

SECURED DIVERSIFIED INVESTMENT LTD  
Form 10-Q/A  
August 19, 2009

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-Q /A

Quarterly Report pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934

For the quarterly period ended March 31, 2009

Transition Report pursuant to 13 or 15(d) of the Securities  
Exchange Act of 1934

For the transition period to \_\_\_\_\_

Commission File Number: 000-30653

Secured Diversified Investment, Ltd.  
(Exact name of small business issuer as specified in its charter)

Nevada  
(State or other jurisdiction of incorporation or organization)

80-0068489  
(IRS Employer Identification No.)

6980 O'Bannon Drive, Las Vegas, Nevada 89117  
(Address of principal executive offices)

702-939-3254  
(Issuer's telephone number)

---

(Former name, former address and former fiscal year, if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer  Accelerated filer  
 Non-accelerated filer  Smaller reporting company

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

State the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 29,000,006 common shares as of May 8, 2009.



Table of Contents

## TABLE OF CONTENTS

	Page
PART I – FINANCIAL INFORMATION	
<u>Item 1:</u>	<u>Financial Statements</u> 3
<u>Item 2:</u>	<u>Management’s Discussion and Analysis</u> 4 <u>of Financial Condition and Results of</u> <u>Operations</u>
<u>Item 3:</u>	<u>Quantitative and Qualitative Disclosures</u> 8 <u>About Market Risk</u>
<u>Item 4T:</u>	<u>Controls and Procedures</u> 8
PART II – OTHER INFORMATION	
<u>Item 1:</u>	<u>Legal Proceedings</u> 9
<u>Item 1A:</u>	<u>Risk Factors</u> 9
<u>Item 2:</u>	<u>Unregistered Sales of Equity Securities</u> 9 <u>and Use of Proceeds</u>
<u>Item 3:</u>	<u>Defaults Upon Senior Securities</u> 9
<u>Item 4:</u>	<u>Submission of Matters to a Vote of</u> 9 <u>Security Holders</u>
<u>Item 5:</u>	<u>Other Information</u> 9
<u>Item 6:</u>	<u>Exhibits</u> 9

Table of Contents

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Our financial statements included in this Form 10-Q are as follows:

<u>F-1</u>	<u>Consolidated Balance Sheets as of March 31, 2009 (unaudited) and December 31, 2008, (audited);</u>
<u>F-2</u>	<u>Consolidated Statements of Operations for the three months ended March 31, 2009 and March 31, 2008 (unaudited);</u>
<u>F-3</u>	<u>Consolidated Statements of Stockholders' Deficit as of March 31, 2009 (unaudited)</u>
<u>F-4</u>	<u>Consolidated Statements of Cash Flows for the three months ended March 31, 2009 and March 31, 2008 (unaudited);</u>
<u>F-5</u>	<u>Notes to Financial Statements;</u>

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the SEC instructions to Form 10-Q. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the interim period ended March 31, 2009 are not necessarily indicative of the results that can be expected for the full year.

Table of ContentsSECURED DIVERSIFIED INVESTMENT, LTD.  
CONSOLIDATED BALANCE SHEETS

	March 31, 2009 (Unaudited)	December 31, 2008 (Audited)
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	\$ 55,344	\$ 25,885
Accounts receivable - trade, net	210,708	234,315
Miscellaneous receivables	6,590	7,516
Prepaid expenses and taxes	20,608	19,773
Inventory	80,787	46,177
Accrued interest receivable	6,368	5,029
Note receivable - current portion	51,504	69,617
Current assets of discontinued operations	0	12,279
<b>Total Current Assets</b>	<b>431,909</b>	<b>420,591</b>
<b>Property and Equipment, net</b>	<b>19,452</b>	<b>23,389</b>
<b>Real Estate</b>		
Investment-Discontinued Operations	100,000	100,000
<b>Other Assets</b>		
Intellectual property, net	132,166	133,919
Intangible assets	150,000	150,000
Note receivable - long term	440,303	435,744
<b>Total Other Assets</b>	<b>722,469</b>	<b>719,663</b>
<b>TOTAL ASSETS</b>	<b>\$ 1,273,830</b>	<b>\$ 1,263,643</b>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 241,922	\$ 146,336
Accrued expenses and taxes	242,802	266,519
Accrued interest – related party	40,158	30,745
Deferred revenue	198,080	196,579
Due to employee	43,801	31,639

Notes payable - related party	384,450	384,450
Note payable - current portion	22,241	23,014
Current liabilities – discontinued operations	0	638,284
<b>Total Current Liabilities</b>	<b>1,173,454</b>	<b>1,717,566</b>
<b>Long-term Debt</b>		
Note payable	1,188,315	1,192,280
Notes payable – discontinued operations	0	45,000
<b>Total Long-term Debt</b>	<b>1,188,315</b>	<b>1,237,280</b>
<b>TOTAL LIABILITIES</b>	<b>2,361,769</b>	<b>2,954,846</b>
<b>STOCKHOLDERS’ DEFICIT</b>		
Common stock	29,000	163
Unissued shares	0	5,830
Additional paid in capital	71,000	8,818,647
Equity (deficit) – Galaxy Gaming, Inc.	(1,187,939)	(1,120,198)
Accumulated deficit – discontinued operations		(9,395,645)
<b>TOTAL STOCKHOLDERS’ DEFICIT</b>	<b>(1,087,939)</b>	<b>(1,691,203)</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS’ DEFICIT</b>	<b>\$ 1,273,830</b>	<b>\$ 1,263,643</b>

The accompanying notes are an integral part of the financial statements.

