note C	Total Notes Payable
Principal Value	\$ 301,667	\$ 280,730	\$ 27,500	\$ 609,897
Discount	-	-	-	-
Net Value of Notes Payable	\$ <u>301,667</u>	\$ <u>280,730</u>	\$ <u>27,500</u>	\$ <u>609,897</u>

### Note 10 – Derivative Liabilities

Both Senior Note A and B include certain beneficial conversion features and put options. The features, described below, are as follows:

- The variable principal conversion feature, which allows the investor to convert Note A into common stock at the rate of 60% of the lowest daily closing bid price of the Company's common stock during the 5 trading days prior to the conversion date, but in no event less than \$0.0006 per share. The variable interest rate provision which allows the investor to convert the interest accrued on Note AA into common stock at the rate of 60% of the lowest daily closing bid price of the Company's common stock during the 5 trading days prior to the conversion date, but in no event less than \$0.0006 per share;
- The variable interest rate provision which allows the investor to convert the interest accrued on Note B into common stock at the rate of 60% of the of the monthly closing bid price of the Common Stock on the last trading day of such month
- The put features, which allows the investor to convert the face value of each Note into securities held, or to be earned, by Redwood Capital, Inc. and/or cash at each Note's maturity.

The Company determined that the above features represented derivative liabilities which required bifurcation from the Notes. Due to the complexity of the beneficial variable principal and interest conversion features, the Company determined that the Black-Scholes model would be required to value the derivatives at the issuance date and subsequently at each reporting date. The following key assumptions were used to calculate the fair value of the beneficial principal and interest features:

***Black Scholes Valuation Model Features***

***Stock Price:*** This is the stock price as of the respective valuation date.

***Exercise Price:*** The exercise price used in the valuation analysis was set according to the terms of the Notes. The exercise price is set at a rate of 60% of the lowest daily closing bid price of the Company's common stock during the 5 trading days prior to the conversion date, but in no event less than \$0.0006 per share for one Note, and 60% of the lowest daily closing bid price of the Company's common stock on the last trading day of the month for Note B.

***Volatility:*** Volatility is a measure of the standard deviation of the stocks continuously compounded return over the life of the security. The ideal volatility for an accurate calculation of fair value is the future volatility of the security. This cannot be known with certainty, so an approximation is derived using historical return volatility for a period of time equal to the remaining life of the instrument as a proxy, and professional judgment. As part of our valuation, we performed an analysis of the historical volatility of returns for the Company's stock. Based on our analysis, we chose standard deviations of 331% at June 30, 2008 as our best estimates of future volatility.

***Risk-Free Rate:*** The appropriate risk free rate is the interest rate of a U.S. treasury note with a maturity equal to the maturity of the respective security. At June, 2009, the risk free interest rates were approximately 2.135%.

***Time to Maturity:*** The time to maturity is measured based on the remaining term of the security as of the valuation date.

At the issuance date, the variable principle conversion feature was valued at \$161,766. As the Note matured prior to June 30, 2009, this beneficial conversion feature has been fully valued.

As no interest had accrued at the issuance of Note A and B, the Company did not value the variable interest conversion feature at the issuance date. At March 31, 2009, the fair value of the variable interest conversion feature was equaled the accrued interest as the Note had matured. At September 30, 2008, the fair value of the variable interest conversion features exceeded the current accrued interest by \$59,646. Accordingly, the Company recognized a gain from this derivative activity of \$59,646 for the three months ended September 30, 2008.

Due to the fixed-value nature, the put feature for each Note was accreted based upon the known future value of each put. The put feature for Note A provides that a total value equal to 200% of the face value of the Note may be put at the Note's maturity. The put feature was fully valued at June 30, 2009 at \$301,667. The put feature for Note B provides that a total value equal to 300% of the

face value of the Note may be put at the Note's maturity. Accordingly, put feature was fully valued at June 30, 2009 at \$561,460.

The settlement of the A & B Notes prior to September 30, 2009 included an option whereby one of the Note Holders were guaranteed that the shares in Boyuan Construction Group surrendered under the terms of the agreement would not fall below a share price of \$3.50 per share for 9 months. As the share price at the date of the settlement was below \$3.50, the difference was recorded as additional derivative liabilities at December 31, 2009.

The put feature for Note C provides that a total value equal to 100% of the face value of the Note (\$40,000) will be payable at the Note's maturity.

