SECURED DIVERSIFIED INVESTMENT LTD
Form 10KSB
May 20, 2005

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

FORM 10-KSB

(Mark One)
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: December 31, 2004

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

For the transition period from _________ to ________

Commission File Number **0-30653**

Secured Diversified Investment, Ltd.
(Name of small business issuer in its charter)

Nevada	80-0068489
State or other jurisdiction of incorporation or organization	(I.R.S. Employer I.D. No.)

4940 Campus Drive, Newport Beach, California	92660
(Address of principal executive offices)	(Zip Code)

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

Securities registered pursuant to section 12(b) of the Exchange Act: None

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

$.001 par value, common voting shares
(Title of class)

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 [ ]

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this form 10-KSB or any amendment to this Form 10-KSB. [ ]

The issuer's revenue for the fiscal year ended December 31, 2004 was $939,663.

The aggregate market value of the issuer's voting common stock held as of April 8, 2005, by non-affiliates of the issuer was approximately $2,223,839 based upon the average bid and asked price of the common stock on the Over The Counter Bulletin Board on such date.

As of March 31, 2005, the issuer had 15,209,456 shares of its $.001 par value common stock outstanding.

Transitional Small Business Disclosure Format. Yes [ ] No [X]

Documents incorporated by reference: None

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Forward-Looking Statements

Historical results and trends are not necessarily indicative of future operations. Managements' statements contained in this report that are not historical facts are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Actual results may differ materially from those included in the forward-looking statements. The Company intends such forward-looking statements to be covered by the safe-harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and is including this statement for purposes of complying with such provisions. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies and expectations of management, are generally identifiable by use of the words "believe," "expect," "intend," "anticipate," "estimate," "project," "prospects," or similar expressions. The Company's ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse affect on the operations and future prospects of the Company include, but are not limited to: changes in general economic conditions and in the real estate market specifically (including those in the local economy of the regions where the Company's properties are located), legislative/regulatory changes, availability of capital, interest rates, competition and supply and demand for operating properties in the Company's current and proposed market areas. These risks and uncertainties should be considered in evaluating forward-looking statements, and undue reliance should not be placed on any such statements. Further information concerning the Company and its business, including additional factors that could materially affect the Company's financial results, is included herein and in the Company's other filings with the Securities and Exchange Commission. The Company does not intend to update any of the forward-looking statements after the date this report is filed to conform these statements to actual results, unless required by law.

Item 1. Description of Business

The Company currently owns and manages a portfolio of four improved real estate properties (three retail shopping centers and one single-story office building) and one unimproved parcel of land. The five properties are located in Las Vegas, Nevada; Dickinson, North Dakota (2); and Orange County, California (2).

The Company intends to acquire additional commercial properties of various types in diverse geographic areas (generally in the Western United States). The Company believes that by acquiring interests in properties that are diversified as to both types of property and geographical location the portfolio will be more stable and less susceptible to devaluation resulting from regional economic downturns and market shifts in particular locations or commercial segment.

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Property Identification and Marketing

We identify properties primarily through the efforts of our officers and employees. Our officers have extensive contacts with real estate brokers, agents and owners as a result of their many years of experience acquiring, managing and selling property. William S. Biddle and Clifford L. Strand are members of The Society of Exchange Counselors, an organization of knowledgeable and experienced real estate professionals in the United States. Admission to the Society of Exchange Counselors is difficult, requiring a recommendation from an existing member and review and approval by the other members, often after years of observation and evaluation. The members convene regularly to evaluate and advance real estate transactions. Members of the Society have significant purchasing power, and properties sold or exchanged through the Society include office buildings, shopping centers, warehouses and industrial properties, hotels, apartments, airports and others. Our officers believe that their membership in The Society of Exchange Counselors provides the Company with significant leads to generate potential acquisitions to meet the Company's growth objectives.

Acquisitions and Dispositions

Acquisitions

Assets of Seashore Diversified Investment Company. The Company acquired The T-Rex Plaza Shopping Center, Dickinson, North Dakota and The Katella Center, Orange, California from a related party. The Company entered into an Asset Purchase Agreement with Seashore Diversified Investment Company ("Seashore"), a Maryland corporation, whereby the Company agreed to acquire certain real estate holdings from Seashore in exchange for restricted shares of its Series A Preferred and Common Stock. Seashore was a real estate investment trust and was in the business of acquiring, selling and managing real estate holdings. Seashore was a related party because certain officers, directors and shareholders of the Company were also officers, directors or shareholders of Seashore at the time the acquisition was consummated.

In March 2003, the Company exchanged 2,461,607 shares of restricted common stock and 4,997,807 shares of Series A Convertible Preferred Stock for two shopping centers (T-Rex Plaza Mall and Katella Center), and 50% interests in two limited liability companies that each own a shopping center (Decatur Square, LLC and Spencer Springs, LLC). The Company subsequently sold the Decatur Square shopping center and Spencer Springs, LLC.

The Asset Purchase Agreement originally included the acquisition of Seashore's general partnership interest in Seacrest Partners, L.P., which owned the Hospitality Inn of Dickinson, North Dakota ("Seacrest"). However, Seashore was in default of numerous provisions of the partnership agreement for Seacrest. The Company and Seashore agreed to rescind the acquisition of the general partnership interest in Seacrest. See "Hospitality Inn" below.

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Decatur Square. On March 31, 2003, the Company initially acquired a 50% interest in a limited liability company, Decatur Center, LLC, which owned a 16,515 square foot strip mall in Las Vegas, Nevada. The Company issued 424,945 shares of restricted common stock and 862,767 shares of Series A preferred stock and assumed debt of approximately $1.1 million. Significant owners of the limited liability company include family trusts that are managed by William S. Biddle and Anthony Giangrande, who are, respectively, an officer and director of the Company and a shareholder. On April 17, 2003, the Company purchased the remaining 50% interest in the Decatur Center, LLC for 1,552,480 shares of Series B Preferred Stock. One of the limited liability company members is a family trust managed by William S. Biddle, an officer and director of the Company. The trust received 317,000 shares of Series B Preferred Stock. William S. Biddle and Clifford L. Strand, officers and Directors of the Company, received shares of Series B Preferred Stock totaling 60,000 and 50,000 shares, respectively, in connection with the transaction. Additionally, Anthony Giangrande and C. Marshall Mast received 60,000 and 30,000 shares, respectively, of Series B Preferred Stock as fees. The Company subsequently sold Decatur Square (see “Dispositions” below).

Hospitality Inn. In August 2003, the Company consummated an agreement with Seacrest to acquire the Hospitality Inn, on leased land, in Dickinson, North Dakota for Company's restricted shares of common stock and Series A Preferred Stock in the amount of 1,466,250 shares and 2,443,750 shares, respectively. Additionally, the Company also acquired Dickinson Management Company ("DMC"), a North Dakota corporation wholly owned by Seacrest, which operated the inn, owns the liquor license and is the registered entity for various licenses and permits necessary to operate the inn. In acquiring DMC, the Company assumed certain liabilities.

Certain of the Company's board of directors and shareholders, Clifford L. Strand, Sumiye Onodera-Leonard, Wayne Sutterfield, and Robert J. Leonard, own limited partnership interests in Seacrest.

Effective as of October 31, 2004, the Company sold the Hospitality Inn (see “Dispositions” below).for approximately $300,000 in cash and an unimproved lot with an agreed price between the parties of $500,000.