Table of Contents

SECURED DIVERSIFIED INVESTMENT, LTD.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE THREE MONTHS ENDED MARCH 31, 2009 AND 2008 (unaudited)

	2009	2008
Gross Revenues	\$ 608,709	\$ 471,473
Cost of Goods Sold	23,833	33,425
Gross Profit	584,876	438,048
Operating Expenses	626,062	590,255
Net Operating Loss	(41,186)	(152,207)
Other Income (Expense)	(26,555)	(13,382)
Net Loss before Income Taxes	(67,741)	(165,589)
Provision for Income Taxes	0	0
Net Loss from Continuing Operations	(67,741)	(165,589)
Income (Loss) from Discontinued Operations	0	(59,804)
Net Income (Loss)	\$ (67,741)	\$ (225,393)
Weighted Average Number of Shares Outstanding	15,863,085	162,862
Net Loss per Share-Continuing Operations	\$ (.00)	\$ (1.01)
Net Income (Loss) per Share-Discontinued Operations	\$ .00	\$ (.37)
Net Income (Loss) per Share	\$ .00	\$ (1.38)

The accompanying notes are an integral part of the financial statements.





Table of Contents

SECURED DIVERSIFIED INVESTMENT, LTD.  
CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIT (unaudited)  
AS OF MARCH 31, 2009

	Common Stock Shares	Common Stock Amount	Additional Paid in Capital	Unissued Shares	Accumulated Deficit	Total
Beginning Balance, January 1, 2009	162,862	\$ 163	\$ 8,818,647	\$ 5,830	\$ (9,395,645)	\$ (571,005)
Adjustment –to record deficit of Galaxy Gaming, Inc.					(1,120,198)	(1,120,198)
Cancellation of old SDI shares	(162,862)	(163)	(8,818,647)	(5,830)	9,395,645	571,005
Issuance of new SDI shares	29,000,006	29,000	71,000			100,000
Net Loss from Continuing Operations for the Quarter Ended March 31, 2009	-	-	-		(67,741)	(67,741)
Balance, March 31, 2009	29,000,006	\$ 29,000	\$ 71,000	\$ 0	\$ (1,187,939)	\$ (1,087,939)

The accompanying notes are an integral part of the financial statements.

Table of Contents

SECURED DIVERSIFIED INVESTMENT, LTD.  
 CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)  
 FOR THE THREE MONTHS ENDED MARCH 31, 2009 AND 2008

	2009	2008
Cash Flows from		
Operating Activities of		
Continuing Operations:		
Net loss from continuing operations for the period	\$ (67,741)	\$ (165,589)
Adjustments to Reconcile Net Loss to Net Cash Used in Operating Activities:		
Depreciation expense	3,937	4,023
Amortization expense	1,753	1,797
Loss on the disposal of property and equipment	0	92
Provision for bad debts	886	4,012
Changes in Assets and Liabilities		
(Increase) decrease in accounts receivable	23,647	(29,422)
(Increase) decrease in prepaid expenses and taxes	(835)	11,520
(Increase) decrease in inventory	(34,610)	3,765
(Increase) in accrued interest receivable	(1,339)	0
(Increase) in deposits	0	(1,000)
Increase in accounts payable	95,586	38,872
Increase (decrease) in accrued expenses and taxes	(23,717)	19,342
Increase in due to employee	12,162	21,330
Increase in accrued interest – related party	9,413	0
Increase in deferred revenue	1,501	0
Net Cash Provided by (Used in) Operating Activities	20,643	(91,258)
Cash Flows from Investing Activities:		
Acquisition of property and equipment	0	(1,942)

Purchase of intangible assets	0	(4,202)
Increase in note receivable	0	(13,811)
Payments received on note receivable	13,554	0
Net Cash Used in Investing Activities	13,554	(19,955)

Cash Flows from Financing Activities:		
Proceeds from notes payable – related party	0	141,409
Payments on note payable	(4,738)	(26,118)
Net Cash Provided by Financing Activities	(4,738)	115,291

Cash Flows from Discontinue Operations:		
Net Cash Used in Discontinued Operations	0	(598)

Net Increase in Cash and Cash Equivalents	29,459	3,480
Cash and Cash Equivalents – Beginning of Period	25,885	4,319
Cash and Cash Equivalents – End of Period	\$ 55,344	\$ 7,799

Supplemental Cash Flow Information:		
Cash paid for interest	\$ 0	\$ 0
Cash paid for income taxes	\$ 0	\$ 0

The accompanying notes are an integral part of the financial statements.

