

Edgar Filing: SECURED DIVERSIFIED INVESTMENT LTD - Form 10QSB

SECURED DIVERSIFIED INVESTMENT LTD
Form 10QSB
June 18, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

Quarterly Report Under Section 13 or 15(d)
of the Securities and Exchange Act of 1934

For the Quarter Ended
March 31, 2004

Commission File Number
0-30653

SECURED DIVERSIFIED INVESTMENT, LTD.

(Name of small business issuer in its charter)

Nevada
(State or other jurisdiction of
incorporation or organization)

80-0068489
(I.R.S. Employer I.D. No.)

5030 Campus Drive, Newport Beach California
(Address of principal executive offices)

92660
(Zip Code)

Issuer's telephone number, including area code (949) 851-1069

Check whether the Issuer (1) filed all reports required to be filed by section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such report(s), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No []

State the number of shares outstanding of each of the registrant's classes of common equity, as of the latest practicable date:

As of June 14, 2004, issuer had 8,157,286 shares of its \$.001 par value common stock outstanding.

PART I FINANCIAL INFORMATION
SECURED DIVERSIFIED INVESTMENT, LTD.
Consolidated Balance Sheet
(Unaudited)

March 31, 2004

ASSETS

Edgar Filing: SECURED DIVERSIFIED INVESTMENT LTD - Form 10QSB

Current Assets

Cash	\$ 117,201
Accounts Receivable	
Inventory	21,492
Note Receivable	33,930
Other Receivables	7,042

Total Current Assets	179,665

Fixed Assets

Equipment, net of \$14,606 of accumulated depreciation	55,318
Real Estate, net of \$111,847 of accumulated depreciation	5,091,769

Total Fixed Assets	5,147,087

Other Assets

Restricted Cash	70,000
Prepaid and Other	64,662

Total Other Assets	134,662

Total Assets	\$ 5,461,414
=====	

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities	
Accounts Payable	\$ 293,519
Interest Payable	7,522
Payroll Liabilities, including \$214,883 due officers and directors	365,280
Accrued Property Tax	108,971
Accrued Sales Tax	29,694
Security Deposits	40,444
Current Portion of Long-Term, related parties	625,437
Current Portion of Long-Term Debt	56,743

Total Current Liabilities	1,527,610
---------------------------	-----------

Long Term Liabilities

Notes Payable, related parties	163,630
Mortgages Payable	3,406,270

Total Long - Term Liabilities	3,569,900
-------------------------------	-----------

Total Liabilities	\$ 5,097,510
=====	

Minority Interest	\$ 200,399
-------------------	------------

STOCKHOLDERS' EQUITY

Series A Preferred Stock, 7,500,000 shares authorized, \$0.01 par value, 7,190,381 issued & outstanding	71,904
Series B Preferred Stock, 20,000,000 shares authorized, \$0.01 par value, 6,050,340 issued & outstanding	60,403
Series C Preferred Stock, 22,500,000 shares authorized, \$0.01 par value, zero shares issued & outstanding	-
Common Stock, 100,000,000 shares authorized, \$0.001 par value, 8,157,286 issued and outstanding	8,157
Paid In Capital	6,648,695
Accumulated Deficit	(6,625,654)

Edgar Filing: SECURED DIVERSIFIED INVESTMENT LTD - Form 10QSB

Total Equity	\$ 163,505
	=====
Total Liabilities & Stockholders' Equity	\$ 5,461,414
	=====

2

SECURED DIVERSIFIED INVESTMENT, LTD
Consolidated Statement of Operations
(Unaudited)

	Three months ended March 31	
	2004	2003
	-----	-----
REVENUES		
Rental	\$ 235,440	\$ 36,586
Hotel, net of \$29,051 for coupons and discounts	\$ 337,066	
Brokerage	\$ 5,442	
	-----	-----
Total Revenues	\$ 577,948	\$ 36,586
Cost of Goods Sold	\$ 237,376	\$ -
	-----	-----
Net Revenue	\$ 340,572	\$ 36,586
General and Administrative Expenses	\$ 796,070	\$ 286,354
	-----	-----
Operating (Loss)	\$ (455,498)	\$ (249,768)
	-----	-----
Other Income and Losses		
Interest Expense	\$ (97,778)	\$ (13,365)
Interest Income	\$ 5,900	\$ -
Other	\$ (2,664)	\$ (45,000)
	-----	-----
Total Other Income and Losses	\$ (94,542)	\$ (58,365)
	-----	-----
Minority Interest	\$ 6,025	
	-----	-----
Net Income (Loss)	\$ (544,015)	\$ (308,133)
	=====	=====
Basic and diluted income per common share		
Net income (loss) per share	\$ (0.08)	\$ (0.13)
Basic and diluted weight average shares	6,553,180	2,349,540