The Redwood Capital, Inc. Note Payable, while no interest is stated, includes a balloon payment whereby Redwood Capital, Inc. must deliver 282,397 shares of Boyuan Construction Group securities it currently holds as well as \$300,000 worth of securities it anticipates receiving from future closings. The variable nature of the shares to be delivered requires bifurcation and separate valuation as a derivative on the balance sheet at December 31, 2009.

	December 31, 2009			
	Note A&B	Redwood Note	Note C	Total Derivatives Liability
Derivative Liability, Principal conversion feature \$	-	\$ -	\$ -	\$ -
Derivative Liability, Interest conversion feature	-	-	-	-
Derivative Liability, Put Option	10,026	148,500	40,000	198,526
Net Value Derivative Liabilities	\$ 10,026	\$ 148,500	\$ 40,000	\$ 198,526

September 30,  
2009

	<u>Note A&amp;B</u>	<u>Redwood Note</u>	<u>Note C</u>	<u>Total Derivatives Liability</u>
Derivative Liability, Principal conversion feature	\$ -	\$ -	\$ -	\$ -
Derivative Liability, Interest conversion feature	-	-	-	-
Derivative Liability, Put Option	<u>31,243</u>	<u>148,500</u>	<u>40,000</u>	<u>219,743</u>
Net Value Derivative Liabilities	\$ <u><u>31,243</u></u>	\$ <u><u>148,500</u></u>	\$ <u><u>40,000</u></u>	\$ <u><u>219,743</u></u>

June 30,  
2009

	<u>Note A</u>	<u>Note B</u>	<u>Note C</u>	<u>Total Derivatives Liability</u>
Derivative Liability, Principal conversion feature	\$ -	\$ -	\$ -	\$ -
Derivative Liability, Interest conversion feature	-	-	-	-
Derivative Liability, Put Option	<u>301,667</u>	<u>561,460</u>	<u>40,000</u>	<u>954,229</u>
Net Value Derivative Liabilities	\$ <u><u>301,667</u></u>	\$ <u><u>561,460</u></u>	\$ <u><u>40,000</u></u>	\$ <u><u>954,229</u></u>

## **Note 11 – Supplemental Disclosure of Cash Flows**

The Company prepares its statements of cash flows using the indirect method as defined under the Financial Accounting Standard No. 95.

## **Note 12 – Commitments & Contingencies**

### **Operating Leases**

The Company leases its U.S. office facilities renewed their lease which expires on September 30, 2010, The Company entered into a lease for an apartment in Beijing, China, which expires on October 15, 2009 and is converted to a month to month lease for purposes of housing customers, guests and consultants, requiring monthly payments of 9,500 Chinese Renmibi (CNY). The Company also leases an office in Beijing under a lease expiring March 9, 2011, requiring monthly payments of 11,000 CNY. Rent expense for the Chinese facilities is translated into U.S dollars at the current foreign exchange rate on the date due, in accordance with SFAS No. 52, “Foreign Currency Translation”. Future minimum rental payments under the noncancellable operating leases as of December 31, 2009 are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
<u>2010</u>	<u>\$ 13,382</u>
Total future minimum payments	\$ 13,382

Rent expense was \$37,010 and \$29,082 for the nine months ended March 31, 2010 and 2009, respectively.

### **Legal Proceedings**

S3 Investment Company, Inc., S3I Holdings, Inc. and Securesoft were named defendants in a case entitled Villella V. Yamamoto, Berlainder, et al. Villella filed the complaint on April 13, 2005.

Notice of service was not properly given to the Company until August of 2005. The Company filed a cross-complaint for damages against Villella on September 20, 2005. The Company agreed to a settlement in the amount of \$183,000, of which \$80,100 remains at September 30, 2009. In October, 2009 S3 Investment Company entered into an agreement with Villela and Black Mountain Equities, Inc., where Black Mountain would purchase portions of the debt on a monthly basis for SIVC discounted stock. All parties also agreed to a beginning debt balance on \$90,000 because of no or inconsistent payments prior to October, 2009. As of March 31, 2010, Black Mountain has purchased \$42,777 of debt from S3 Investments in exchange for 165,641,026 common shares of SIVC stock. At March 31, 2010, the balance of the debt to Villela is \$47,222.