Table of Contents

SECURED DIVERSIFIED INVESTMENT, LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
March 31, 2009

Note 1: Nature of Operations

On February 10, 2009, Secured Diversified Investment, Ltd. (“SDI”) acquired all of the issued and outstanding stock of Galaxy Gaming, Inc. (“the “Company”) pursuant to the terms of a Share Exchange Agreement. Following the closing of the Share Exchange Agreement, SDI discontinued all prior operations and has focused exclusively on the business and operations of its wholly-owned subsidiary.

Galaxy Gaming, Inc. was incorporated in the State of Nevada on December 29, 2006 and is based in Las Vegas, Nevada. The Company designs casino games played in land-based and cruise ship gaming establishments. The game concepts and the intellectual property associated with these games are typically protected by patents, trademarks and copyrights. The Company licenses its intellectual property via its own sales force to approximately 200 casinos throughout North America. The clients pay royalties in the form of recurring revenues based upon a negotiated monthly fee. To date, the Company has concentrated on creating and licensing live casino table games.

On January 1, 2007, Galaxy Gaming LLC (the “LLC”), which was organized as a Nevada Limited Liability Company on September 27, 2000, entered into several agreements with the newly formed Company. Pursuant to these agreements, the LLC sold selected assets, such as inventory and fixed assets, to the Company.

On December 31, 2007, the Company acquired, through an asset purchase agreement, the LLC’s remaining intellectual property including patents, patent applications, trademarks, trademark applications, copyrights, know-how and trade secrets related to the casino gaming services including but not limited to games, side bets, inventions and ideas.

Note 2: Significant Accounting Policies

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

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized as income when earned and expenses are recognized when they are incurred. The Company does not have significant categories of cost as its income is recurring with high margins. Expenses such as wages, consulting expenses, legal and professional fees, and rent are recorded when the expense is incurred.

Cash and Cash Equivalents

The Company considers cash on hand, cash in banks, certificates of deposit, and other short-term securities with maturities of three months or less when purchased, as cash and cash equivalents.

Fair Value of Financial Instruments

The fair value of cash, accounts receivable and accounts payable approximates the carrying amount of these financial instruments due to their short-term nature. The fair value of long-term debt, which approximates its carrying value, is based on current rates at which the Company could borrow funds with similar remaining maturities.



Table of Contents

SECURED DIVERSIFIED INVESTMENT, LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
March 31, 2009

Note 2: Significant Accounting Policies (continued)

Property and Equipment

The capital assets are being depreciated over their estimated useful lives using the straight-line method of depreciation for book purposes. On January 1, 2007, the Company acquired the majority of its capital assets at the lower of cost or market from the LLC.

Intangible Assets

Effective December 31, 2007, the Company acquired, with an asset purchase agreement from the LLC, the remaining intellectual property including patents, patent applications, trademarks, trademark applications, copyrights, know-how and trade secrets related to the casino gaming services including, but not limited to, games, side bets, inventions and ideas.

These intangible assets have finite lives and are being amortized using the straight-line method over their economic useful lives and analyzed for potential impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. These assets were transferred at cost.

During the year ended December 31, 2008, the Company entered into an agreement to purchase back a regional territory from an outside sales representative. The total value of this agreement was \$150,000 and the resulting intangible asset has an infinite life.

Revenue Recognition

Substantially all revenue is recognized when it is earned. Clients are invoiced one month in advance and the advance billings are carried as deferred revenue on the balance sheet. The monthly recurring invoices are based on signed agreements with each client.

Management Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions have been made in determining the depreciable lives of such assets and the allowance for doubtful accounts receivable. Actual results could differ from those estimates.

Basis of Presentation

The financial statements include the accounts of SDI (discontinued operations) and its wholly-owned subsidiary. Certain prior year amounts in the financial statements have been reclassified to conform to the March 31, 2009 presentation.

Recently Issued Accounting Guidance

The Company does not expect the adoption of recently issued accounting pronouncements to have a significant impact on the Company's results of operations, financial position or cash flow.

Table of Contents

SECURED DIVERSIFIED INVESTMENT, LTD.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 March 31, 2009

## Note 3: Note Receivable

The note receivable at March 31, 2009 and December 31, 2008 was as follows:

	2009	2008
Note receivable	\$ 491,807	\$ 505,361
Less:		
current portion	(51,504)	(69,617)
Long-term Note Receivable	\$ 440,303	\$ 435,744

Effective December 31, 2007, the Company acquired, with an asset purchase agreement from the LLC, the note receivable stated above, as part of the purchase of the remaining intellectual property including patents, patent applications, trademarks, trademark applications, copyrights, know-how and trade secrets related to the casino gaming services including but not limited to games, side bets, inventions and ideas. The purchase was financed by a ten year note with a 6% fixed interest rate.

Management evaluates collectability on a regular basis and will set up reserves for uncollectible amounts when it has determined that some or all of this receivable may be uncollectible. At March 31, 2009 and December 31, 2008, management believed that 100% of the notes receivable principal and interest amounts are collectable.

