

U.S. BANKRUPTCY COURT
DISTRICT OF NEVADA (LAS VEGAS)
BANKRUPTCY PETITION #08-16332-lbr

Debtor
SECURED DIVERSIFIED
INVESTMENT, LTD.
12202 NO. SCOTTSDALE RD.
PHOENIX, AZ 85054
Tx id: 80-0068489
aka
BOOK CORPORATION OF AMERICA

represented by
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LAW OFFICES OF DAVID W.
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CANE CLARK LLP
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LAS VEGAS, NV 89120

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341 MEETING OF CREDITORS

SEPTEMBER 18, 2008

LAS VEGAS, NEVADA

REPORTED BY:
KENDALL D. HEATH
NEV. CCR NO. 475
CALIF. CSR NO. 11861
JOB NO.: 960975

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341 MEETING Of CREDITORS, commencing on
Thursday, September 18, 2008, at 2:00 p.m. at
the offices of U.S. Trustee's Office,
300 Las Vegas Boulevard So., First Floor, Las
Vegas, Nevada, taken before Kendall D. Heath,
Nevada Certified Court Reporter, Certificate
No. 475.

APPEARANCE OF COUNSEL AND CREDITORS:

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William Biddle, Bob Conway:

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William Biddle Family Trust

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EXAMINATION

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EXHIBITS

A Sign-in Attendance Sheet

DOCUMENTS REFERENCED DURING EXAMINATION:

1. Copy of creditor mailing matrix, as exists in the docket as of today.
2. Form 10-Q SB for SDI for quarterly period ending March 31, 2007.
3. SDI 10-K for 2007.
4. 2008 actual and forecast for Galaxy, as found in docket entry 33-14.
5. Quitclaim Deed filed with the Maricopa County Recorder as document 20060405925.

DOCUMENTS REFERENCED DURING EXAMINATION:
(Cont'd)

6. Warranty Deed filed with Maricopa County Recorder as document 20070008264.
7. Deed of Trust filed with Maricopa County Recorder as document No. 20070008265.
8. Warranty Deed filed with Maricopa County Recorder as document No. 20070008226.

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1 LAS VEGAS, CLARK COUNTY, NEVADA
2 SEPTEMBER 18, 2008
3 2:05 P.M.

4 -o0o-

5 MR. FARROW: We're on the record.

6 Hello, gentlemen. My name is Scott Farrow.

7 I'm an attorney with the United States Department of
8 Justice and I represent the U.S. Trustee.

9 This is the time and place set for the
10 meeting of creditors for Secured Diversified
11 Investment, Ltd, Case No. 0816332.

12 Today is September 18, 2008. It's a little
13 after 2:00 p.m.

14 Because there is only a few of you and we're
15 in a large room and sometimes it's difficult to hear,
16 I've indicated that you can come closer and approach
17 the table. However, that presumes that we'll all be
18 professional and you need to be maintain silence until
19 there is an opportunity to question, and I'll tell you
20 when the opportunity is.

21 The reason that's important is because we
22 have a court reporter and the court reporter can only
23 take down one person's testimony at a time.

24 The way it's going to work today I have a
25 series of questions to ask. I will ask my questions

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1 and when I'm done with my questions, I'll allow
2 creditors an opportunity to ask questions. If they are
3 presented by counsel, I presume the counsel will be
4 doing the questioning. At that time I'll ask for your
5 appearance, tell me who you are and who you represent,
6 then you may ask your questions.

7 Sir, will you please stand and raise
8 your right hand.

9 (Witness sworn.)

10 Thereupon,

11 MUNJIT S. JOHAL,

12 called as a witness by the Trustee having
13 been duly sworn, testified as follows:

14 EXAMINATION

15 BY MR. FARROW:

16 Q. Please be seated and state your full name for
17 the record and spell your full name.

18 A. First name is M-u-n-j-i-t, middle name is
19 S-i-n-g-h, last name is J-o-h-a-l.

20 Q. Your last name is pronounced Jo-el?

21 A. Joel.

22 Q. And Mr. Joel, what is your title with respect
23 to this debtor?

24 A. At this time I'm the CEO and the CFO.

25 MR. HUSTON: It's Jo-hal.

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1 MR. FARROW: Jo-hal. Sorry about that Mr.

2 Johal.

3 BY MR. FARROW:

4 Q. You're both the chief executive officer as
5 well, and you are also a director or just the chief
6 executive officer?