3

SECURED DIVERSIFIED INVESTMENT, LTD
Consolidated Statement of Cash Flow
(Unaudited)

Three months ended March 31
2004 2003

Edgar Filing: SECURED DIVERSIFIED INVESTMENT LTD - Form 10QSB

Cash flows from / (to) operating activities:		
Net Loss	\$ (544,015)	\$ (308,132)
Adjustment to reconcile net loss to net cash used by operating activities:		
Depreciation and Amortization	39,168	9,034
Minority Interest	(6,025)	
Loss on sale of note receivable		45,000
Increase (decrease) in assets and liabilities		
Receivables	31,733	
Inventory	2,489	
Note Receivable	400,000	-
Accounts payable and other	279,507	143,300
Prepaid Expenses and other	(1,174)	
Accrued interest added to notes payable	(10,054)	
	-----	-----
Net cash provided / (used) by operating activities	191,629	(110,798)
	-----	-----
Cash flow to investing activities:		
Purchase equipment and real estate	(400,000)	(42,775)
Investment in subsidiary	(81,675)	
	-----	-----
Net cash used by investing activities	(400,000)	(124,450)
	-----	-----
Cash flows from financing activities:		
Proceeds from stock issuance	45,000	-
Minority Interest	34,586	
Proceeds on notes payable - related party	102,000	292,295
Payments on notes payable - related party	20,231	(59,919)
Payments on notes payable	(1,790)	
	-----	-----
Net cash provided by financing activities	200,027	232,376
	-----	-----
Net increase (decrease) in cash	(8,344)	(2,872)
Cash, beginning period	125,545	6,058
	-----	-----
Cash, end of period	\$ 117,201	\$ 3,186
	=====	=====
Supplemental disclosures:		
Cash paid for interest	\$ 107,832	\$ 4,055
Cash paid for income tax	\$ -	\$ -
Non-cash investing and financing activities:		
Property acquired through stock issuances, net of debt	\$ 33,930	\$ 411,738
Stock issued to Directors for Notes Payable	\$ 25,000	\$ -
Investment in subsidiary through stock issuance, net of debt	\$ -	\$ 350,000
Conversion of note to stock	\$ -	\$ 500,000

\$

Item 1. Financial Statements

NOTE 1 Going Concern

The accompanying financial statements of Secured Diversified Investment, Ltd. (the "Company" or "SDI") are prepared using generally accepted accounting principles applicable to a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. The Company since its inception has sustained net losses. Cash reserves are low and currently the Company's operations do not generate enough cash to cover its costs or to execute its business plan. Management intends to refinance existing properties and use the proceeds to fund operating shortfalls. There are no assurances that the refinancing will occur or that the cash it generates will be adequate to meet the Company's cash requirements. In addition, the Company intends to raise additional funds through a private placement of its securities. However, there are no assurances that the Company will be successful in this or any of its endeavors or become financially viable and continue as a going concern.

NOTE 2 Nature of Operations

The Company was incorporated under the laws of the state of Utah on November 22, 1978. On July 23, 2002, the shareholders approved a change in domicile from Utah to Nevada. In accordance with Nevada corporate law, a change of domicile is effected by merging the foreign corporation with and into a Nevada corporation. On August 9, 2002, a merger between the Company and Book Corporation of America was completed. Upon completion of the merger Book Corporation of America was dissolved. On September 18, 2002, the OTCBB symbol for the Company's common stock was changed from BCAM to SCDI. The shareholders also approved amendments to the Company's Articles of Incorporation to change the par value of the Company's Common Stock from \$.005 to \$.001 and to authorize 50,000,000 shares of Preferred Stock, par value \$0.01. On November 15, 2002, the Company changed its fiscal year end from October 31 to December 31.