## Note 4: Inventory

Inventory consists of products designed to enhance table games, such as signs, layouts and bases for the different signs. The inventory value is determined by the average cost method and management maintains inventory levels based on historical and industry trends. Signs and layouts do not change unless the table game changes. At March 31, 2009 and December 31, 2008, the Company had \$80,787 and \$46,177 in inventory, respectively.

## Note 5: Prepaid Expenses and Taxes

Prepaid expenses and taxes consist of the following as of March 31, 2009 and December 31, 2008:

	2009	2008
Refundable Canadian withholding	\$ 0	\$ 0
Prepaid IT system	490	5,772
Prepaid supply inventory	0	10,000
Prepaid insurance	431	431

Prepaid legal	4,595	0
Prepaid other	15,092	3,570
Total Prepaid Expenses and Taxes	\$ 20,608	\$ 19,773

During the year ended December 31, 2008, the Company determined that the Canadian withholding tax may not be refunded. The remaining balance was written off at December 31, 2008. The amounts paid of approximately \$87,000 will be available for use in the future as a foreign tax credit to offset federal income tax owed.

F-7

---



Table of Contents

SECURED DIVERSIFIED INVESTMENT, LTD.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 March 31, 2009

## Note 6: Property and Equipment

The Company owned property and equipment, recorded at cost, which consisted of the following at March 31, 2009 and December 31, 2008:

	2009	2008
Computer equipment	\$ 22,768	\$ 22,768
Furniture and fixtures	19,888	19,888
Office equipment	10,320	10,320
Subtotal	52,976	52,976
Less:		
Accumulated depreciation	(33,523)	(29,587)
Property and Equipment, net	\$ 19,453	\$ 23,389

The Company acquired the majority of the property and equipment in the purchase agreement between the Company and the LLC on January 1, 2007. The Company disposed of \$150 of property and equipment during 2008 for a total loss of \$92. Depreciation expense was \$3,937 for the quarter ended March 31, 2009 and \$16,374 for the year ended December 31, 2008, respectively.

## Note 7: Accrued Expenses and Taxes

The Company recorded accrued expenses and taxes which consisted of the following at March 31, 2009 and December 31, 2008:

	2009	2008
Wages and related costs	\$ 28,361	\$ 28,166
Accrued expenses and taxes	102,019	86,313
Accrued intangible asset costs	100,000	137,500
Accrued royalties - third party	12,422	14,540
Total	\$ 242,802	\$ 266,519
Accrued		

Expenses  
and Taxes

The Company entered into an agreement to purchase back a sales territory for \$150,000 during the year ended 2008. The remaining balance will be paid during the year ending 2009.

Note 8: Long – term Debt

Long - term debt from continuing operations consists of the following at March 31, 2009 and December 31, 2008:

	2009	2008
Note payable	\$ 1,210,556	\$ 1,215,294
Less:		
current portion	(22,241)	(23,014)
Total		
Long – term Debt	\$ 1,188,315	\$ 1,192,280

The note payable is due to a commercial bank in monthly installments of \$9,159 including fixed interest of 7.3%, for ten years, through February 2017, at which time there is a balloon payment of \$1,003,230. This liability was assumed with the asset purchase agreement from the LLC. The note payable financed the purchase of the remaining intellectual property including patents, patent applications, trademarks, trademark applications, copyrights, know-how and trade secrets related to the casino gaming services including but not limited to games, side bets, inventions and ideas. The note agreement remains in the name of the LLC.

Table of Contents

SECURED DIVERSIFIED INVESTMENT, LTD.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 March 31, 2009

## Note 9: Notes Payable - Related Party

The Company received working capital loans from the LLC, a related party, in 2008 and 2007. The loans bear 9% interest and are due 90 days after demand. The terms of the loan call for interest to be accrued on interest if payments are not made.

## Note 10: Commitments and Contingencies

## Operating Lease Obligation

The Company sub-leases its offices from the LLC, a related party. The lease expires August 31, 2010 and has an option for a six year renewal. The monthly minimum rental payment is \$17,500 and rent increases 3% every year on September 1st. Rent to be paid under this lease agreement including the renewal option is summarized as follows:

March 31, 2010	\$ 220,087
March 31, 2011	226,691
March 31, 2012	233,494
March 31, 2013	240,501
March 31, 2014	247,719
Thereafter	628,948
Total Lease Obligation	\$ 1,797,440

## Legal Proceedings

## Sherron Associates, Inc .

The Company's current material litigation is briefly described below. The Company assumes no obligation to update the status of pending litigation, except as required by applicable law, statute or regulation.

Sherron Associates, Inc. ("Plaintiff") filed claims against the Company, its shareholders, and one of the Company's wholly owned subsidiaries ("Defendants") alleging that Defendants are liable for a judgment obtained by a predecessor of the Plaintiff against the Company's president as an individual in 1998 in the Superior Court of the State of Washington for the County of Spokane. Plaintiff's first case, which was filed in 2005 in the Superior Court of the State of Washington for the County of King, was reversed in the Company's favor by the Court of Appeals, Division I, of the State of Washington in 2007. Plaintiff recently filed a second suit in the Superior Court of the State of Washington for the County of King.