Campus Drive Office Building. The Company acquired an 18.6% interest in a limited liability company, Diversified Commercial Brokers, LLC for $86,425. The sole asset of the limited liability company is an 8,685 square foot office building located in Newport Beach, California, of which the Company leases 1,193 sq. ft. for its corporate offices for $2,000 per month. On December 30, 2003, the Company acquired an additional 32.4% and, as a result of the acquisition and the additional capital contributions, the Company owns 53.8% of Diversified Commercial Brokers, LLC. The 32.4% interest was owned by Wayne Sutterfield (21.1%), a Director of the Company, and William S. Biddle and Clifford L. Strand (collectively, 11.3%), also officers and Directors of the Company. The purchase price paid to Wayne Sutterfield was $92,630, of which $21,000 was paid by the assignment of a certificate of deposit and a three year promissory note in the principal amount of $71,630. The note bears interest at an annual rate

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of 8%, with interest payable monthly and all principal due upon maturity. The note is secured by a security interest in the Company's membership interests in Diversified Commercial Brokers, LLC. Wayne Sutterfield continues to own 46.2% of Diversified Commercial Brokers, LLC. William S. Biddle and Clifford L. Strand each received 50,000 shares of Series B Preferred Stock for their collective $50,000 investment.

Spencer Springs Remaining Interest. On November 19, 2003, the Company acquired the remaining 50% of Spencer Springs, LLC for $196,000 in cash and 3,100,000 restricted shares of Series B Preferred Stock. The former members of Spencer Springs include William S. Biddle Family Trust, managed by William S. Biddle who is an officer and director of the Company, and Anthony Giangrande Family Trust, Jack Dezen, Kellogg Business Center, Gill Biddle, Sally Podell, all of whom are shareholders of the Company. Clifford L. Strand, William S. Biddle, and Anthony Giangrande received 124,000, 128,000, and 128,000 restricted shares of Series B Preferred Stock as fees in connection with the transaction pursuant to a pre-existing agreement with Spencer Springs, LLC.

The Cannery West Shopping Center. 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 approximately 62% occupied and the average annual rent per square foot of existing tenants is $17.40. The property was appraised for $8,200,000 as of May 2004 by ROI Appraisal/Britton Group, Henderson, 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, including impounds for taxes, insurance and reserves. The Company and Denver Fund I will also pay all 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 provided that the Company and Denver Fund I would acquire the property for $5,950,000, including assumption of the first mortgage in the principal amount of $4,100,000. The Company and Denver Fund I acquired grant deeds for their respective percentage ownership of the property, but have not yet recorded such grant deeds. The purchase price was paid partially by the Company and partially by Denver Fund I. The Company delivered 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.

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The Company then entered into a Tenant in Common Agreement with Denver Fund I pursuant to which the Company has a 51% interest in the property and Denver Fund I has 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%. 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.

Dispositions

Decatur Square. The Decatur Square Shopping Center was sold in April 2003 to a third party for $1,825,000. The buyer assumed debt of $825,000 and the Company extended a loan of $425,000 to the buyer secured by a restaurant property. The Company had a 59% interest in the proceeds of the note and Anthony Giangrande had a 41% interest that was subsequently purchased by William S. Biddle. Anthony Giangrande, a shareholder, received a commission of $100,000 in connection with the sale. The Company subsequently sold the note for $400,000 to William S. Biddle in the first quarter of 2004.

Hospitality Inn. As of October 31, 2004, the Company sold The Hospitality Inn of Dickinson, North Dakota, acquired in 2003, to Grand Dakota Management, LLC (“Buyer”), an unaffiliated person. The aggregate purchase price was approximately $300,000 in cash and an unimproved lot adjacent to the hotel. The Buyer acquired the lot from Robert and Sumiye Leonard, significant shareholders of the Company, then delivered the lot to the Company as consideration for the purchase of the hotel assets. Buyer acquired the lot from the Leonards for $500,000. The Company has granted to Buyer a three-year option to repurchase the lot for $500,000. The Company incurred a net loss of $488,754 on disposal of discontinued operations.

Spencer Springs, LLC. On October 29, 2004, the Company completed the sale of the Spencer Springs Retail Center in Las Vegas, Nevada, to Roger Anderson, an unaffiliated person. The sales price was approximately $3,875,000, consisting of assumption of an existing loan in the principal amount of approximately $2,250,000, a note from the buyer in the amount of $950,000 and $675,000 in cash. The buyer’s promissory note is secured by a second trust deed on Spencer Springs and bears interest at an annual rate of 7%. The note is due and payable in full in on October 28, 2007.

In December 2004, Spencer Springs LLC sold membership interests representing approximately 37% of the membership interests for $200,000 to William S. Biddle (an officer and director of the Company) and Robert J. Leonard (a shareholder of the Company).

On March 1, 2005, the Company sold its remaining membership interest in Spencer Springs, LLC to William S. Biddle, a director and officer of the Company. The sole asset of Spencer Springs, LLC was the promissory note of Roger Anderson received in the sale of the

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Spencer Springs Shopping Center (see "Acquisitions and Dispositions" below). The purchase price for the membership interests was $300,000 plus a promissory note for $277,000 due October 28, 2007, bearing interest at 3% per annum.

Recent Developments

Asset Dispositions. As of October 31, 2004, the Company sold The Hospitality Inn of Dickinson, North Dakota, acquired in 2003, to Grand Dakota Management, LLC ("Buyer"), an unaffiliated person. The aggregate purchase price was approximately $300,000 in cash and an unimproved lot adjacent to the hotel. The Buyer acquired the lot from Robert and Sumiye Leonard, significant shareholders of the Company, then delivered the lot to the Company as consideration for the purchase of the hotel assets. Buyer acquired the lot from the Leonards for $500,000. The Company has granted to Buyer a three-year option to repurchase the lot for $500,000. The Company incurred a net loss of $488,754 on disposal of discontinued operations.

Competition

The acquisition and leasing of real estate is highly competitive. We compete for tenants with lessors and developers of similar properties located in our respective markets primarily on the basis of location, rent charged, services provided, and the design and condition of our buildings. We also experience competition when attempting to acquire real estate, including competition from domestic and foreign financial institutions, other real estate companies, life insurance companies, pension trusts, trust funds, partnerships and individual investors. See "Risk Factors--We may be unable to compete successfully against existing and future competitors, who could harm our margins and our business."

Environmental Matters

We are subject to various federal, state and local laws and regulations relating to environmental matters. Under these laws, we are exposed to liability primarily as an owner or operator of real property and, as such, we may be responsible for the cleanup or other remediation of contaminated property. Contamination for which we may be liable could include historic contamination, spills of hazardous materials in the course of our tenants' regular business operations and spills or releases of hydraulic or other toxic oils. An owner or operator can be liable for contamination or hazardous or toxic substances in some circumstances whether or not the owner or operator knew of, or was responsible for, the presence of such contamination or hazardous or toxic substances. In addition, the presence of contamination or hazardous or toxic substances on property, or the failure to properly clean up or remediate such contamination or hazardous or toxic substances when present, may materially and adversely affect our ability to sell or lease such contaminated property or to borrow using such property as collateral.

Asbestos-containing material, or ACM, may be present in some of our properties. Environmental laws govern the presence, maintenance and removal of asbestos. We believe that

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we manage ACM in accordance with applicable laws. We plan to continue managing ACM as appropriate and in accordance with applicable laws and believe that the cost to do so will not be material.