During 2002, the Company began pursuing the acquisition of ownership interests in real estate properties that are geographically and functionally diverse in order to be more stable and less susceptible to devaluation resulting from regional economic downturns and market shifts. Currently, the Company owns shopping centers in Dickinson, North Dakota; Las Vegas, Nevada; and Orange, California; the Company also owns a single story office building in Newport Beach, California, and a hotel in Dickinson, North Dakota. The Company is currently focusing on acquiring properties in markets with strong regional economies.

NOTE 3 Significant Accounting Policies

CONSOLIDATION. The accompanying consolidated financial statements include the accounts of the Company and its wholly and majority owned subsidiaries, which include Diversified Commercial Brokers (DCB) LLC (53.9%) owner of 5030 Campus; Nationwide Commercial Brokers, Inc. (100%) with limited operations to date; Dickinson Management, Inc. (100%) manager of the Hospitality Inn; Spencer Springs LLC (87%) owner of the Spencer Springs shopping center; Decatur Center LLC (100%) an inactive company; and Diversified Commercial Mortgage LLC (100%) an inactive company. All material inter-company transactions and balances have been eliminated.

ESTIMATES. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures; for example, the estimated useful lives of assets and the fair value of real property. Accordingly, actual results could differ from those estimates.

Edgar Filing: SECURED DIVERSIFIED INVESTMENT LTD - Form 10QSB

CREDIT AND CONCENTRATION RISK. The Company maintains deposit accounts in numerous financial institutions. From time to time, cash deposits may exceed Federal Deposit Insurance Corporation limits. No single institution holds more than the federally insured limit.

5

REVENUE RECOGNITION. The Company's revenues are derived from rental income and from room and food revenues from hotel operations. Rental and hotel revenues are recognized in the period services and goods are provided.

CASH AND CASH EQUIVALENTS. The Company considers all short term, highly liquid investments, that are readily convertible to known amounts within ninety days as cash equivalents. The Company currently has no such investments.

PROPERTY AND EQUIPMENT. Property and equipment are depreciated over the estimated useful lives of the related assets. Leasehold improvements are amortized over the lesser of the lease term or the estimated life of the asset. Depreciation and amortization is computed on the straight-line method. Repairs and maintenance are expensed as incurred.

FAIR VALUE. The carrying value for cash, prepaids, and accounts payable and accrued liabilities approximates fair value because of the immediate or short-term maturity of these financial instruments. Based upon the borrowing rates currently available to the Company for loans with similar terms and average maturities, the fair value of long-term debt approximates its carrying value.

IMPAIRMENT. The Company adopted SFAS 144, "Accounting for the Impairment and Disposal of Long-Lived Assets," which requires long-lived assets be reviewed for impairment whenever circumstances indicate the carrying value may not be recoverable.

LOSS PER SHARE. Basic loss per share is based on the weighted average number of common shares outstanding during the period. Diluted loss per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. At March 31, 2003, all potential common shares are excluded from the computation of diluted loss per share, as the effect of which was antidilutive.

RECENT ACCOUNTING PRONOUNCEMENTS. In June 2002, the FASB issued SFAS 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity." SFAS 146 generally requires a liability for a cost associated with an exit or disposal activity to be recognized and measured initially at its fair value in the period in which the liability is incurred. The pronouncement is effective for exit or disposal activities initiated after December 31, 2002. The Company's financial position or results of operations have not been affected by this new pronouncement.

In June 2003, the FASB approved SFAS 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". SFAS 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity.

Edgar Filing: SECURED DIVERSIFIED INVESTMENT LTD - Form 10QSB

This Statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Company's financial position reflects the effects of classifying certain mandatorily redeemable equity instruments as liabilities.

NOTE 4 Related Party Transactions

SEASHORE DIVERSIFIED INVESTMENT COMPANY (SDIC). Certain of the Company's directors and officers were also directors, officers and shareholders of SDIC. During 2003, SDIC advanced monies to the Company under a revolving note, bearing interest at 9%. The advance is due on demand. At March 31, 2003, the outstanding balance totaled \$114,132 with \$13,699 in accrued interest.

6

LEONARD, ET AL. The Hospitality Inn leases land from a director of the Company, Sumiye Leonard, her spouse, a significant shareholder, Robert Leonard, and the Akira and Hisako Imamura Family Trust, which is managed by the sister of Sumiye Leonard. The lease expires in 2053. The monthly ground lease payments are \$10,000, \$12,000, and \$14,000 for the first three years, respectively. Beginning with the fourth year, the ground lease payments will adjust annually based on the Consumer Price Index, with a floor of 2% and a ceiling of 3%. Pursuant to the terms of the ground lease, the Company may purchase the land. To date during 2004, the Company is in default on the land lease payments. Additionally, Robert Leonard was paid \$5,000 for services rendered in connection with the sale of 100,000 shares of Series B preferred stock.