The Company and its president brought two separate actions in Clark County, Nevada against Plaintiff and its controlling principals and related entities alleging that Plaintiff had no right to collect on the Spokane judgment.

The claim against the Company was dismissed with prejudice and the Company was awarded their costs in a judgment on March 26, 2008.

F-9

---

Table of Contents

SECURED DIVERSIFIED INVESTMENT, LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
March 31, 2009

Note 10: Commitments and Contingencies (continued)

Legal Proceedings (continued)

California Administrative Licensing Action

In 2002, Galaxy Gaming of California, LLC, which is a wholly owned subsidiary of the Company, submitted an application to the California Gambling Control Commission (the "Commission") for a determination of suitability for licensure to do business with tribal gaming operations in California. The Division of Gambling Control of the California Department of Justice (the "Division") processed the application and in late 2005 made an initial recommendation to the Commission that the subsidiary was not suitable. The subsidiary believes that the process, as conducted by the State of California, was seriously flawed and biased and in December 2006, exercised its right to have an administrative law judge instead of the Commission further adjudicate the process. Although the Commission assigned the matter for adjudication before an administrative law judge, the Division has yet to file its issue of charges to begin the adjudication.

In the ordinary course of conducting its business, the Company is, from time to time, involved in other litigation, administrative proceedings and regulatory government investigations including but not limited to those in which the Company is a plaintiff.

Note 11: Allowance for Doubtful Accounts

The Company records an allowance for doubtful accounts based on periodic reviews of accounts receivable. As of March 31, 2009 and December 31, 2008, the Company recorded a provision of \$16,493 and \$15,607, respectively.

Note 12: Dividend Distribution

The Company recorded a one-time, non-cash dividend on December 31, 2007 of approximately \$542,466. This dividend resulted due to the continuous efforts of acquiring all the intellectual property from the LLC.

Through this dividend, the Company acquired a note receivable (see Note 3) and a note payable (see Note 8). These notes were assumed in connection with the asset purchase agreement from the LLC. Both the notes stated are part of the purchase of the remaining intellectual property including patents, patent applications, trademarks, trademark applications, copyrights, know-how and trade secrets related to the casino gaming services including but not limited to games, side bets, inventions and ideas.

Note 13: Capital Stock

SDI had 65,000,000 shares of \$.001 par value common stock and 10,000,000 shares of \$.001 par value preferred stock authorized as of March 31, 2009 and December 31, 2008. There were 29,000,006 common shares and -0- preferred shares issued and outstanding at March 31, 2009.

Table of Contents

SECURED DIVERSIFIED INVESTMENT, LTD.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 March 31, 2009

## Note 14: Related Party Transactions

The Company received working capital loans from the LLC, a related party, in 2008 and 2007. The initial inventory and fixed assets acquired on January 1, 2007 were acquired from the same related party.

The Company acquired from the same party, a note receivable (see Note 3) and a note payable (see Note 8). These notes were assumed with the asset purchase agreement from LLC. Both of the notes are part of the purchase of the remaining intellectual property including patents, patent applications, trademarks, trademark applications, copyrights, know-how and trade secrets related to the casino gaming services including but not limited to games, side bets, inventions and ideas.

The Company sub-leases its office space from the LLC, a related party, for \$18,025 per month. Rent expense was \$54,075 and \$210,000 for the quarter ended March 31, 2009 and for the year ended December 31, 2008.

## Note 15: Income Taxes

For the quarter ended March 31, 2009 and for the year ended December 31, 2008, the Company incurred a net loss of \$67,741 and \$504,204 and, therefore, has no tax liability. The Company has a previous net operating loss carry-forward of \$83,653. The losses will be carried forward and can be used through the year 2028 to offset future taxable income up to a cumulative total of approximately \$588,000. The cumulative net operating loss carry-forward for income tax purposes may differ from the cumulative financial statement loss due to permanent differences and timing differences between book and tax reporting. Additionally, the Company has a foreign tax credit carry-forward of approximately \$87,000 that can be used in the future to offset federal income tax owed.

The cumulative tax effect at the expected rate of 34% of significant items comprising our net deferred tax amount is as follows:

	2009	2008
Deferred tax asset attributable to:		
Net operating loss carryover	\$ 171,429	\$ 28,442
Valuation allowance	(171,429)	(28,442)
Net Deferred Tax Asset	\$ -	\$ -

## Note 16: Other Income (Expenses)

Other income (expenses) of the Company consists of the following at March 31, 2009 and 2008:

	2009	2008
Interest income	\$ 7,580	\$ 8,287
Loss on the sale of property and equipment	0	0
Interest expense	(34,105)	(21,725)
Miscellaneous other income (expense)	(30)	56
Total Other Income (Expenses)	\$ (26,555)	\$ (13,382)

Table of Contents

SECURED DIVERSIFIED INVESTMENT, LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
March 31, 2009

Note 17: Going Concern

The Company has negative working capital, has incurred operating losses since inception, and its operating activities to date have required financing from outside institutions and related parties. The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company will continue to need outside financing to support its internal growth.