7 A. Director as well.

8 Q. Are there any other officers or directors of
9 Secured Diversified Investment, Ltd. at this time?

10 A. I believe there will not be. I'll be the
11 only one.

12 Q. This case, as you know, was filed as an
13 involuntary case. Are you aware of that?

14 A. Yes.

15 Q. That means it was filed by creditors of this
16 entity. Do you understand that?

17 A. Yes.

18 Q. At the time it was filed, you were the CEO
19 and director?

20 A. Yes.

21 Q. And that was on June 16th, 2008; is that
22 right?

23 A. Yes. That's my understanding, yes.

24 Q. And at the time this case was filed by an
25 involuntary petition by creditors, were there any other

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1 officers or directors of the company?

2 A. There was one.

3 Q. And who was that?

4 A. Jan Wallace.

5 Q. Can you spell her last name?

6 A. W-a-l-l-a-c-e.

7 Q. And what was Ms. Wallace's titles?

8 A. Director.

9 Q. And she since resigned then?

10 A. She will be resigning because we have to file
11 new Statement of Information with the State.

12 Q. Let me ask you, as of today has she
13 resigned?

14 A. No.

15 Q. There is actually a second director as of
16 today?

17 A. As of this moment, yes.

18 Q. And that would be Ms. Wallace?

19 A. Yes.

20 Q. Did Ms. Wallace have any other position with
21 the company prior to just being the director?

22 A. Yes.

23 Q. What were those?

24 A. She was the CEO and chairman.

25 Q. When did that change?

Page 10

1 A. January of 2008.
 2 Q. And what changed at that time?
 3 A. Basically, the company had ceased operation
 4 and I was approached by the creditors to continue as
 5 the CEO so the filings of the company could be
 6 maintained.
 7 Q. So did she then resign her presidency and CEO
 8 status?
 9 A. Yes.
 10 Q. And that left you as -- then you became the
 11 CEO?
 12 A. Yes.
 13 Q. Was there any economic remuneration? Did she
 14 get paid anything in any form of compensation at any
 15 time up to January of this year?
 16 A. No.
 17 Q. Has Ms. Wallace received any compensation of
 18 any kind since she resigned?
 19 A. No.
 20 Q. Do the directors get paid a director's fee?
 21 A. You're talking about now; correct?
 22 Q. In 2008.
 23 A. No, no director's fee.
 24 Q. Is there one that's supposed to be paid that
 25 hasn't been paid?

Page 11

1 A. No.
 2 Q. And are you an employee of Secured
 3 Diversified Investment, Ltd?
 4 A. I would be considered as such, I believe.
 5 Q. Do you get W-2 wages?
 6 A. No. I get 1099.
 7 Q. Do you regularly receive 1099 from this
 8 debtor?
 9 A. No. This will be the first time.
 10 Q. So in 2008 did you receive any income
 11 whatsoever, 1099 or other?
 12 A. Yes.
 13 Q. How much did you receive?
 14 A. I received \$3,000 a month beginning January
 15 through May.
 16 Q. Was Ms. Wallace receiving compensation at the
 17 time of her resignation?
 18 A. No.
 19 Q. Did she receive compensation in 2007?
 20 A. No.
 21 Q. Does Secured Diversified Investment as of the
 22 date of filing provide you with any other benefits, for
 23 example, a vehicle?
 24 A. No.
 25 Q. Provide retirement plan, insurance, any of

Page 12

1 those kinds of things?
 2 A. No.
 3 Q. Has the debtor provided any of those benefits
 4 to Ms. Wallace since January 2008?
 5 A. No.
 6 Q. Were any of those kinds of benefits provided
 7 to Ms. Wallace in 2007?
 8 A. No.
 9 Q. In 2007, other than yourself and Ms. Wallace,
 10 were there any other officers or directors of this
 11 company?
 12 A. I can't recall when they resigned, but Jay
 13 Kister and Peter Richman may have been directors in
 14 2007. I don't recall the date of the resignation.
 15 Q. But they would have resigned in 2007?
 16 A. Yes.
 17 Q. For purpose of the record, could you spell
 18 their last names.
 19 A. Jay A. Kister, K-i-s-t-e-r. Peter Richman,
 20 R-i-c-h-m-a-n.
 21 Q. Were they paid any compensation in 2007?
 22 A. No.
 23 Q. As the CEO, did you direct the filing of
 24 schedules of assets and liabilities for this company in
 25 this bankruptcy case?