C. WAYNE SUTTERFIELD (SUTTERFIELD). At December 31, 2003, the Company owed Sutterfield, a director and significant shareholder, \$67,000 and \$71,630 secured by 2nd trust deed on the T-Rex Plaza Mall and a 3rd trust deed on 5030 Campus. The notes bear interest at 8% and are due in 2006. Sutterfield is a minority owner in DCB LLC. Under the terms of the operating agreement, the Company pays Sutterfield a preferred return on his investment, totaling \$6,023 in 2004, and retains the right to acquire all his interests. Pursuant to the operating agreement, the Company is responsible for any cash flow deficiencies.

WILLIAM S. BIDDLE (BIDDLE). Biddle holds two notes due from the Company totaling \$274,250. One note bears interest at 7.05% and matures in 2008. The other note bears interest at 10% and matures in April 2004. Both are secured by the underlying property. Biddle and Sumiye Onodero-Leonard loaned \$102,000 to the Company; under a note secured by a 2nd trust deed on Spencer Springs, interest at 12% due August 2004, with a six-month renewal option. Biddle and Leonard each received 25,000 shares of Series B preferred stock. Biddle also receives a monthly fee of \$2,500 from Nationwide Commercial Brokers, Inc. ("NCB") in exchange for providing his brokers' license to NCB.

PRIME TIME AUCTIONS, INC (PRIME TIME). Prime Time is a shareholder of the Company. During 2003, Prime Time extended three loans totaling \$146,356 to the Company, all of which bear interest at 15%, are secured by the underlying property and mature through 2005.

NOTE 5 Related Party Debt

Interest expense for the three months period ended March 31, 2004, and March 31, 2003 on related party obligations totaled \$25,767 and \$2,359, respectively.

Edgar Filing: SECURED DIVERSIFIED INVESTMENT LTD - Form 10QSB

- Unsecured note, bearing interest at 9%, interest only, due on demand	\$ 114,132
- Mortgage note, bearing interest at 12%, interest only, maturing August 17, 2004, secured by 2nd trust deed on Spencer Springs	102,000
- Mortgage note, bearing interest at 8%, interest only, maturing February 17, 2006, secured by 2nd trust deed on T-Rex Plaza Mall	67,000
- Mortgage note, bearing interest at 8%, interest only, maturing December 31, 2006, secured by 3rd trust deed on 5030 Campus	71,630
- Mortgage note, bearing interest at 10%, maturing April 21, 2004, interest only, secured by 1st trust deed on T-Rex Plaza Mall	100,000
- Mortgage note, bearing interest at 15% (effective rate 49.8%), maturing February 26, 2004, interest only, secured by 1st trust deed on Palm Highland	61,356

7

- Mortgage note, bearing interest at 15%, maturing October 1, 2004, interest only, secured by 1st trust deed on Hospitality Inn	60,000
- Mortgage note, bearing interest at 15%, maturing July 1, 2005, interest only, secured by 2nd trust deed on Katella Center	25,000
- Mortgage note payable, bearing interest at 7.05%, maturing April 15, 2008, interest only, secured by second trust deed on Palm Highland	174,250
Total related party debt	789,067
Less current portion of related party debt	625,437
Long term portion of related party debt	\$ 163,630

NOTE 6 Third Party Debt

- Unsecured note, bearing interest at 9%, maturing June 20, 2005, interest only	\$ 19,980
- Mortgage note, bearing interest at 11.5%, maturing May 15, 2005, interest only, secured by 1st trust deed on Katella Center	370,000
- Mortgage note, bearing interest at the "1 year constant maturity treasury rate" plus 3.5%, adjusting annually, currently 5.875%, principal and interest monthly, maturing February 2, 2013, secured by 1st trust deed on 5030 Campus	721,754

Edgar Filing: SECURED DIVERSIFIED INVESTMENT LTD - Form 10QSB

- Mortgage note, bearing interest at 8%, maturing February 8, 2008, interest only, secured by 2nd trust deed on 5030 Campus	110,000
- Mortgage payable, bearing interest at the "6 month London Interbank Offer Rate" plus 3%, adjusting every 6 months, currently 4.5%, maturing September 30, 2013 principal and interest due monthly, secured by 1st trust deed on Spencer Springs	2,214,279