Management continues to seek funding to pursue its business plans.

Note 18: Cash Flow Disclosures

Non-Cash Investing and Financing Activities

During the year ended December 31, 2007, the Company acquired from the LLC, a related party, a note receivable of \$552,447 (see Note 3) and a note payable of \$1,235,880 (see Note 8). These notes were assumed with the asset purchase agreement from the LLC. Both the notes stated are part of the purchase of the remaining intellectual property including patents, patent applications, trademarks, trademark applications, copyrights, know-how and trade secrets related to the casino gaming services including but not limited to games, side bets, inventions and ideas valued at \$140,967. The Company recorded a one-time, non-cash dividend of \$542,466 to complete this transaction.

There were no additional non-cash investing or financing transactions during the quarter ended March 31, 2009 and the year ended December 31, 2008.

Note 19: Subsequent Events

On February 10, 2009, Secured Diversified Investment, Ltd (“SDI”), a publicly held Nevada Corporation, entered into a Share Exchange Agreement with the Company. In connection with the closing of the Share Exchange Agreement, SDI obtained 100% of the issued and outstanding shares of the Company, and the Company became a wholly-owned subsidiary (the “Share Exchange”). Also pursuant to the terms of SDI’s Bankruptcy Plan (“the Plan”), all of SDI’s outstanding debt obligations (other than administrative expenses related to chapter 11 case) have been discharged in exchange for its issuance of new common stock on a pro rata basis to its creditors.

Pursuant to the terms and conditions of the Share Exchange Agreement and the terms of the Plan, SDI issued 25,000,000 shares of common stock pro-rata to the former shareholders of the Company in exchange for obtaining ownership of 100% of the issued and outstanding shares of the Company and 4,000,006 shares of new common stock on a pro rata basis to its creditors in exchange for the discharge of the outstanding debts under chapter 11 of the U.S. Bankruptcy Code. All of SDI’s pre-Share Exchange issued and outstanding equity interests were extinguished and rendered null and void. As a result, following these events, there are currently 29,000,006 shares of common stock issued and outstanding.

In accordance with AICPA Statement of Position 90-7 SDI accounted for the reorganization using fresh-start reporting. Accordingly, all assets and liabilities are restated to reflect their reorganization value, which approximates fair value at the date of reorganization.



Table of Contents

SECURED DIVERSIFIED INVESTMENT, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2009

Note 19: Subsequent Events (continued)

Following confirmation of the Plan and the consummation of the Share Exchange, SDI is now pursuing the business plan of the Company.

After the consummation of the Plan and Share Exchange, SDI continued to own a twenty-five percent interest in certain real property in Arizona. Subsequent to the reporting period on or about April 17, 2009, SDI transferred this property to its former officer and director, Munjit Johal, in exchange for Mr. Johal tendering fifty thousand shares of the common stock of SDI for cancellation.

F-13

---

Table of Contents

Item 2. Management’s Discussion and Analysis or Plan of Operation

Forward-Looking Statements

Certain statements, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives, and expected operating results, and the assumptions upon which those statements are based, are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements generally are identified by the words “believes,” “project,” “expects,” “anticipates,” “estimate,” “intends,” “strategy,” “plan,” “may,” “will,” “would,” “will be,” “will continue,” “will likely result,” and similar expressions. We intend for 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 are including this statement for purposes of complying with those safe-harbor provisions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. Our 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 our operations and future prospects on a consolidated basis include, but are not limited to: changes in economic conditions, legislative/regulatory changes, availability of capital, interest rates, competition, and generally accepted accounting principles. These risks and uncertainties should also be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise. Further information concerning our business, including additional factors that could materially affect our financial results, is included herein and in our other filings with the SEC.

Company Overview and Plan of Operation

Through our wholly-owned subsidiary, Galaxy Gaming, Inc. (“Galaxy”) we are currently engaged in the business of developing proprietary table games and other gaming products, and licensing those games and products to casinos in the United States and internationally.

Our plan is to grow by developing new game content, enhancing our product portfolio with electronics, expanding our global distribution network and increasing the performance of our sales force.

Robert Saucier is our President, Chief Executive Officer, Interim Chief Financial Officer and Director. William O’Hara is our Chief Operating Officer and Director.

We are currently seeking to expand our business. Currently, we are the second largest company in the proprietary table games industry. We intend to expand our installed base of table games, which will increase our recurring revenues, by employing the following strategies:

Table of Contents

- Develop new products and game content.
- Enhance our portfolio with electronics.
  - Expand our distribution network.
- Increase the performance of our sales force.

Develop New Products and Game Content

During 2008, Galaxy introduced two new table game products, Emperor's Challenge and Lucky 8 Baccarat which are contributing to our current growth trend. We hope other products scheduled to be released in 2009 will positively impact our revenues.

We are currently at a disadvantage to our leading competitor, Shuffle Master, in terms of the number and variety of products offered. Due to the numerous game titles in their possession, they have the ability to control 100% of the proprietary table mix in many casinos. Therefore, we intend to increase the number of table games in our portfolio. We have numerous new games in various stages of development which, when fully released, we believe will overcome this disadvantage.