Page 13

1 A. Yes.
 2 Q. And were those the schedules and statements
 3 filed on the 16th of this month?
 4 A. Yes.
 5 Q. Did you review them before they were filed?
 6 A. I actually reviewed them this morning.
 7 Q. Who supplied the information that's contained
 8 in the schedules?
 9 A. I did.
 10 Q. So you did not review the schedules before
 11 they were filed?
 12 A. I didn't see the schedule. I just reviewed
 13 the motion. I didn't see the actual schedule itself.
 14 Q. When was the first time you saw the
 15 schedules?
 16 A. I actually saw the schedules this morning.
 17 Q. Do you have a copy of the schedules in front
 18 of you?
 19 A. Yes, I do.
 20 Q. May I ask you to turn to the -- it starts
 21 out, one of the sets starts off at Schedule A, Real
 22 Property at the top.
 23 A. Yes.
 24 Q. For the purpose of the record, that would be
 25 Docket No. 34. I'm going to ask you to turn to the

Page 14

1 third to last page, which says Declaration Concerning
 2 Debtor's Schedules. It's at the very end.
 3 A. Yes.
 4 Q. Do you see your name towards the bottom
 5 right?
 6 A. Yes.
 7 Q. And that's /s/ your name; is that right?
 8 A. Yes.
 9 Q. That's dated June 16, 2008; is that right?
 10 A. Yes.
 11 Q. Do you know what that paragraph there says?
 12 A. That I completed these schedules to the best
 13 of my knowledge without any type of perjury or that
 14 kind of stuff. That all the information that I
 15 submitted is correct.
 16 Q. And with respect to that, did you actually
 17 sign this document?
 18 A. I acknowledged that it could be signed
 19 electronically for me.
 20 Q. Have you ever actually wet-ink signed one?
 21 A. I don't think I did that yet.
 22 MR. FARROW: Counsel, that needs to be done
 23 and I need a copy of it.
 24 Q. I'm going to ask to you look at Docket
 25 No. 35. It's a statement of financial affairs. It's a

Page 15

1 separate filing. I'm going to ask you to look at the
 2 last page of that document. That also has a signature
 3 block; is that correct?
 4 A. Yes.
 5 Q. And your signature appeared there as /s/ and
 6 it's typed; is that right?
 7 A. Yes.
 8 Q. What does it tell you?
 9 A. That I have completed this information to the
 10 best of any knowledge truthfully.
 11 Q. Have you actually inked a signature for this
 12 document?
 13 A. No, I have not.
 14 MR. FARROW: Counsel?
 15 MR. HUSTON: I'll have it signed.
 16 MR. FARROW: And I would like copies, please.
 17 Q. You indicated that you went through and
 18 reviewed that information this morning that's contained
 19 in these two documents; is that right?
 20 A. Yes.
 21 Q. Are you aware of any changes, modifications
 22 or corrections that are necessary to these documents?
 23 A. At this time, no. I would like to go through
 24 again and make sure I understand all the questions,
 25 but, to the best of my knowledge at this point in time

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1 I have no changes.
 2 Q. So you reviewed the information that's
 3 contained in there. It's complete. For example, all
 4 the assets of the company listed in the schedules?
 5 A. Yes.
 6 Q. And are all the liabilities of the company
 7 listed in the schedules?
 8 A. Yes.
 9 Q. And do you believe that the answers to the
 10 statement of financial affairs are true, correct and
 11 complete as listed in document No. 35?
 12 A. To the best of my knowledge, they are, yes.
 13 Q. And you're the individual who supplied the
 14 information to go into these schedules?
 15 A. Yes.
 16 Q. Let me walk through this and ask some
 17 questions about the schedules. Schedule A is a
 18 schedule of real property, and there's one piece of
 19 property listed. Tell me about that property. What is
 20 it?
 21 A. It's a commercial center located in
 22 Scottsdale, Arizona. It's a property. It has office
 23 buildings and retail area. And we bought a 25 percent
 24 interest in that property.
 25 Q. Now, when you say "we," are you referring to

Page 17

1 the debtor?
 2 A. Yes.
 3 Q. And you bought a 25 percent interest in
 4 Willow Point, LLC?
 5 A. No, the real estate. Not the entity, but the
 6 real estate itself.
 7 Q. So you received some kind of fractionalized
 8 deed, is that what you received?
 9 A. Yes.
 10 Q. In exchange you paid money?
 11 A. Yes.
 12 Q. How much?
 13 A. \$300,000.
 14 Q. And that was SDI's money at the time of the
 15 payment?
 16 A. Yes.
 17 Q. And that payment went to who?
 18 A. Fazql, Inc., I think it went to.
 19 Q. Can you spell that?
 20 A. F-a-z-q-l, Inc.
 21 Q. And Fazql, Inc. is that in any way related to
 22 you personally?
 23 A. No.
 24 Q. Is it related to SDI?
 25 A. Fazql, Inc. was a former director. He was at