Total third party debt	\$ 3,463,013
Less current portion of third party debt	56,743

Long term portion of third party debt	\$ 3,406,270

NOTE 7 Stockholders' Equity

In February 2003, the Company created three series of preferred stock, all of which are convertible at the option of the holder: (1) Series A consisting of 7,500,000 shares with a par value of \$0.01, a liquidation preference of \$1.00 per share, convertible into an equal number of common shares 36 months after issuance, with the same voting rights as common stock; (2) Series B consisting of 20,000,000 shares with a par value of \$0.01, a liquidation preference of \$0.50 per share, and convertible into an equal number of common shares 24 months after issuance; and (3) Series C consisting of 22,500,000 shares with a par value of \$0.01, a liquidation preference of \$3.00 per share, and convertible into an equal number of common shares 24 months after issuance. In the event the price of common stock is less than the purchase price of the preferred stock on the conversion date, the holder is entitled to convert at a rate equal to the purchase price divided by the common stock price.

8

The Company is offering 13,949,660 shares of its Series B preferred stock at \$0.50 per share. Additionally, the Company is offering 22,500,000 shares of its Series C preferred stock at \$3.00. Both Series B and Series C preferred stock are being offered for cash, notes and in exchange for real estate acquisitions.

During the first quarter of 2004, the Company sold 100,000 shares of Series B preferred stock for \$50,000. Two directors, William Biddle and Sumiye Onodero-Leonard, each received 25,000 shares of Series B preferred stock for loaning \$150,000 to the Company. Additionally, the Company issued 67,860 shares of Series B preferred stock for a \$33,930 note receivable secured by a residential property in Binghamton, New York. The note requires monthly principal and interest payments totaling \$350, and matures April 2006.

NOTE 8 Commitment and Contingencies

DEFERRED MAINTENANCE. The Company has determined that T-Rex Plaza Mall needs repairs to its roof, heating and air conditioning ventilation units, the facade and parking lot. The estimated costs for said repairs are between \$150,000 and \$250,000. The Company intends to pursue reimbursement from contractors who recently repaired the roof in order to recover the anticipated roof repair costs. Additionally, the Company estimates deferred interior improvements needed at the Hospitality Inn between

Edgar Filing: SECURED DIVERSIFIED INVESTMENT LTD - Form 10QSB

\$100,000 and \$200,000.

LEASE AGREEMENTS. The Company is obligated under various ground leases (T-Rex Plaza Mall, Katella Center, Hospitality Inn, and 5030 Campus), three of which include CPI increases, and an office lease requiring monthly payments through 2053.

UNPAID TAXES. The Company has not paid approximately \$88,000 in 2003 property taxes on the Hospitality Inn and T-Rex Plaza Mall of which approximately \$44,000 were due March 1, 2004. The Company assumed unpaid payroll taxes attributable to the Hospitality Inn of which approximately \$52,000 were unpaid as of March 31, 2004.

OFFICER EMPLOYMENT AGREEMENTS. During 2003, the Company executed employment agreements with its officers that extend through 2006. The employment agreements provide for the issuance of common stock and options vesting over the term of the agreement and expire 10 years from the date of grant. The Board did not approve the Stock Incentive Plan until late in 2003; therefore, no options were granted or stock issued during 2003. The options, once granted, are convertible to common stock at \$0.15/share. Twenty-five percent of the options vest immediately and the remaining options vest ratably over the term of the agreements on each officer's anniversary date. Under the terms of the agreements, the Company is obligated to issue 1,100,000 shares of common stock and grant 2,500,000 options. At March 31, 2004, approximately \$192,036 in officer salaries and \$8,847 in Director compensation were unpaid.. No amount was expensed related to the options to be granted as the exercise price per share exceeded the market price per share on the effective date of grant.