Currently, the majority of our product development is performed by our founder and CEO, Mr. Saucier. Our future growth plans include the creation of a research and development team to lessen our dependency on our CEO for this important element.

Enhance Our Portfolio with Electronics

The games Caribbean Stud and Let it Ride benefitted from electronic enhancements. Previously, only our Bonus Blackjack game utilized electronics. We have developed and continue to develop electronic enhancements for table games. They began to generate revenues in March, 2009.

Expand Our Distribution Network

We intend to increase our recurring revenues and market share not only in North America, but throughout all available international markets. Expanding our distribution network requires that we first seek and obtain registration or licensing in most additional gaming jurisdictions. In regulated gaming jurisdictions, this is not a simple task. A collaborative effort between our inside legal counsel and/or compliance officer and outside specialized local gaming attorneys will be required to expand our markets. We do not currently have the necessary skilled specialist in house to accomplish this in an expedited manner. Recruiting such a professional will be vital to our gaming jurisdiction expansion plans.

Increase Sales Force Performance

We recognize that the quality and performance of our sales team is integral to our expansion and success. We intend to recruit, train, monitor and reward a group of highly motivated sales professionals. We also intend to implement a comprehensive sales training program for the purpose of continually increasing our sales executives' performance.

## Table of Contents

Currently, our sales team's progress is monitored and tracked by a highly sophisticated, custom sales force automation / client relationship management system. We have spent considerable capital and human resources to develop this system and believe it is a significant factor in the past and future success of our sales force. This system is under constant development and improvement by us and contains numerous unique and proprietary features we developed.

Because of the high margin, recurring revenue nature of our products, we believe that significant expenditures on improving our sales and client retention efforts are justified. Accordingly, we provide significant incentives and rewards to our sales executives based upon their performance.

## Financing

In anticipation of our current aggressive growth plans and acquisition strategy, as well as the investments in our infrastructure necessitated by our strategy, we require additional funding. Because we will be unable to adequately fund the growth initiatives outlined herein without new sources of investor financing, we are currently attempting to raise funds through the sale of our common stock and loans. If we fail to raise capital, we will still pursue acquisitions and growth, however, our acquisition opportunities will be limited and our growth strategy will be negatively impacted.

## Expected Changes In Number of Employees, Plant, and Equipment

We do not have plans to purchase any physical plant or any significant equipment during the next twelve months. As we continue to grow and expand our business, we anticipate increasing our number of employees by approximately fifty to one hundred percent over the course of the next year.

## Results of Operations for the three months ended March 31, 2009

For the three months ended March 31, 2009 our continuing operations generated gross revenues of \$608,709, up from gross revenues \$471,473 for the three months ended and March 31, 2008. Our Cost of Goods Sold was \$23,833, our Operating Expenses were \$626,062, and our Other Expenses were \$26,555 for the three months ended March 31, 2009. By comparison, during the quarter ended March 31, 2008, our Cost of Goods Sold was \$33,425, our Operating Expenses were \$590,255, and our Other Expenses were \$13,382. Our Net Loss from continuing operations for the three months ended March 31, 2009 was \$67,741, compared to a Net Loss of \$165,589 for the three months ended March 31, 2008.

Although we increased operating expenses through the first half of 2008, we actively reduced our operating costs during the second half of last year. These cuts, along with growing revenues beginning in the second half of 2008, led to a net positive cash flow during the fourth quarter of 2008 and the first quarter of 2009. Management believes that continued growth from existing and new products will result in continued positive cash flow and a net profit and during fiscal year ending December 31, 2009.

## Table of Contents

### Liquidity and Capital Resources

As of March 31, 2009, we had total current assets of \$431,909 and total assets in the amount of \$1,273,830. Our total current liabilities as of March 31, 2009 were \$1,173,454.

Our operating activities generated \$20,643 in cash for the three months ended March 31, 2009, compared to \$91,258 in cash used by operations during for the three months ended March 31, 2008. The primary components of our positive operating cash flow for the three months ended March 31, 2009 were a decrease in accounts receivable of \$23,647 and an increase in accounts payable of \$95,586, offset primarily by our net operating loss of \$67,471, an increase in inventory of \$34,610, and a decrease in accrued expenses and taxes of \$23,717.

Cash flows from investing activities the three months ended March 31, 2009 were \$13,554, consisting of payments received on a note receivable. Cash used by financing activities during the three months ended March 31, 2009 were \$4,738, consisting of payments on a note payable of \$4,738.

We intend to fund our continuing operations through increased sales and debt and/or equity financing arrangements, which may be insufficient to fund expenditures or other cash requirements. Subsequent to the reporting period on April 24, 2009, we closed an issuance of \$200,000 in convertible promissory notes due in October of this year. The funds generated from this short-term debt financing will assist us in meeting our cash needs in the near term. We plan to seek additional financing, however, in a private equity offering to secure additional funding for operations. There can be no assurance that we will be successful in raising additional funding. If we are not able to secure additional funding, the implementation of our business plan will be impaired. There can be no assurance that such additional financing will be available to us on acceptable terms or at all. In addition, we expect to incur higher capital expenditures in the future to expand our operations. We will from time to time acquire products and businesses complementary to our business. As a public entity, we may issue shares of our common stock and preferred stock in private or public offerings to obtain financing, capital or to acquire other businesses that can improve our performance and growth. To the extent that we seek to acquire other businesses in exchange for our common stock, fluctuations in our stock price could have a material adverse effect on our ability to complete acquisitions.