Page 18

1 one time a former director of the company.
 2 Q. So what would his first name be?
 3 A. Patrick McNevin.
 4 Q. And he owned Fazql Inc.; is that correct?
 5 A. Yes.
 6 Q. Do you know if he's the only owner of Fazql,
 7 Inc.
 8 A. To the best of your knowledge of my
 9 knowledge.
 10 Q. When did you he cease being a director of
 11 SDI? For purposes of the record, when I talk about
 12 "SDI," I'm talking about Secured Diversified
 13 Investment, the debtor in the Chapter 11 proceeding.
 14 So let me ask again, when did Mr. Fazql cease
 15 to be a director of SDI?
 16 A. I believe in 2006.
 17 Q. Was it prior to this purchase?
 18 A. Yes.
 19 Q. And this purchase occurred when?
 20 A. January or February of 2006.
 21 Q. But he wasn't a director at the --
 22 A. I'm sorry. It was in 2005.
 23 Q. And this purchase happened in 2006? Take
 24 your time.
 25 A. Let me get my bearings straight. The

Page 19

1 purchase took place in 2006, January or February, and I
 2 can't recall when he resigned. He may have resigned in
 3 2006. So it may have been after the acquisition. I'd
 4 have to check.
 5 MR. HUSTON: We'll check that.
 6 BY MR. FARROW:
 7 Q. Fair enough. At the time of that purchase,
 8 was it a 25 percent interest that was purchased?
 9 A. Yes.
 10 Q. Who owned or purchased the other 75 percent
 11 at that time?
 12 A. That 75 percent was owned by -- Willow Point
 13 owned one hundred percent. They sold 50 percent to
 14 Fazql, and Fazql sold us 25 percent.
 15 Q. Willow Point, LLC owned fifty percent, you
 16 said?
 17 A. A hundred percent.
 18 Q. And they transferred fifty percent to Fazql,
 19 and Fazql sold you 25 percent?
 20 A. Yes.
 21 Q. So at the end of the day you had Willow
 22 Point, LLC owning fifty percent, Fazql owning 25
 23 percent, and SDI owning 25 percent; is that correct?
 24 A. Yes.
 25 Q. Is Willow Point, LLC, in anyway related to

Page 20

1 SDI?
 2 A. No.
 3 Q. Who owns Willow Point, LLC.
 4 A. Gregory Hague.
 5 Q. Has Gregory Hague served as either an officer
 6 or employee or director of SDI?
 7 A. No.
 8 MR. HUSTON: Hague, how do you spell that?
 9 THE WITNESS: H-a-g-u-e.
 10 MR. FARROW: Why don't you enter your
 11 appearance for the record.
 12 MR. HUSTON: David Huston on behalf of the
 13 debtor.
 14 BY MR. FARROW:
 15 Q. Do you know how much Fazql paid for the fifty
 16 percent interest it received from Willow Point, LLC?
 17 A. I believe it was \$600,000.
 18 Q. Since that purchase in January-February of
 19 2006, has there been any changes of ownership?
 20 A. Yes. Gregory sold 25 percent interest to a
 21 Phil McCallahan.
 22 Q. Back up. Mr. Hague is the owner of Willow
 23 Point?
 24 A. Yes.
 25 Q. And Willow Point, LLC granted another 25

Page 21

1 percent of its fifty percent interest to someone
 2 else?
 3 A. Yes.
 4 Q. Who was that again?
 5 A. Phil McCallahan.
 6 Q. Can you spell that?
 7 A. I'll try. M-c.
 8 Q. If you're not sure, tell me.
 9 A. I'm not sure exactly.
 10 Q. So we'll just make it phonetic.
 11 Mr. McCallahan, is he any way related to SDI?
 12 A. No.
 13 Q. Never served as an officer, director or
 14 employee?
 15 A. No.
 16 Q. Let's go back to the purchase. The purchase
 17 is it actually the deed to the real property and
 18 improvements?
 19 A. Yes, it's improvements.
 20 Q. Just improvements?
 21 A. It's an interest in the fee simple interest,
 22 yes.
 23 Q. Does that include the real estate as well?
 24 A. Yes.
 25 Q. So it's a 25 percent interest in the real

Page 22

Page 24

1 estate improvements of this property located in
2 Scottsdale. Is that a fair statement?