NOTE 9 Subsequent Events

ACQUISITIONS. In May, the Company and Denver Fund I, a nonrelated party, entered into a lease agreement to lease the Cannery West shopping center ("Cannery"). The Company and Denver I will receive all lease payments from the Cannery and will pay Iomega Investments a monthly lease payment of \$36,000. The Company and Denver Fund I will be responsible for all expenses related to the property. The lease agreement also provides that the Company and Denver Fund I will acquire the property for \$5,950,000 including the assumption of the first mortgage in the amount of \$4,100,000. The Company issued 250,000 shares of Series C preferred stock as part of the consideration for the lease and acquisition of the Cannery West shopping center. The Company then entered into a Tenant in Common Agreement with Denver Fund I pursuant to which the Company will have a 51% interest in the property and Denver Fund I a 49% interest. Denver Fund I will be entitled to a preferred return of 8% on its investment of \$900,000 of which the Company has guaranteed 6%.

9

DISPOSITIONS. In April, the Company took title to a property in satisfaction of a \$400,000 note receivable in which the Company had a \$225,750 interest. The property was subsequently sold for \$400,000. The Company repaid debt with the proceeds.

DEBT. In April 2004, the \$100,000 note payable due to officer and director William Biddle and the \$61,356 note to a shareholder were repaid.

Item 2. Management's Discussion and Analysis

Edgar Filing: SECURED DIVERSIFIED INVESTMENT LTD - Form 10QSB

Acquisitions and Dispositions of Assets

In March 2004, the Company accepted a deed on a restaurant located in Highland, California, encumbered by a promissory note in the amount of \$400,000, of which the Company had a \$225,750 interest. The remaining balance of \$174,250 was held by an officer and director of the Company. The promissory note was received by the Company upon the sale of its Decatur Square property. Subsequent to March 31, 2004, the property was sold for \$400,000. The transaction netted \$200,000 in cash and a promissory note in the amount of \$200,000 secured by the property. The Company repaid debt with its share of the proceeds.

Subsequent to the end of the quarter, the Company joined with Denver Fund I, LLC, to lease and acquire The Cannery West shopping center, Las Vegas, Nevada.

On May 14, 2004, the Company and Denver Fund I, Ltd. entered into a Lease Agreement (the "Lease Agreement") with Iomega Investments, Ltd. to lease The Cannery retail shopping center located on Flamingo Road in Las Vegas, Nevada. The Cannery is located on approximately 3.4 acres and has approximately 37,000 square feet of rentable space. Construction was completed between 1988 and 1992. On the date of acquisition, The Cannery was currently approximately 62% occupied and the average annual rent per square foot of existing tenants is \$17.40. The property was appraised for \$7,150,000 in December 2001 by Morgan, Beebe & Harper, Las Vegas, Nevada.

Pursuant to the Lease Agreement, the Company and Denver Fund I are entitled to receive all lease payments due from tenants and will pay Iomega Investments a monthly lease payment of \$36,066, which amount equals the monthly payment due on the first mortgage. The Company and Denver Fund I will also pay all taxes, insurance premiums and other expenses related to the property, including management fees and costs of maintenance. The Company has retained ARS Management (dba Shaw Associates Realty Services) as the property manager.

The Lease Agreement also provides that the Company and Denver Fund I will acquire the property for \$5,950,000, including assumption of the first mortgage in the principal amount of \$4,100,000. The remainder of the purchase price will be paid partially by the Company and partially by Denver Fund I. The Company will deliver 250,000 shares of the Company's Series C Preferred Stock (valued between the parties at \$3.00 per share) and a two-year promissory note in the principal amount of approximately \$155,000 bearing interest at an annual rate of 7%. The principal amount of the note is payable \$50,000 at the six month anniversary, \$50,000 at the 12 month anniversary and the remainder at maturity. Denver Fund I paid \$675,000 in cash from a 1031 exchange and assigned a note receivable in the principal amount of \$225,000 secured by real property in Reno, Nevada.

The Company then entered into a Tenant in Common Agreement with Denver Fund I pursuant to which the Company will have a 51% interest in the property and Denver Fund I will have a 49% interest. Denver Fund I will be entitled to a preferred return of 8% on its total investment of \$900,000, of which the Company has agreed to guarantee 6%. Thus, in the event that cash flow from the property is less than \$54,000 per year, the Company will pay Denver Fund I the difference. The parties also agreed to grant mutual rights of first refusal. If either party desires to sell its interest in the property, then it must first offer the interest to the other party.

Edgar Filing: SECURED DIVERSIFIED INVESTMENT LTD - Form 10QSB

The comparability of the financial information discussed below is limited by acquisitions and dispositions completed after the end of the fiscal quarter ended March 31, 2004.