Compliance with existing environmental laws has not had a material adverse effect on our financial condition and results of operations, and we do not believe it will have such an impact in the future. In addition, we have not incurred, and do not expect to incur any material costs or liabilities due to environmental contamination at properties we currently own or have owned in the past. However, we cannot predict the impact of new or changed laws or regulations on our current properties or on properties that we may acquire in the future. We have no current plans for substantial capital expenditures with respect to compliance with environmental laws.

Risk Factors

Our success depends on the viability of our business model, which is unproven and may be unfeasible.

Our revenue and income potential are unproven, and our business model is still emerging. We launched our new business strategy in September 2002, and we have not earned any significant revenue or generated any profit from our operations. Our business model is based on a variety of assumptions relating to our ability to acquire real property for capital stock, the revenue generated by and appreciation on such real property, our operating costs and future increases in the trading price of our common stock. These assumptions may not reflect the business and market conditions that we actually face. As a result, our operating results could differ materially from those projected under our business model, and our business model may prove to be unprofitable.

We have a history of losses, and we expect our losses to increase and continue for the foreseeable future.

We have not generated any significant revenue from operations and have incurred operating losses until present. Through December 31, 2004, we had incurred accumulated losses of $8,788,687. We have not achieved profitability. We recently began our new business strategy in the last few months. We may not obtain enough real property to generate sufficient revenue and achieve profitability. We believe that we will continue to incur operating and net losses for the foreseeable future and that the rate at which we will incur losses will increase significantly from current levels. We intend to increase our operating expenses substantially as we:

- increase our real estate acquisition activities;
- continue to build our management team and corporate infrastructure; and
- increase our general and administrative functions to support our growing operations.

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Because we will spend these amounts before we receive any significant revenue from these efforts, our losses will be greater than the losses we would incur if we developed our business more slowly. In addition, we may find that these efforts are more expensive than we currently anticipate which would further increase our losses. The timing of these expenses may contribute to fluctuations in our quarterly operating results. Also, if our revenue growth is slower than we anticipate or our operating expenses exceed our expectations, our losses will increase significantly. We are unable to provide any assurance or guarantee that the Company will become profitable or generate positive cash flow at any time in the future. Even if we were to achieve profitability, we may be unable to sustain or increase profitability on a quarterly or annual basis.

Our limited operating history creates substantial uncertainty about future results.

We have only a limited operating history on which to base expectations regarding our future results and performance. In order to succeed, we must do most, if not all, of the following:

- identify real properties that can generate substantial revenue and appreciation;
- diversify our real estate acquisitions over a broad geographic region and among different asset classes;
- raise additional capital to sustain increased costs of operation;
- attract, integrate, retain and motivate qualified management and technical personnel;
- successfully execute our business strategies;
- respond appropriately and timely to competitive developments;
- increase awareness of and promote trading in our common stock; and
- develop, enhance, promote and carefully manage our corporate identity.

Our business will suffer if we are unable to accomplish these and other important business objectives. We are uncertain as to when, or whether, we will fully implement our contemplated business plan and strategy or become profitable.

We have sold assets to generate operating capital and may be forced to curtail or discontinue operations if we are unable to obtain, on commercially acceptable terms, additional equity capital that we may require from time to time in the future to finance our operations and growth.

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We do not currently have sufficient cash reserves or revenue from operations to sustain operations. Our operating capital has been provided in part from the proceeds of asset sales. To the extent we sell assets and use the proceeds to pay operating costs, we deplete the equity and capital of the Company, reducing future earnings. Therefore, we are depending upon the net proceeds from the sale of capital stock to finance our operating costs and expenses. If we are unsuccessful at raising operating capital through the sale of sufficient stock, we may be forced to sell off assets or to discontinue or curtail operations.

We will also need additional capital to continue and expand our operations and to implement our business plan and strategy. If our operations expand faster or at a higher rate than currently anticipated, we may require additional capital sooner than we expect. We also may need to raise additional funds sooner to fund more rapid expansion or the development or enhancement of our existing services, products, businesses or technologies. We are unable to provide any assurance or guarantee that additional capital will be available when needed by the Company, or that such capital will be available under terms acceptable to the Company or on a timely basis. If additional funds are raised through the issuance of equity, convertible debt or similar securities of the Company, the percentage of ownership of the Company by the Company's shareholders will be reduced, the Company's shareholders may experience additional dilution, and such securities may have senior rights or preferences. We are unable to provide any assurance that additional financing will be available on terms favorable to us or at all. If adequate funds are not available or are not available on acceptable terms, our ability to fund our expansion, take advantage of potential opportunities, develop or enhance services or products or otherwise respond to competitive pressures would be limited significantly. This limitation could harm substantially our business, results of operations and financial condition.

We may be unable to compete successfully against existing and future competitors, which could harm our margins and our business.

The market for real estate is highly competitive. We expect the competitive environment to continue in the future. We face competition from a large number of existing real estate companies, real estate investment trusts ("REITs"), real estate investment firms, pension funds, insurance companies and other investors in real estate. We believe that the relatively strong financial performance of real estate will continue to attract new competitors and encourage existing competitors to increase their involvement. We expect competition to increase due to the lack of significant barriers to entry for real estate.

We can provide no assurance that we will be able to compete successfully against current or potential competitors. Many of our current and potential competitors have longer operating histories, better name recognition, greater management capabilities and significantly greater financial, technical and marketing resources than we do. Many of these competitors may have well-established relationships with real estate brokers and other key partners and can devote substantially more resources to real estate analysis and acquisition. Many have securities that are traded on a nationally recognized exchange and which may be much more acceptable to prospective sellers. As a result, they may be able to secure real estate on more favorable terms.

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Larger competitors may enjoy significant competitive advantages that result from, among other things, a lower cost of capital and enhanced operating efficiencies. In addition, the number of entities and the amount of funds competing for suitable investment properties may increase. This will result in increased demand for these assets and therefore increased prices paid for them. If we pay higher prices for properties, our profitability is reduced and you will experience a lower return on your investment.

Increased competition may result in lost acquisition opportunities, increased acquisition costs and increased purchase prices for real property, any of which could harm our business and adversely affect our operating results and financial condition. We may not be able to compete successfully and respond to competitive pressures. Our inability to compete effectively with current or future competitors could harm our business and have a material adverse effect on our results of operations and financial condition.

Our inability to retain our executive officers and other key personnel may harm our business and impede the implementation of our business strategy.

Our future success depends to a significant degree on the skills, experience and efforts of our key management personnel. Our real estate acquisitions have been identified primarily by Clifford L. Strand and William S. Biddle. The loss of the services of any of these individuals could harm our business and operations. In addition, we have not obtained key person life insurance on any of our key employees. If any of our executive officers or key employees left or was seriously injured and unable to work and we were unable to find a qualified replacement and/or to obtain adequate compensation for such loss, we may be unable to manage our business, which could harm our operating results and financial condition.

We may not be able to acquire sufficient real property to fulfill our business plan.

We have not been able to obtain permanent financing for future acquisitions on acceptable terms. As a result, we must depend upon arranging financing for each property we acquire. We have, were possible, attempted to use our capital stock to acquire real property. However, because there is no substantial trading market for our capital stock, our stock is unattractive to prospective sellers of real property. As a result, we may not be able to acquire sufficient real property and therefore could not increase our assets or revenue. As a result, it is unlikely that the value or trading prices of our stock, if any, would not increase. If the bid price for our common stock does not increase to at least the deemed purchase price for the Series B Preferred Stock or Series C Preferred Stock issued in the acquisitions, then the number of shares of common stock issued on conversion of the preferred stock would increase significantly, resulting in substantial dilution to existing shareholders.