3 A. Yes.

4 Q. Is there any debt on this property?

5 A. Yes, there's debt on the property.

6 Q. Is there a mortgage?

7 A. It's a first trust deed.

8 Q. Who's the first trust deed go to?

9 A. M and I Bank.

10 Q. Is SDI an obligor on that obligation?

11 A. No.

12 Q. Who is the obligor?

13 A. Willow Point.

14 Q. Is Willow Point the only obligor on the
15 obligation?

16 A. I'm not sure if Fazql and McCallahan are. I
17 don't know what their situation is.

18 Q. So from your prospective it's a nonrecourse
19 debt. It's only against the property?

20 A. Yes.

21 Q. Is that a fair statement?

22 A. To the best of my knowledge it's a fair
23 statement.

24 Q. If it's not, tell me so.

25 A. To the best of my knowledge it's a fair

Page 23

1 statement.

2 Q. That's the only real estate property asset
3 held by the debtor at the time this bankruptcy was
4 commenced; is that right?

5 A. There's one, there's a question about. There
6 was another one that a foreclosure was going through.

7 Q. Tell me about that.

8 A. That was a property also in Scottsdale,
9 Arizona. We had a one-third interest in that property
10 similar to -- set up the same way the Willow Point
11 property was set up.

12 The two-third owner of that property, that
13 interest was acquired for 200,000 and that was acquired
14 from Jan Wallace, the director and former CEO, and we
15 reported that as related party transaction in our
16 filings.

17 Q. What was the address for that property?

18 A. 12202 Scottsdale Road. I believe it's
19 Scottsdale Road.

20 Q. And that's in Scottsdale, Arizona?

21 A. Yes. Corner of Cactus and Scottsdale.

22 Q. What happened to that property?

23 A. That property foreclosed just like the Hague
24 property. There was a first trust deed on that
25 property, but SDI was not responsible for any

1 obligation nor was it an obligor on that property. And
2 that property went into foreclosure.

3 Q. And was that address ever used by SDI as its
4 corporate address?

5 A. We used it on the filings of the corporate
6 address at one time, yes.

7 Q. When did that change?

8 A. That changed, I think, in the first part
9 sometime 2008, or the end of 2007. I can't recall
10 exactly.

11 Q. What is the current address for SDI?

12 A. The current address we're using right now is
13 3416 Via Lido, V-i-a, L-i-d-o, Suite 7, Newport Beach,
14 California 96623.

15 The mailing address I've always maintained as
16 5030 Campus Drive, Newport Beach 92660.

17 Q. That mailing address, is that a post office
18 box?

19 A. No. It used to be a corporate office of SDI.

20 Q. So what's there now?

21 A. It's a commercial building with executive
22 suites in it.

23 Q. Does SDI own a suite in that building?

24 A. No.

25 Q. Do you own a suite in that building?

Page 25

1 A. No.

2 Q. So who owns the suite that that mail goes
3 to?

4 A. It goes to the front desk, the receptionist
5 who holds the mail for me.

6 Q. If goes to the --

7 A. It goes to the building address labeled
8 "SDI." And they hold it, then they notify me that the
9 mail is there.

10 Q. Let's turn over to SDI's address. What's
11 located at SDI's nonmailing address, its physical
12 address?

13 A. The accounting records.

14 Q. Does SDI lease an office there?

15 A. No.

16 Q. So who is the lessee on the space in that
17 building?

18 A. The lessee is Kim Eckweiler.

19 Q. Is she related to SDI?

20 A. No.

21 Q. Has she ever been involved in SDI?

22 A. No.

23 Q. How does SDI lease or sublet that space?

24 A. It sublets it -- because Kim Eckweiler
25 sublets that space to a company called Makeup.com,

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Page 28

1 which is another public company. I also serve as CFO
2 of Makeup.com. They allow me to work and maintain that
3 office as well.

4 Q. So it's your office for another company?

5 A. Yes.

6 Q. But you maintain the books and records for
7 SDI at that location?

8 A. As well as a storage facility, yes.

9 Q. Tell me, where's the storage facility?

10 A. Airport Storage on Birch. Corner of Birch
11 and Campus.

12 Q. Where?

13 A. Newport Beach, California.

14 Q. Approximately where are records located at
15 that spot? You can tell me by boxes, cabinets. Give
16 me some bulk idea.

17 A. There's boxes there. I'm not sure exactly
18 how many. 20.

19 Q. Would it fill this room?

20 A. No.

21 Q. Set them all on this desk in this room, the
22 boxes?

23 A. From the ground up, you probably need two of
24 them to set them up.

25 Q. So this is a like a ten-foot table. You need

1 in possession account?