Effective March 1, 2008, the Company entered into a Settlement Agreement with Luce, Forward, Hamilton & Scripps, LLP, whom had previously provided legal services to the Company on a number of different matters, in the amount of \$38,607 of which \$10,617 remains at March 31, 2010.



## **Employment agreement**

On January 26, 2007, the Company entered into an Employment Agreement with James Bickel, President. Pursuant to the Employment Agreement, Mr. Bickel will serve as President for an employment term through January 26, 2009. Mr. Bickel is entitled to an annual base salary of \$96,000. Mr. Bickel is also Chairman of the Board of Directors of the Company. Mr. Bickel is responsible for the remittance of any appropriate withholding taxes as a result of this Employment Agreement.

The Company is currently in negotiations with Mr. Bickel to renew his contract and expects no material changes from the above.

## **Note 13 – Discontinued Operations**

Since December 31, 2006, The Company has not received any financial statements from the Hong Kong management of Sino UJE, Ltd. (the “Subsidiary”). Representatives from the Company have visited the Subsidiary’s offices in Hong Kong four (4) times throughout 2007 in an attempt to maintain control of this Subsidiary and its operations. During the visits, Company representatives requested all financial statements, cash reports, and bank statements. Throughout 2007, the Company was promised that it would receive the above requested documents by November 11, 2007. No documents were received.

After not receiving documents on November 11, 2007, the Company, with permission of the Board, attempted to remove the then manager. The Company then requested the financial statements to be delivered to our US office no later than December 31, 2007.

The Company then visited the Subsidiary’s offices in Hong Kong three (3) times throughout 2008. On every visit, the Company requested all financial statements, cash reports, and bank statements.

By April 2, 2008, the Company had still not received any financial statements or any other reports necessary for successful or proper management of the Subsidiary as a part of its holdings. During the second quarter of 2008, the Company discovered that the current management of the Subsidiary had relocated the Subsidiary’s offices and did not inform the Company where the new offices were. Upon discovering that the Subsidiary’s offices had been moved to a new, unknown location, the Company immediately attempted to contact Li Jun and Wellman Liu, two managers of the Subsidiary. After attempting to contact Li Jun and Wellman Liu, the Company discovered that the principals had been providing false contact information and other vital information during the fiscal year ended June 30, 2007.

By mid 2008, it was discovered that Li Jun and Wellman Liu had been moving the assets of the Subsidiary to a new entity owned by Li Jun and Wellman Liu. Unsure of the status of the Subsidiary and its financial condition, the Company refused to sign any agreements or leases as owner or on behalf of the Subsidiary.

As of August 31, 2008, all of the Subsidiary bank accounts have been closed. Further, all officers and directors have been removed to the extent the Company has been able to remove them. The Hong Kong Corporation that held the Subsidiary is in a non-active state and the business operations are no longer in existence.

Because of the above events, the Company is no longer in control of any of the assets of the Subsidiary. During the three months ended September 30, 2008, the Company was able to garnish the remaining cash held in the US from the entity, which resulted in a recovery from discontinued operations of \$29,602.

#### **Note 14 – Subsequent Events**

Subsequent to the quarter ended March 31, 2010, the company issued 294,285,714 shares of common stock to officers and directors of the Company for accrued compensation and bonuses, 469,000,000 shares of common stock were issued to Matthew Totty and Xiaoxin Wu as consideration for bonus on services rendered, 17,000,000 common shares were issued to a third party for services rendered and 33,333,333 common shares were issued to settle \$10,000 payable. These shares were issued based upon the exemption from registration found in Section 4(2) of the Securities Act.

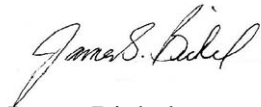
## **EXHIBIT B**

### **CERTIFICATION**

I, James Bickel, certify that:

1. I have reviewed this quarterly disclosure statement of S3 Investment Company, Inc.;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Date: May 14, 2010

A handwritten signature in cursive script, appearing to read "James S. Bickel".

James Bickel  
Chief Executive Officer

## **CERTIFICATION**

I, Gary Nerison, certify that:

1. I have reviewed this quarterly disclosure statement of S3 Investment Company, Inc.;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Date: May 14, 2010

A handwritten signature in black ink, appearing to read 'G. Nerison', with a stylized, flowing script.

Gary Nerison  
Chief Financial Officer