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Our future real estate acquisitions are unknown and investors will not have any opportunity to evaluate them.

Investors will not know in advance what real properties and other assets we may acquire in the future, and must rely on our board of directors and officers to select them. We have acquired seven improved real properties (or interests in improved real property) and have subsequently sold three of these. See “Item 2-Description of Property” for a description of our properties. However, no information is available as to the identification, location, operating histories, lease terms or other relevant economic and financial data of any real properties, securities or other assets we may purchase in the future. As a result, you must rely on us to locate and acquire suitable investment properties and assets.

In addition, our board of directors may approve future equity offerings or obtain financing, the proceeds of which may be invested in additional properties; therefore, you will not have an opportunity to evaluate all of the properties that will be in our portfolio. This section contains information about the types of properties in which we plan to invest and our criteria for evaluating properties, nonetheless, you will be unable to evaluate the economic merit of any particular properties prior to their acquisition.

Our acquisition activities could result in losses.

We intend to acquire existing properties to the extent that the suitable acquisitions can be made on advantageous terms. Acquisitions of commercial properties entail risks, such as the risks that we may not be in a position or have the opportunity in the future to make suitable property acquisitions on advantageous terms and that our investments will fail to perform as expected. Many of the properties that we acquire may require additional investment and upgrades and are subject to the risk that estimates of the cost of improvements to bring such properties up to standards established for the intended market position may prove inaccurate.

The economic performance and value of our real property depend on many factors beyond our control.

The economic performance and value of our real estate holdings can be affected by many factors, including the following:

- declines in the rent due to loss of tenants or reduced traffic;
- reduced demand in the surrounding geographic regions due to general economic conditions;
- construction of competitive properties nearby and competition from other available space;
- increased operating costs and expenses necessary to improve attractiveness of the property or to complete required maintenance;
- availability of long term financing at reasonable rates.

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We may have mortgages on our properties which subject us to risk of loss.

Many of the properties we acquire will be subject to existing mortgages or loans. We will be responsible for repayment of such debts after the acquisition. Therefore we are generally subject to the risks associated with debt financing. These risks include:

- the risk that our cash flow will not satisfy required payments of principal and interest;

- the risk that we cannot refinance existing indebtedness on our properties as necessary or that the terms of the refinancing will be less favorable to us than the terms of existing debt; and

- the risk that necessary capital expenditures for purposes such as re-letting space cannot be financed on favorable terms.

If a property is mortgaged to secure payment of indebtedness and we cannot pay the mortgage payments, we may have to surrender the property to the lender with a consequent loss of any prospective income and equity value from such property. Mortgage debt increases the risk of loss since defaults on indebtedness secured by properties may result in foreclosure actions initiated by lenders and our loss of the property securing the loan which is in default. For tax purposes, a foreclosure of any of our properties would be treated as a sale of the property for a purchase price equal to the outstanding balance of the debt secured by the mortgage. If the outstanding balance of the debt secured by the mortgage exceeds our tax basis in the property, we would recognize taxable income on foreclosure, but would not receive any cash proceeds.
We may in the future give full or partial guarantees to lenders of mortgage debt to the entities that own our properties. When we give a guaranty on behalf of an entity that owns one of our properties, we will be responsible to the lender for satisfaction of the debt if it is not paid by such entity. If any mortgages contain cross-collateralization or cross-default provisions, there is a risk that more than one real property may be affected by a default.

Adverse economic conditions could reduce our revenue and result in losses.

Adverse economic conditions in our primary geographic region could reduce our income and result in losses. We intend to acquire properties in geographically diverse regions. However, our properties will be located mainly in states west of the Mississippi River in the United States, and have been initially focused in the states of California, Nevada and North Dakota. The economic performance of our properties could be affected by changes in local economic conditions. Our performance is therefore linked to economic conditions in the region of the Western United States. Therefore, to the extent that there are adverse economic conditions in this region that impact the rents, such conditions could result in a reduction of our revenue and could result in losses.

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We depend on rental income from real property.

Approximately half all of our income is derived from rental income from real property. As a result, our income and funds for distribution would be negatively affected if a significant number of our tenants were unable to meet their obligations to us or if we were unable to lease a significant amount of space in our properties on economically favorable lease terms. We cannot be sure that any tenant whose lease expires will renew that lease or that we will be able to re-lease space on economically advantageous terms.

Increased operating expenses could result in losses.

Our properties and any properties we buy in the future are and will be subject to operating risks common to real estate in general, any or all of which may negatively affect us. If any property is not fully occupied or if rents are being paid in an amount that is insufficient to cover operating expenses, then we could be required to expend funds for that property's operating expenses. The properties will be subject to increases in tax rates, utility costs, operating expenses, insurance costs, repairs and maintenance and administrative expenses.

We may rely on major tenants in certain properties.

We may acquire properties that have only or a limited number of tenants. We could be adversely affected if any such major tenant files for bankruptcy, becomes insolvent or experiences a significant downturn in its business. In addition, we could be adversely affected if any major tenant does not renew its leases as it expires.

Property ownership through partnerships and joint ventures could limit our control of those investments.

If we acquire interests in partnership or joint ventures that own real estate we may be subject to risks not otherwise present for investments in real estate owned solely by us, including the possibility that our partners or co-venturers might become bankrupt, that our partners or co-venturers might at any time have different interests or goals than we do, and that our partners or co-venturers may take action contrary to our instructions, requests, policies or objectives. Other risks of joint venture investments include impasse on decisions, such as a sale, because neither our partner or co-venturers nor us would have full control over the partnership or joint venture. There is no limitation under our organizational documents as to the amount of funds that may be invested in partnerships or joint ventures.

We may be unable to sell a property if or when we decide to do so.

The real estate market is affected by many factors, such as general economic conditions, availability of financing, interest rates and other factors, including supply and demand, that are beyond our control. We cannot predict whether we will be able to sell any property for the price

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or on the terms set by us, or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We cannot predict the length of time needed to find a willing purchaser and to close the sale of a property.

We may be required to expend funds to correct defects or to make improvements before a property can be sold. We cannot assure you that we will have funds available to correct such defects or to make such improvements.

In acquiring a property, we may agree to restrictions that prohibit the sale of that property for a period of time or impose other restrictions, such as a limitation on the amount of debt that can be placed or repaid on that property. These provisions would restrict our ability to sell a property.

Our organizational documents do not limit incurrence of debt.

Our organizational documents do not contain any limitation on the amount or percentage of indebtedness we may incur. However, our credit agreements that govern certain of our outstanding indebtedness do contain limits on our ability to incur additional indebtedness.

Employees

As of December 31, 2004, the Company had six full time employees and one full time consultant. None of our employees are members of any union or subject to any collective bargaining agreement. We consider our labor relations to be satisfactory.

Research and Development Activities

The Company did not incur any expenditure for research and development activities during the fiscal year ended December 31, 2003 or the fiscal year ended December 31, 2004.

Patents and Trademarks

The Company does not own, either legally or beneficially, any patent or trademark.

Item 2. Description of Property

The Company purchases property that is diversified as to geographical location and type of commercial application with the intend of holding the properties in its portfolio for income generating purposes. Set forth below is a description of the current real property interests owned by the Company.

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Katella Center, Orange, California

The Company owns the Katella Center, a strip mall consisting of six retail rental units of various sizes totaling approximately 9,500 square feet, located on Katella Avenue in Orange, California. Currently, all of the units are rented. One tenant, a clothing manufacturer, currently occupies 48% of the strip mall. The rental rates for the individual units average $1.21 per square foot. As of December 31, 2004, the Katella Center is currently generating monthly net cash flow of approximately $2,071.