2 A. Approximately 15,000. I just got the bank
3 records so I got to reconcile it.

4 Q. What's the source of funds that's sitting in
5 the bank account?

6 A. The source of funds was left over from 2006,
7 whatever income we had in 2006, and some income in the
8 first part of 2007 before we lost the Katella
9 property.

10 Q. Spell Katella.

11 A. K-a-t-e-l-l-a.

12 Q. And that's the street Disneyland is on?

13 A. Close to it.

14 Q. And this was a shopping center as well?

15 A. It was a strip mall.

16 Q. Was it in proximity to Disneyland or a
17 different part of Anaheim?

18 A. In proximity to Disneyland. I'm not going to
19 say it's in walking, distance but in that general area.

20 (Court reporter asks for clarification.)

21 THE WITNESS: E-c-k-w-e-i-l-e-r.

22 BY MR. FARROW:

23 Q. You listed another asset, beneficiary of
24 policy on Arizona property. What kind of policy is
25 that?

Page 27

Page 29

1 two ten-foot --

2 A. Yeah, I think the storage space is ten by
3 ten.

4 Q. And it all fits in there comfortably?

5 A. Yes.

6 Q. Who has control of that warehouse facility or
7 that storage facility?

8 A. Right now, just myself.

9 Q. You have the key?

10 A. Yes.

11 Q. Is anybody else authorized to get into that
12 facility?

13 A. No.

14 Q. And you maintain control over that
15 facility?

16 A. Of that facility, yes.

17 Q. Is there a rental obligation for SDI for
18 that?

19 A. Yes.

20 Q. And is SDI current on that?

21 A. Yes.

22 Q. How does SDI pay for that?

23 A. Right now, it's paying out of the
24 debtor-in-possession account.

25 Q. As you sit here today, how much is the debtor

1 A. That's the insurance policy on the property
2 of the Hague property.

3 Q. This is the strip mall, yes?

4 A. Yes, this is the first scheduled property,
5 the Willow Point property.

6 Q. The Willow Point property is insured and this
7 is listing the insurance?

8 A. Yes.

9 Q. Is it insured for liability as well as
10 property and casualty?

11 A. Property and casualty.

12 Q. Is it only casualty or does it include
13 liability?

14 A. Includes liability.

15 Q. And have you reviewed that policy or gotten
16 enough information to know whether that's a sufficient
17 sum for insurance purposes?

18 A. I can't say I've completely reviewed it,
19 no.

20 Q. Do you know what the liability amount is?

21 A. I think it's two or three million. I don't
22 recall directly.

23 Q. And you list no other assets in the schedules
24 of any kind; is that right?

25 A. Yes.

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1 Q. SDI has no secured creditors; is that
2 right?
3 A. We have no secured creditors.
4 Q. Now, SDI shows that it has no priority claims
5 against it. And I'll take the IRS out for a minute
6 because I know you have them listed here as unsecured.
7 But to the best of your knowledge, there's no priority
8 claim against this debtor; is that right?
9 A. If you can just explain priority claim to me.
10 Like I said, that's one of the questions I had.
11 Q. Do you know what one is?
12 A. No.
13 Q. Now, you list a claim for yourself in the
14 amount of \$98,000, round numbers. What is that for?
15 A. That's accrued compensation for 2007, some of
16 2008 and reimbursable expenses.
17 Q. Tell me what was the basis of your
18 compensation that you haven't been paid?
19 A. \$7,000 a month for 2007.
20 Q. Did you receive any of it?
21 A. No.
22 Q. And what was the basis for compensation for
23 2008?
24 A. 2008 was \$3,000 a month, which I received
25 from January to May, then discontinued.

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1 Q. And you said there's also reimbursement of
2 expenses in there?
3 A. The balance -- yeah, reimbursable expenses.
4 Q. And approximately of the \$88,000 how much is
5 reimbursable expenses?
6 A. Close to 11,000.
7 Q. What would those expenses be generally?
8 A. The primarily the premium payment for the
9 directors and officers insurance which expired in
10 November 2007.
11 Q. Has it been renewed?
12 A. No.
13 Q. So this is a premium that was paid prior to
14 its expiration?
15 A. Yes.
16 Q. You list Cane Clark with a claim for about
17 \$214,000 on the schedules; is that right?
18 A. Yes.
19 Q. What is that for?
20 A. Legal services for us being a public company.
21 They were SEC lawyers, security counsel.
22 Q. How long have they been security counsel?
23 A. They started in mid-2005.
24 Q. And, in fact, that's the entity that filed?
25 A. Yes.