Three Months Ended March 31, 2004 and 2003

Comparability of the financial information discussed below is materially impacted by the Company's acquisition of properties beginning in the first quarter of 2004.

Income.

Income consists of rental income from commercial properties pursuant to tenant leases and income from the operation of a full service hotel. As a result of these operations, income increased to \$577,948 net of \$29,051 for coupons and discounts, for the three months ended March 31, 2004, an increase of \$541,362 or 1,480%. During the comparable period ending March 31, 2003, the Company reported income of \$36,586. The increase is primarily attributable to the acquisition of real estate assets consummated after the end of the quarter ended March 31, 2003.

Cost of Goods Sold.

Cost of goods sold was attributable to the operations of a full service hotel. The cost of goods sold totaled \$237,376 for the three months ended March 31, 2004. The Company had no cost of goods sold in the comparable period in 2003.

General and Administrative Expenses.

General and administrative expenses consist primarily of payroll expenses, legal and accounting fees and costs associated with the acquisition and ownership of real properties. These expenses increased \$509,716 to \$796,070 for the three months ended March 31, 2004, compared to \$286,354 for the three months ended March 31, 2003. The increase is attributable to the operation of acquired real estate. Additionally, payroll increased as a result of employment agreements being executed by certain members of management effective May 1, 2003. These agreements result in a monthly expense of \$41,000 of which \$25,000 is being paid and the balance accrued (See Part II - Item 5. Other Information).

Management anticipates that general and administrative expenses will continue to increase throughout the remainder of 2004 as the Company seeks to acquire additional real estate holdings and expand its operations.

Depreciation.

Depreciation for the three months ended March 31, 2004 was \$39,168 compared to \$9,034 for the three months ended March 31, 2003. The depreciation was attributable primarily to Katella Center, Hospitality Inn, Spencer Springs, 5030 Campus Drive, and the company's telephone system.

Interest and Other Expense.

Interest expense consists of mortgage interest paid on the Company's properties. Interest expense of \$97,778 for the three months ended March 31, 2004 was attributable to the Katella Center, T-Rex Plaza Mall, Hospitality Inn and Spencer Springs properties. Interest from the comparable period ending March 31, 2003, was \$13,365. The Company recognized impairment with respect to the T-Rex property in the amount of

\$448,000.

Net Income.

The net loss was \$544,015 or \$(0.08) per share basic and diluted for the three months ended March 31, 2004 compared to a net loss of \$308,132 or \$(0.13) per share basic and diluted for the three months ended March 31, 2003.

11

Liquidity and Capital Resources

Capital Resources

As stated in financial statement Note _ Going Concern, the Company does not have significant cash or other liquid assets, nor does it have an established source of revenues sufficient to cover its operating costs and to allow it to continue as a going concern. Moreover, the Company does not currently possess a financial institution source of financing. The Company anticipates that it will be dependent for a significant period of time on additional investment capital to fund operating expenses, to meet debt service obligations, and to fund additional property acquisitions before achieving profitability. Since its inception, the Company has covered its capital requirement shortfall through additional financing from its control shareholders. Because of the Company's current negative equity position, fund-raising from non-affiliated third parties may be difficult resulting in continued reliance upon funding from its control shareholders. These control shareholders, however, are under no obligations and have made no commitments to continue to fund the Company.

At March 31, 2004, the Company had \$117,201 of cash and cash equivalents as compared to \$3,186 of cash and cash equivalents at March 31, 2003 to meet its immediate short-term liquidity requirements. This increase in cash and cash equivalents resulted primarily from the cash proceeds from the sale of Decatur Square.

Operating cash flows are expected to increase as additional properties and investments in unconsolidated real estate are added to the Company's portfolio.

To date, the Company has paid no dividends and does not anticipate paying dividends into the foreseeable future.

Cash Flows from Operating Activities

Net cash from operating activities was \$191,629 for the three months ended March 31, 2004 compared to net cash used by operating activities of \$110,798 for the three months ended March 31, 2003. This increase in cash provided by operating activities relative to the prior period was primarily due to the Company's acquired real estate holdings and expenses relating to audit, legal and expanded compliance with federal and state securities laws. The Company had not completed any real property acquisitions until the end of the same quarter of 2003.