The Katella Center is located on approximately 35,800 square feet of leased ground owned by a non-affiliated third party. The lease has a 52-year term that expires in March 2017. The ground lease payment is currently $3,000 per month. Commencing June 1, 2007, the annual ground lease payment shall revert to 7% of the fair market value of the land. There is a first trust deed in the amount of $370,000, which is due and payable on June 15, 2005. The current monthly payment, which covers only interest, is $3,545. The interest rate is 11.5% per annum. There is also a second trust deed in the amount of $25,000 which matures on July 1, 2005 and bears an annual interest rate of 15.0%. The current monthly payment is $312.50 covering interest only.

The property is managed by PSG Enterprises, an unrelated third party. PSG Enterprises charges the Company $750 per month in management fees.

T-Rex Plaza Shopping Mall, Dickinson, North Dakota

The Company owns the T-Rex Mall Plaza in Dickinson, North Dakota an enclosed shopping mall with 89,642 total square feet of which 71,141 is rentable. The T-Rex Mall is approximately 65% occupied at this time.

During 2003, the 6.66 acres of ground on which the Mall is located was sold to a third party for $1,645,000 with a leaseback of the ground from the buyer. During the first year of the ground lease, the monthly lease payment was $13,708. The current ground lease payment is $14,262. The ground lease payment will be adjusted annually in step with the consumer price index, but such increases shall not exceed 3% nor be less than 2% in any given year. The term of the ground lease will be 50 years. Between the 24th month and the 48th month of the lease, the Company will have the option to repurchase the ground provided the lease is still in effect and the lessor is not in default. The price to buy back the ground will be $1,745,000. Following the 48th month, the price to repurchase the ground lease will be $1,845,000 or ten times the next year’s lease amount from the date of the exercise of the option, whichever is greater. Clifford L. Strand, a Company officer and Director, was paid a commission of $25,000 by Wayne Sutterfield in connection with the sale of the 6.66 acres underlying the Mall and subsequent lease back of that property.

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The $1,645,000 was used to pay the outstanding obligations on the Mall structure. In connection with the acquisition of the Mall, the Company assumed obligations of Seashore to pay $567,000 in currently secured and unsecured debts owed by Seashore. Of these debts, Mr. Sutterfield accepted 1,000,000 shares of Series B Preferred Stock as repayment of $500,000 of the debt. The Company has an outstanding debt of $67,000 to Mr. Sutterfield, secured by a second trust deed which accrues interest at the annual rate of 8.0% which matures on February 1, 2006. On April 21, 2004, the Company repaid $100,000 owed to William S. Biddle, who acquired the first trust deed on the property from Anthony Giangrande, by increasing Mr. Biddle's equity interest in the note receivable from the sale of the Decatur Square shopping center *(see Acquisitions and Dispositions - Decatur Square).*

During 2003, the Company recognized an impairment loss of $448,000, representing the entire basis of the property because the estimated future cash flows from existing leases did not support the carrying value. The Company has determined that the property requires between $250,000 and $350,000 of deferred maintenance in the near future.

Currently, the average rent per square foot received is approximately $.47.

During 2004, the Property was managed by Everett Real Estate, an unaffiliated party owned by a minority shareholder of the Company. The Company paid Everett Real Estate $1,300 per month in management fees. Effective April 1, 2005, the Property is being managed by Beverly Kay for a monthly management fee of $1,600.

As of December 31, 2004, the Company owed $20,078 relating to property taxes, of which $10,157 is delinquent and includes accrued penalties.

Campus Drive Office Building, Newport Beach, California

The Company owns 53.8% interest in a limited liability company, Diversified Commercial Brokers, LLC. The primary asset of Diversified is an 8,685 square office building located at 5030 Campus Drive in Newport Beach, California. The building is subject to a first trust deed with a current principal balance of $702,341 at December 31, 2004, with a monthly payment of $5,248 and a second trust deed in the principal amount of $110,000 bearing an interest rate of 8% with monthly interest payments of $771.00

The land on which the office building sits is leased. The ground lease payment is currently $3,608 per month will adjust again to equal 8% of the market value of the leased premises on July 1, 2009. The lease expires on June 30, 2034, with two ten-year options which could extend the lease to June 30, 2054.

The office building contains twelve office suites, eleven of which are currently being rented out. It is anticipated that the final office suite will be rented in the near future. The average rent per square foot is approximately $1.63.

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The property is managed by PSG Enterprises, an unrelated third party. PSG Enterprises charges Diversified $750 a month in management fees.

The Cannery West Shopping Center, Las Vegas, Nevada

The Company owns a 51% interest in the Cannery West Shopping Center (the "Cannery") located on Flamingo Road in Las Vegas. The Cannery is located on approximately 3.4 acres and has approximately 36,839 square feet. The property is subject to a first trust deed with a current principal balance of $4,072,000 bearing an interest rate of 7.52 % with monthly payments of $36,066 which include impounds for property taxes, insurance, and building reserves.

The property is currently 100% occupied. The average rent per square foot is approximately $1.78.

The property is managed by ARS Management, Inc., an unrelated third party. ARS Management charges a minimum monthly management fee of $1,500 plus 4% of the gross rents collected.

Unimproved Lot, Dickinson, North Dakota

The Company owns an unimproved lot situated next to the Hospitality Inn in Dickinson, North Dakota. The lot equals 1.66 acres and is zoned commercial. The Company does not currently have any plans to develop or improve the land.

Lease Expirations

The Company's leases are typically below current market rent for comparable properties in our markets. The average monthly rent of the Katella Center is $1.21 per square foot, and we estimate average market rates in Orange, California to be $1.30 per square foot. The average monthly rent of the The Cannery West property is $1.78 per square foot, and we estimate average monthly rental rates in Las Vegas, Nevada to be $1.35 to $1.65 per square foot. The average monthly rent at the Campus Office Building is $1.63 per square foot, and we estimate that average monthly rent in Newport Beach, California to be $1.70. The average monthly rent of the T-Rex Plaza Mall is $0.37 per square foot, and we estimate average market rates in Dickinson, North Dakota to be $0.83 per square foot. Each of the above estimates are based upon information received from knowledgeable real estate professionals and are based upon rents within the city or county boundaries of the relevant property.

The leases at our properties expire at various dates. At the Campus Office Building virtually all of the leases have past their original expiration date and therefore have become

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month-to-month tenancies. At the T-Rex Mall, 11 leases representing approximately 14,100 square feet of rentable space are past the expiration date and have been month to month tenancies. Tenants subject to these leases may terminate at any time upon thirty-day notice.

The following table sets forth the expiration dates of the lease at our other properties, as well as the square footage of the expiring leases, the monthly lease payments per square foot and the percentage of square footage and revenue that such lease constitutes of the total property.

Property	2005 Expirations				2006 Expirations				2007 Expirations			
	sq. ft.	% of total sq. ft.	Avg. $ psf	% of rev.	sq. ft.	% of total sq. ft.	Avg $ psf	% of rev.	sq. ft.	% of total sq. ft.	Avg. $ psf	% of rev.
Katella Center	0	0	0	0	2,490	27%	$1.27	26%	9,500	100	1.21	100%
The Cannery West	0	0	0	0	1,074	3%	$2.01	3%	0	0	0	0
T-Rex Mall	8,290	12%	$0.41	16%	21,004	30%	$34	34%	0	0	0	0

Tenant Concentration

Set forth below is a list of our largest tenants (by rental revenue) and the percentage of annual rent and square footage of all of the Company's property such tenant represents.