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1 Q. Do you know why they filed the involuntary
2 petition?
3 A. No. All I can assume, they wanted to get
4 their money.
5 Q. You list the 214,000. That's the amount you
6 believe SDI owes them?
7 A. Yes.
8 Q. For what period of time?
9 A. I believe 2006. A small portion of 2005, and
10 the balance from the beginning of 2006 to through,
11 mid-June, the date of the petition.
12 Q. So from sometime in 2006 through the time of
13 the filing June 2008, the company accrued \$214,000 in
14 legal fees that were not paid?
15 A. Yes.
16 Q. Were there any amount of legal fees paid
17 during that period of time?
18 MR. HUSTON: My question would be to Cane
19 Clark, you mean?
20 MR. FARROW: To Cane Clark, yes.
21 THE WITNESS: No.
22 BY MR. FARROW:
23 Q. So they received no compensation in 2008?
24 A. Yes, no compensation in 2008.
25 Q. Did they receive any compensation in 2007?

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1 A. No.
2 Q. Who is Claire Ambrosio?
3 A. She was corporate counsel.
4 Q. That's spelled A-m-b-r-o-s-i-o; is that
5 correct?
6 A. Yes.
7 Q. Claire, C-l-a-i-r-e?
8 A. Yes.
9 Q. What period of time does this \$10,000 claim
10 cover?
11 A. It's in 2007. She was on retainer for 2500 a
12 month approximately, so it's about four or five months
13 for 2007.
14 Q. You mark it as disputed?
15 A. It's my understanding she's not going to make
16 a claim for it and she's not going to ask us to pay
17 her.
18 Q. And why go you believe that?
19 A. I talked to her about it. I've discussed it
20 with her.
21 Q. And she says she doesn't want the money?
22 A. She says no.
23 Q. Jean Wallace, this is the former president
24 and CEO?
25 MR. HUSTON: Jan Wallace.

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1 THE WITNESS: Yes.

2 BY MR. FARROW:

3 Q. You have her listed with a claim of about
4 \$187,000. What's that for?

5 A. For compensation in 2007, accrued.

6 Q. Do you know if she received any compensation
7 in 2007?

8 A. She didn't receive it, we just accrued it.

9 Q. Now, you also mark that as disputed. Why?

10 A. I'm not sure if she's going to force the
11 company to pay that. I'd have to ask her. I never
12 discussed it with her.

13 Q. Do you believe the company owes that money to
14 her?

15 A. She had an agreement signed in 2005 that
16 would pay her \$15,000 a month.

17 Q. Is this a calculation based on that
18 agreement?

19 A. Yes, plus about \$7,000 worth of expenses.

20 Q. Now, you list the IRS with a claim of about
21 \$23,000 FUTA tax for 2004, 2005; is that correct?

22 A. Yes.

23 Q. Who is JWA Ventures, LLC?

24 A. That's a company, an individual that lent SDI
25 money during 2007 so that we can maintain our

1 A. Unless he was thinking about investing in the
2 company to become a shareholder at a later date and
3 thought the company may have some upside to it.

4 Q. So based on what you've listed as claims for
5 unsecured creditors, that works out to be about
6 \$561,000. Does that sound correct to you?

7 A. Yes, that sounds correct.

8 Q. Let's take a moment and -- are you familiar
9 with the corporate filings, the SEC filings that this
10 company has had in the last year?

11 A. Yes.

12 Q. There's a form 10-KSB that was filed for the
13 fiscal year ending December 31, 2007. Are you familiar
14 with that document?

15 A. Yes.

16 Q. And in that document there's a balance sheet.
17 Are you familiar with the balance sheet?

18 A. Yes.

19 Q. Actually, it's listed as Page F2 in the
20 document. I have some questions about that. It shows
21 \$174,000 in accounts payable. Do you know what that's
22 for in end of 2007?

23 A. Most of it was Cane Clark, if not all of it.

24 Q. Then it shows accrued expenses of \$155,000
25 round numbers. What would that be?

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1 filings.