Management expects cash flows from operating activities to increase due to the acquisitions of the Katella Center, T-Rex Mall, and the limited liability company membership interest in Spencer Springs and the Campus Drive Office Building as well as the acquisition of additional properties and investments in unconsolidated real estate during the remainder of the

year as the Company strategically builds its real estate portfolio. Management is currently considering other potential opportunities to acquire real estate. The decision to acquire one or more properties or investments in unconsolidated real estate will generally depend upon (i) receipt of a satisfactory environmental survey and property appraisal, (ii) an absence of any material adverse change relating to the property, its tenants, or local economic conditions, and (iii) adequate financing. There is no assurance that any of these conditions will be satisfied or, if satisfied, that the Company will purchase any additional properties or make any further investments in unconsolidated real estate.

Cash Flows From Investing Activities

Net cash from investing activities amounted to \$400,000 for the three months ended March 31, 2004 compared to \$124,450 for the three months ended March 31, 2003.

At March 31, 2004, the Company does not have any material planned capital expenditures resulting from any known demand based on existing trends. However, management may conclude that expenditures to improve properties are necessary and/or desirable.

12

Cash Flows from Financing Activities

Cash provided by financing activities amounted to \$200,027 for the three months ended March 31, 2004 compared to \$232,376 for the quarter ended March 31, 2003. Financing activities continued as a result of notes and sale of preferred stock.

The Company intends to acquire additional properties and make additional investments in unconsolidated real estate and may seek to fund these acquisitions through proceeds received from a combination of subsequent equity offerings, debt financings or asset dispositions.

Item 3. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures.

The Company's Chief Executive Officer and Chief Financial Officer have conducted an evaluation of the Company's disclosure controls and procedures as of a date (the "Evaluation Date") within 90 days before the filing of this quarterly report. Based on their evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the applicable Securities and Exchange Commission rules and forms.

PART II OTHER INFORMATION

Item 2. Changes in Securities

No instruments defining the rights of the holders of any class of registered securities were materially modified, limited or qualified during the quarter ended March 31, 2004.

Recent Sales of Unregistered Securities

Edgar Filing: SECURED DIVERSIFIED INVESTMENT LTD - Form 10QSB

In February 2004, the Company issued and sold 100,000 shares of Series B Preferred Stock for an aggregate purchase price of \$50,000 to one accredited investor. The Company also issued 67,860 shares of Series B Preferred Stock to one investor in exchange for an assignment of a promissory note in the principal amount of \$33,930, secured by real property in Binghamton, New York.

In March 2004, the Company issued 25,000 Series B Preferred shares each to William S. Biddle, a Director of the Company, and Robert J. Leonard in exchange for a loan in the principle amount of \$150,000, of which \$75,000 was received from Mr. Biddle in February and \$27,000 and \$48,000 from Mr. Leonard in March and April 2004, respectively. The loan bears interest at an annual rate of 12% and will mature in August 2004, with a six month extension at the option of the Corporation. If the Corporation decides to exercise this option, an additional 25,000 Series B Preferred shares each to the two note holders. Interest is payable monthly, and the principal is due at maturity. The corporation granted a second trust deed on Spencer Springs to the lenders to secure repayment.

The Company also agreed to issue 250,000 shares to Iomega Investments, LLC, the owner of The Cannery West shopping center, as part of the consideration for the lease and acquisition of the shopping center.

All of the shares identified above were issued without registration under the Securities Act of 1933 in reliance on an exemption from registration provided under Section 4(2) of the Securities Act, and from similar applicable state securities laws, rules and regulations exempting the offer and sale of these securities by available state exemptions. No general solicitation was made in connection with the offer or sale of these securities.

13

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit 31.1	Certification of Principal Executive Officer
Exhibit 31.2	Certification of Principal Financial Officer
Exhibit 32.1	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

Current Report on Form 8-K filed with the Commission on June 1, 2004 included information regarding Item 4 Changes in the Registrant's Certifying Accountant.

Current Report on Form 8-K filed with the Commission on June 1, 2004 included information regarding Item 2. Acquisition or Disposition of Assets.

14

SIGNATURES

Edgar Filing: SECURED DIVERSIFIED INVESTMENT LTD - Form 10QSB

In accordance with the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf, thereunto duly authorized.

SECURED DIVERSIFIED INVESTMENT, LTD.

Date: June 17, 2004

By: /S/ Clifford L. Strand

Clifford L. Strand, Principal Executive Officer

Date: June 17, 2004

By: /S/ Munjit Johal

Munjit Johal, Principal Financial Officer