Top Tenants by Rental Revenue	Annual Gross Rent from Tennant	% of Total Revenue	% of Total sq. ft.
Chris' Place	$100,778	11.8%	4.3%
Amerident	96,291	11.3%	4.3%
Borders & Associates	66,000	7.7%	2.7%
Strings	60,000	7.0%	3.9%
Ace Hardware	40,224	4.7%	12.8%
Deltec	38,448	4.5%	1.9%
Maples Cleaners	24,452	2.9%	1.4%
Bloomers	19,980	2.3%	1.1%
Lexus Hair	19,692	2.3%	1.1%
Curves	19,440	2.3%	1.1%

Mortgage Debt and Other Loans

The Company has substantial outstanding debts and mortgages. For a complete list, see Note 6 and Note 7 to the Financial Statements attached to this Form 10-KSB.

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Item 3. Legal Proceedings.

Except as set forth below, to the knowledge of management, there is no material litigation pending or threatened against the Company or its management.

On April 6, 2005, the Company was served with a Complaint in the matter of Luis Leon v. Secured Diversified Investment, Ltd. (case no. 05CC04651), filed in the Superior Court of California, County of Orange. The Complaint alleges causes of action for breach of contract, promissory estoppel, intentional misrepresentation, violations of the California Labor Code. The Complaint seeks damages in an amount to be determined at trial but including $116,358.80 of unpaid salary, $16,666.666 for one month unpaid vacation time, $5,548.27 for unpaid insurance benefits through August 15, 2005, reimbursable expenses of $288.00 plus a statutory penalty of $16,666 pursuant to Labor Code Section 201. Mr. Leon also seeks a grant of options to purchase $250,000 of Company Common Stock. The Company intends to vigorously defend the action. Given the early stage of litigation, the likelihood of an unfavorable outcome cannot reasonably be estimated, however, the estimated amount of the potential loss is approximately $140,000.00, plus the costs of defense.

Item 4. Submission of Matters to a Vote of Securities Holders

No matters have been submitted to the security holders for a vote, through the solicitation of proxies or otherwise, during the fourth quarter of the fiscal year ended December 31, 2004.
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PART II

Item 5. Market for Common Equity and Related Stockholder Matters

Market Price of and Dividends on the Company's Common Equity and Other Shareholder Matters.

The Company's shares are currently traded on the Over-the-Counter Bulletin Board ("OTCBB") under the symbol SCDI. As of March 31, 2005, the Company had approximately 420 shareholders holding 15,019,456 common shares. Of the issued and outstanding common stock, 499,540 are free trading, the balance are "restricted securities" as that term is defined in Rule 144 promulgated by the Securities and Exchange Commission. The Company has never declared a dividend on its common shares.

The published bid and ask quotations for the Company's Common Stock from the first available date through the first available price are included in the chart below. These quotations represent prices between dealers and do not include retail markup, markdown or commissions. In addition, these quotations do not represent actual transactions.

Fiscal Year Ending December 31, 2003				
	Bid		Ask	
Quarter Ended	High	Low	High	Low
March 31, 2003	0.08	0.08	None	None
June 30, 2003	0.08	0.03	None	None
September 30, 2003	0.18	0.03	None	None
December 31, 2003	0.05	0.05	None	None
Fiscal Year Ending December 31, 2004				
	Bid		Ask	
Quarter Ended	High	Low	High	Low
March 31, 2004	2.25	0.05	25.00	2.00
June 30, 2004	2.30	0.00	4.50	0.00
September 30, 2004	1.75	0.51	2.00	0.75
December 31, 2004	1.05	0.45	1.30	0.75
Fiscal Year Ending December 31, 2005				

	Bid		Ask	
March 31, 2005	0.45	0.30	0.75	0.50

The above information was obtained from National Association of Securities Dealers, OTCBB Filings Department, 9600 Blackwell Road, 5th Floor, Rockville, MD 20850.

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In November, 2003, the shareholders of the Company adopted the 2003 Employee Stock Incentive Plan and the 2003 Non-Employee Director Stock Incentive Plan, (collectively the “2003 Plans”). The 2003 Plans authorize the grant of stock options, restricted stock awards, stock in lieu of cash compensation and stock purchase rights covering up to a total of 15,000,000 shares of common stock to key employees, consultants, and members of the Company’s Board of Directors and also provides for ongoing automatic grants of stock options to non-employee directors. Other than the automatic annual grants to non-employee directors and the grants and awards agreed to in the employment agreements with our executive officers, the number and type of awards that will be granted under the 2003 Plans shall be determined by the Board in its sole discretion. The following table sets for additional information regarding the 2003 Plans.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in columns (a)) (c)
Equity compensation plans approved by security holders	3,000,000	$0.15	12,000,000
Equity compensation plans not approved by security holders	-0-	$0.00	-0-
Total	3,000,000	$0.15	12,000,000

The Company’s common shares are subject to conversion of the Company’s outstanding convertible preferred stock. The Company’s currently outstanding 7,078,350 shares of Series A Convertible Preferred Stock cannot be converted to common shares of the Company for 36 months from the date they were issued, generally November 2007. Thereafter, they may be converted at any time on a one share for one share basis so long as the average closing bid price per share of the Company’s common stock for the five trading days immediately preceding the date of conversion is greater than or equal to the purchase price per share originally paid for the Series A shares. If the average bid price per share is lower than the purchase price paid per share, the holder of the Series A shares shall be entitled to convert at a rate equal to the purchase

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price divided by the common stock price. The Company has 160,861 shares of Series B Convertible Preferred shares that cannot be converted until 24 months from the original issue date. The Series B shares are converted at the same rate as the Series A shares. The Company has also created Series C Preferred Stock which converts into one share of Common Stock so long as the fair market value of the shares is at least $3.00 per share. If the price is less, then the Series C Preferred Stock converts into a number of shares of Common Stock having a fair market value of $3.00. As of April 15, 2004, 250,000 shares of Series C Preferred Stock have been issued.

The Company has no agreements to register shares on behalf of shareholders currently holding unregistered securities. The Company has not paid, nor declared, any dividends since its inception and does not intend to declare any such dividends in the foreseeable future. The Company’s ability to pay dividend is subject to limitations imposed by Nevada law.

Recent Sales of Unregistered Securities

From August through December 2003, we sold a total of 180,000 shares of Series B preferred stock to the following six (6) accredited investors, including a director, and received total proceeds of $90,000. The Company issued shares pursuant to an exemption from registration by reason of Section 4(2) of the Securities Act of 1933, as amended. We did not engage in any general solicitation or advertising. Each purchaser represented his or her intention to acquire the securities for investment only and not with a view toward distribution. We requested our stock agent to affix appropriate legends to each stock certificate issued and the transfer agent affixed the appropriate legends. Each investor was given adequate access to sufficient information about us to make in informed decision. None of the securities were sold through an underwriter and as such no underwriting discounts or commissions were involved to the same.

During the fiscal year ended, the Company issued a total of 1,774,765 shares of common stock for to several consultants in exchange for services rendered. Included in these issuances, were 50,000 shares of common each to Robert Leonard, a significant shareholder, and William S. Biddle, a officer and director of the company. The Company issued shares pursuant to an exemption from registration by reason of Section 4(2) of the Securities Act of 1933, as amended. We did not engage in any general solicitation or advertising. We requested our stock agent to affix appropriate legends to each stock certificate issued and the transfer agent affixed the appropriate legends.