### Going Concern

We have incurred net losses from operations for each of the last two fiscal years, have negative working capital, and require additional capital in order to expand our operations and become profitable. Our ability to raise additional capital through the future issuances of common stock and other means is unknown. The obtainment of additional financing, the successful development of our contemplated plan of operations, and our transition, ultimately, to the consistent attainment of profitable operations are necessary for us to continue operations. For these reasons, our auditors stated in their report that they have substantial doubt we will be able to continue as a going concern.

### Critical Accounting Policies

In December 2001, the SEC requested that all registrants list their most "critical accounting policies" in the Management Discussion and Analysis. The SEC indicated that a "critical accounting policy" is one which is both important to the portrayal of a company's financial condition and results, and requires management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Currently, we do not believe that we have any accounting policies fit this definition.

Table of Contents

Recently Issued Accounting Pronouncements

We do not expect the adoption of recently issued accounting pronouncements to have a significant impact on our results of operations, financial position or cash flow.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

A smaller reporting company is not required to provide the information required by this Item.

Item 4T. Controls and Procedures

We carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of March 31, 2009. This evaluation was carried out under the supervision and with the participation of our Chief Executive Officer and Interim Chief Financial Officer, Mr. Robert Saucier. Based upon that evaluation, our Chief Executive Officer and Interim Chief Financial Officer concluded that, as of March 31, 2009, our disclosure controls and procedures are effective. There have been no changes in our internal controls over financial reporting during the quarter ended March 31, 2009.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act are recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Interim Chief Financial Officer, to allow timely decisions regarding required disclosure.

Limitations on the Effectiveness of Internal Controls

Our management does not expect that our disclosure controls and procedures or our internal control over financial reporting will necessarily prevent all fraud and material error. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving our objectives and our Chief Executive Officer and Interim Chief Financial Officer concluded that our disclosure controls and procedures are effective at that reasonable assurance level. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the internal control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate.

Table of Contents

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

Sherron Associates, Inc. – A judgment was issued in Washington state against Robert Saucier and others unrelated to the Company in 1998 (the “Spokane Judgment”). Sherron Associates, Inc. claimed to be the assignee of the Spokane Judgment and previously sued Mr. Saucier and various Galaxy companies in Washington in 2005. None of the defendants were served with the Summons and Complaint and as a result, Sherron obtained a default judgment (the “Seattle Judgment”) claiming they had obtained service by publication in a small town newspaper. After the defending parties learned of the lawsuit and the accompanying default judgment, their attorneys appeared in the Washington Court and, the Seattle Judgment was reversed and the lawsuit dismissed with prejudice. Prior to its dismissal however, Sherron domesticated the Seattle Judgment to Nevada, and it too was likewise dismissed.

In 2008, Sherron filed suit again in Washington, and Galaxy was included as a defendant. Sherron still claims the Spokane Judgment is valid, that it is the assignee of the Spokane Judgment and that Galaxy is the alter-ego of Robert Saucier. We and Mr. Saucier claim that Sherron is not the holder of the Spokane Judgment, that the Spokane Judgment is invalid and unenforceable, and that Galaxy is an independent entity and not Mr. Saucier’s alter-ego. This case is currently in the discovery phase.

Also in 2008, Sherron filed suit against Galaxy in Nevada attempting to execute against certain intellectual property of Galaxy, erroneously claiming the property belongs to Mr. Saucier. We believe that their claims are baseless and without merit and are vigorously defending against all actions. This case is currently in the discovery phase.

We, Mr. Saucier and other Galaxy companies have jointly filed actions against Sherron in Nevada for various abuses of process in the litigation and their malicious attempts to improperly enforce the alleged judgment, not held by them. This case is currently in the discovery phase.

Item 1A. Risk Factors

A smaller reporting company is not required to provide the information required by this Item.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3. Defaults upon Senior Securities

None

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

No matters have been submitted to our security holders for a vote, through the solicitation of proxies or otherwise, during the quarterly period ended March 31, 2009.

Item 5. Other Information

None

Item 6. Exhibits

Exhibit Number	Description of Exhibit
3.1	Articles of Incorporation (1)
3.2	Bylaws (1)
<u>31.1</u>	<u>Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
<u>31.2</u>	<u>Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
<u>32.1</u>	<u>Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>

1 Incorporated by reference to Current Report on Form 8-K filed February 13, 2009.



Table of Contents

SIGNATURES

In accordance with the requirements of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Secured Diversified Investment, Ltd.

Date: August 12 , 2009

By: /s/ Robert Saucier  
Robert Saucier  
President, Chief Executive Officer, Chief Financial Officer and Director