In March 2003, the Company exchanged 2,461,607 shares of restricted common stock and 4,997,807 shares of Series A Convertible Preferred Stock for two shopping centers (T-Rex Plaza Mall and Katella Center), and 50% interests in two limited liability companies that each own a shopping center (Decatur Square, LLC and Spencer Springs, LLC).

In April 2003, the Company purchased the remaining 50% interest in the Decatur Center, LLC for 1,552,480 shares of Series B Preferred Stock valued at $776,240. The Company

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issued shares pursuant to an exemption from registration by reason of Section 4(2) of the Securities Act of 1933, as amended. We did not engage in any general solicitation or advertising. We requested our stock agent to affix appropriate legends to each stock certificate issued and the transfer agent affixed the appropriate legends.

In July 2003, the Company issued 1,000,000 shares of Series B preferred stock a current director of the company to extinguish debt in the amount of $500,000. The Company issued shares pursuant to an exemption from registration by reason of Section 4(2) of the Securities Act of 1933, as amended. We did not engage in any general solicitation or advertising. We requested our stock agent to affix appropriate legends to each stock certificate issued and the transfer agent affixed the appropriate legends. This shareholder had adequate access to sufficient information about us to make in informed decision.

In August 2003, the Company issued restricted shares of common stock and Series A Preferred Stock in the amount of 1,466,250 shares and 2,443,750 shares, respectively, to acquire the Hospitality Inn.

In November 2003, the Company issued 3,100,000 shares of Series B Preferred Stock, valued at $1,550,000, to acquire the remaining 50% in Spencer Springs, LLC.

In February 2004, the Company issued 77,860 shares of Series B preferred stock to acquire a first mortgage deed in the amount of $33,930.

In May 2004, the Company issued 250,000 shares of Series C preferred stock valued at $367,500 for acquisition of an equity interest in a property in Las Vegas, Nevada.

Item 6. Management Discussion and Analysis

Overview

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto of the Company appearing elsewhere in this report. Such financial statements have been prepared to reflect the Company's financial position as of December 31, 2004, together with the results of operations and cash flows for the periods ended December 31, 2004 and 2003.

Critical Accounting Policies

The preparation of these financial statements in accordance with accounting principles generally accepted in the United States of America requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. The Company believes that its critical accounting policies are those that require significant judgments and estimates such as those related to

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revenue recognition and allowance for uncollectible receivables and impairment of real estate assets and deferred assets. These estimates are made and evaluated on an on-going basis using information that is currently available as well as various other assumptions believed to be reasonable under the circumstances. Actual results could vary from those estimates and those estimates could be different under different assumptions or conditions.

Revenue Recognition and Allowance for Uncollectible Receivables

Base rental income is recognized on a straight-line basis over the terms of the respective lease agreements. Differences between rental income recognized and amounts contractually due under the lease agreements are credited or charged, as applicable, to rent receivable. The Company maintains, as necessary, an allowance for doubtful accounts for estimated losses resulting from the inability of tenants to make required payments that will result in a reduction to income. Management determines the adequacy of this allowance by continually evaluating individual tenant receivables considering the tenant's financial condition, security deposits, letters of credit, lease guarantees and current economic conditions.

Impairment of Real Estate Assets

The Company assesses the impairment of a real estate asset when events or changes in circumstances indicate that the net book value may not be recoverable. Indicators management considers important that could trigger an impairment review include the following:

§ a significant negative industry or economic trend;
§ a significant underperformance relative to historical or projected future operation results; and
§ a significant change in the manner in which the asset is used.

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Real Estate Investments

The following table presents a summary of the Company's properties as of December 31, 2004:

Property Name	Location	Company Ownership %	Rentable square feet	Date Acquired	Major Tenant (1)
Katella Center	Orange, CA	100.0	9,500	03/31/03	Judith by Strings
T-Rex Mall	Dickinson, ND	100.0	86,642	03/31/03	Newby's
Campus Drive Office Building	Newport Beach, CA	53.8	8,685	02/09/03 12/30/03 (2)	Borders Architects
The Cannery West	Las Vegas, NV	51.0	36,839	09/03/03	Oasis Mini Mart
Vacant Lot	Dickinson, ND	100	None	10/31/04	None

(1) Tenant occupying largest space of property.
(2) Limited liability company membership interest acquired on two separate dates - 18.6% acquired on February 9, 2003 and 32.4% acquired on December 30, 2003, plus additional interests acquired for cash contributions.

Results of Operations

The comparability of the financial information discussed below is limited by acquisitions and dispositions completed during the fiscal year ended December 31, 2003. As discussed above, during the fiscal year ended December 31, 2003, the Company acquired a 100% ownership interest in a 9,500 square foot strip mall in Orange, California and an 89,642 square foot enclosed mall in Dickinson, North Dakota. The Company purchased a 100% membership interest in two LLCs: one (Spencer Springs) owns a 87% interest in a 24,336 square foot, strip mall in Las Vegas, Nevada; and the other (Decatur Square) owned a 100% interest in a 16,500 square foot strip mall also located in Las Vegas, Nevada, which the Company subsequently sold. The Company acquired the Hospitality Inn in Dickinson, North Dakota for capital stock. The Company also acquired a 19% membership interest in an LLC that owns an 8,685 square foot office building in Newport Beach, California, and then acquired an additional 32.4% interest from related parties and received an additional 2.8% interest for additional cash contributions. The Company subsequently sold the Decatur Square shopping center.

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Comparison of years ended December 31, 2004 and 2003.

Income. Income consists primarily of rental income from commercial properties pursuant to tenant leases and brokerage fee income. As a result of these operations, the Company reported income of $ $939,663 of which $47, 450 was attributable to brokerage fees, - for the fiscal year ended December 31, 2004, compared with net income of $651,150 for the same period ended December 31, 2003. During 2004 the Company sold its hotel operations. The Company incurred an operational loss of $183,080 from these discontinued operations, compared to a loss of $117,882 for the fiscal year ended December 31, 2003.

General and Administrative Expenses. Operating 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 $1,869,182 to $3,617,453 for the fiscal year ended December 31, 2004, compared to $1,748,271 for the year ended December 31, 2003. The increase is attributable to the operation of acquired real estate. The primary components of such expenses were payroll, real estate commissions, land leases, and professional fees. Management anticipates that operating and administrative expenses will continue to increase throughout the remainder of 2005 as the Company seeks to acquire additional real estate holdings and expand its operations.

Depreciation. Depreciation for the fiscal year ended December 31, 2004 was $87,385 compared to $80,114 in depreciation expense for the year ended December 31, 2003. The depreciation was attributable primarily to the Katella Center, Spencer Springs, 5030 Campus, and the Company's telephone system.

Interest and Other Expense. Interest expense consists of mortgage interest paid on the Company's properties. Interest expense was $296,704 for the fiscal year ended December 31, 2004 compared to $202,997 for the year ended December 31, 2003. Interest expense was attributable primarily to the Katella Center, T-Rex Plaza Mall, 5030 Campus and Spencer Springs properties. The Company also recognized impairment with respect to the T-Rex property in the amount of $448,403.

The Company also reported gain on sale of assets of $1,388,826 attributable to the sale of a shopping center in Las Vegas, Nevada held in the Company's Spencer Springs, LLC subsidiary.

Net Income. The net loss from continuing operations was $2,218,294 or $(0.23) per share — basic and diluted — for the fiscal year ended December 31, 2004 compared to a net loss of $2,787,057 or $(0.55) per share — basic and diluted — for the fiscal year ended December 31, 2003. The net loss from disposal of discontinued operations was ($488,754), or (0.04) per share - basic and diluted - for the fiscal year ended December 31, 2004. Discontinued operations accounted for a loss of ($117,882) or ($0.02) - basic and diluted - for the fiscal year ended December 31, 2003.

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Liquidity and Capital Resources

Capital Resources

As stated in financial statement Note 1 - 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 December 31, 2004, the Company had $35,433 of cash and cash equivalents as compared to $125,544 of cash and cash equivalents at December 31, 2003 to meet its immediate short-term liquidity requirements. This decrease in cash and cash equivalents is attributable to increasing operating costs including land lease payments, professional fees, and administrative costs.

Operating cash flows are expected to increase as additional properties and investments in 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 used by operating activities was $1,514,872 for the fiscal year ended December 31, 2004 compared to net cash used by operating activities of $504,292 for the fiscal year ended December 31, 2003. This increase in cash used 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.

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.

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Cash Flows From in Investing Activities

Net cash from in investing activities amounted to $3,044,652 for the fiscal year ended December 31, 2004 compared to $126,182 for the fiscal year ended December 31, 2003, primarily from the sale of the Spencer Spring property.

At December 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. Currently, the Company estimates that it may undertake deferred maintenance on the T-Rex shopping center in the amount of $350,000.

Cash Flows from Financing Activities

Cash used by financing activities amounted to $(1,619,891) for the fiscal year ended December 31, 2004 compared to $498,226 for the fiscal year ended December 31, 2003. The primary reason for the use of proceeds was due to repayments of notes due on the sale of properties.

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.

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Item 7. Financial Statements

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Audited Financial Statements:

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Secured Diversified Investment, Ltd.

We have audited the accompanying consolidated balance sheet of Secured Diversified Investment, Ltd. (the "Company") as of December 31, 2004, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards required that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2004, and the results of its operations and its cash flows for Year then ended, in conformity with US generally accepted accounting principles.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has sustained net losses since its inception, and the Company's operations do note generate sufficient cash to cover its operating costs. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans regarding these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Kabani & Company, Inc.
KABANI & COMPANY, INC.
Huntington Beach, California
March 24, 2005

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SECURED DIVERSIFIED INVESTMENT, LTD.
Consolidated Balance Sheet
December 31, 2004

ASSETS

Properties, net of accumulated depreciation of $81,702	$	1,947,359
Equipment, net of accumulated depreciation of $3,755		8,562
Cash and cash equivalents		35,433
Receivables		45,023
Note Receivable		978,000
Prepaid Expenses		13,482
Restricted cash		470,000
Other Assets		17,578
Total Assets	$	3,515,436
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Mortgages payable	$	1,407,290
Mortgages payable, related parties		223,630
Notes payable		251,980
Notes payable, related parties		166,617
Interest payable		35,021
Payroll liabilities		615,102
Accounts payable, accrued expenses and other liabilities		479,003
Total Liabilities		3,178,643
Minority Interest		798,150
STOCKHOLDERS' DEFICIT		
Series A Preferred Stock, 7,500,000 shares authorized,		
$0.01 par value, 7,078,350 issued & outstanding		70,784
Series B Preferred Stock, 20,000,000 shares authorized,		
$0.01 par value, 160,861 issued & outstanding		1,609
Series C Preferred Stock, 22,500,000 shares authorized,		
$0.01 par value, 250,000 shares issued & outstanding		2,500
Common Stock, 100,000,000 shares authorized, $0.001		
par value, 15,016,984 issued and outstanding		15,016
Paid In Capital		8,377,422
Prepaid consulting fees		(140,000)
Accumulated Deficit		(8,788,687)
Total Stockholders' Deficit		(461,356)
Total Liabilities & Stockholders' Deficit	$	3,515,436

See accompanying notes

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SECURED DIVERSIFIED INVESTMENT, LTD
Consolidated Statements of Operations
For the years ended December 31, 2004 and 2003

	2004	2003
REVENUES		
Rental Income	$ 892,213	$ 632,728
Brokerage	47,450	18,422
Total Revenues	939,663	651,150
OPERATING EXPENSES		
Litigation Expense	170,950	
General and Administrative Costs	3,617,453	1,746,347
Total Operating Expenses	3,788,403	1,746,347
Operating Loss	(2,848,740)	(1,095,197)
Other Income and Losses		
Interest Expense	(296,704)	(202,997)
Interest Income	22,065	10,326
Loss on equity investment	(52,676)	-
Gain on sale of assets, net	1,388,826	(1,036,963)
Loss on sale of note	(5,798)	-
Minority Interest	(425,267)	(13,823)
Impairment loss	-	(448,403)
Total Other Income and Losses	630,446	(1,691,860)
Net loss from continuing operations	(2,218,294)	(2,787,057)
Discontinued operations:		
Net loss on disposal of discontinued operations	(488,754)	(117,882)
Net Loss	$ (2,707,048)	$ (2,904,939)
Net loss per share, continuing operations	$ (0.23)	$ (0.57)
Net loss per share, discontinued operations	$ (0.04)	$ -
Net loss per share	$ (0.27)	$ (0.57)
Basic and diluted weight average shares	9,848,337	5,107,950

See accompanying notes

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	Preferred Stock Series A		Preferred Stock Series B		Preferred Stock Series C		Common Stock		Additional Paid in Capital	Prepaid Consulting	Accumu Defic
	Shares	Par Value	Shares	Par Value	Shares	Par Value	Shares	Par Value			
Balance, December 31, 2002	-	-	-	-	-	-	2,349,540	$ 2,350	$ 3,112,298	-	$ (3,176,7
Stock issued for real estate acquisitions	7,497,807	74,978	4,752,480	47,525	-	-	3,961,606	3,961	2,840,117	-	
Conversion of $500,000 note	-	-	1,000,000	10,000	-	-			490,000	-	
Stock issued for cash	-	-	80,000	800	-	-			39,200	-	
Stock issued for public relation services	-	-	-	-	-	-	400,000	400	31,600	-	
Stock issued to officers	-	-	-	-	-	-	1,100,000	1,100	20,900	-	
Stock issued to directors	-	-	-	-	-	-	500,000	500	9,500	-	
Shares cancelled	(307,426)	(3,074)	-	-	-	-	(153,860)	(154)	3,228	-	
Net loss	-	-	-	-	-	-	-	-	-	-	(2,904,9
Balance, December 31, 2003	7,190,381	71,904	5,832,480	58,325	-	-	8,157,286	8,157	6,546,843	-	(6,081,6
Stock issued for cash	-	-	100,000	1,000	-	-	-	-	44,100	-	
Stock issued for note receivable	-	-	67,860	678	-	-	-	-	33,252	-	
Stocks issued for consulting services	-	-	-	-	-	-	474,765	475	697,497	-	
Stock issued for incentive for note to directors	-	-	-	-	-	-	100,000	100	77,447	-	
Additional shares issued for reprising	28,311	283	-	-	-	-	-	-	(283)	-	

Shares cancelled	(140,342)	(1,403)	-	-	-	-	(54,546)	(55)	1,458	-
Stock issued for real estate acquisition	-	-	-	-	250,000	2,500.00			365,000	-
Shares issued for public relation services	-	-	-	-	-	-	500,000	500	559,553	(140,000)
Shares issued for conversion of Series B Preferred stock	-	-	(5,839,479)	(58,394)						