2 Q. Who are the principals of that company?

3 A. I believe his name is either Joe or John
4 Abrams.

5 Q. Is Mr. Abrams in anyway related to SDI?

6 A. No, not until he lent us the money, no.
7 Prior to that, no.

8 Q. So he was a third-party unrelated at the time
9 he lent the money?

10 A. Yes.

11 Q. And since then, other than being a lender to
12 the debtor, is there any other relationship with JWA
13 Ventures?

14 A. No.

15 Q. Has any of the money been repaid?

16 A. No.

17 Q. So this is the entire amount left?

18 A. Yes.

19 Q. Was there anything given in exchange for the
20 \$108,000?

21 A. No.

22 Q. Was there any promises of interest in SDI?

23 A. No, I did not make any such promises.

24 Q. Do you know why this entity would loan
25 \$108,000 to SDI?

1 A. That would be the accrued payroll and other
2 expense.

3 Q. You also have separate accrued payroll number
4 of about \$90,000?

5 A. That pertains to me.

6 Q. So any payroll that's not you would be in the
7 accrued expenses?

8 A. Compensation would be in the accrued
9 expenses.

10 Q. Would that all be Jan Wallace or anybody else
11 in the accrued expense number?

12 A. Unless we made a mistake, the number doesn't
13 sound right, but it should be Jan Wallace and Jim
14 Brondino.

15 Q. Who is Jim Brondino?

16 A. He was a consultant hired by the company. He
17 wasn't an officer.

18 Q. How do you spell his name?

19 A. B-r-o-n-d-i-n-o.

20 Q. When was he retained as a consultant?

21 A. I think Jim came out some time in 2004 to my
22 best recollection.

23 Q. And was he terminated at some point or ceased
24 doing consulting work?

25 A. Yes, he ceased doing consulting work.

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1 Q. When was that?
 2 A. In 2007.
 3 Q. So the accrued expenses of \$155,000 would be
 4 your consultant and Ms. Wallace; is that correct?
 5 A. Yes.
 6 Q. You said that doesn't sound right to you.
 7 Does that sound low or high?
 8 A. It sounds low.
 9 Q. So if I add up those three numbers according
 10 to this statement here, that's about \$419,000; is that
 11 right?
 12 A. Yes.
 13 Q. Are you familiar with the SEC filing that
 14 covers the period for the end of March '08?
 15 A. Yes.
 16 Q. What kind of filing was that?
 17 A. That's a form 10-Q SB, quarterly filing.
 18 Q. And that filing has a balance sheet for the
 19 period ending March 31, 2008; is that right?
 20 A. Yes.
 21 Q. And those numbers are virtually unchanged
 22 except for the accrued expense numbers; is that
 23 right?
 24 A. Yes. That would appear to be right, yes.
 25 Q. And that went up slightly from about \$155,000

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1 to \$164,000?
 2 A. Yes.
 3 Q. You knowing, you're guessing, or you don't
 4 know?
 5 A. I'd have to look at the numbers. I'd have to
 6 go back and look at the reconciliation.
 7 Q. Let me provide you what I'll tell you are the
 8 copies. In fact, your office actually, working through
 9 your counsel provided that information.
 10 You can see that the current total
 11 liabilities did increase.
 12 A. On the accounts payable we didn't receive a
 13 billing from Cane Clark for that, the increase in
 14 accounts payable.
 15 Q. So the difference between those numbers is
 16 Cane Clark --
 17 A. Is Cane Clark money. The accrued expenses
 18 went up, then that's when I was notified about the
 19 FUTA. Some of that is FUTA on the accrued expenses,
 20 and the rest of the FUTA came in at the June filing.
 21 Q. Was the JWA Ventures money lent by the end of
 22 March 31, 2008?
 23 A. I believe it was.
 24 Q. And where would that show on the statement?
 25 A. It should be another line item for notes

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1 payable. I'd have to go back and check my work
 2 papers.
 3 Q. Could that perhaps explain the difference,
 4 because you if you look at the end of the March
 5 statement, what's the amount of total liabilities?
 6 A. March, 428,000.
 7 Q. Did you look at your Schedule F? What's the
 8 number of the total on Schedule F?
 9 A. 560.
 10 Q. Could that possibly be explained by the --
 11 A. That's the largest part of the 108, but I
 12 don't know why I overlooked, missed 108 on here.
 13 Q. Now, who prepared --
 14 A. I'd have to go back to look to give you an
 15 honest and fair answer.
 16 Q. Would it be your testimony that the increase
 17 from the March 31 statement to the filing, the bulk of
 18 that relates to this loan from JWA?
 19 A. The 108,000, yes.
 20 Q. And would there have been additional amounts
 21 accrued to Cane Clark as well?
 22 A. Yes.
 23 Q. And that would constitute the change from the
 24 March statement to the schedule that represents the
 25 petition filing date?

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1 A. Yes.
 2 Q. Sir, are you aware that a disclosure
 3 statement in support of a plan for reorganization was
 4 filed in this case?
 5 A. Yes.
 6 Q. And that was Docket No. 33. Did you review
 7 that document before it was filed?
 8 A. Yes.
 9 Q. And that is a joint document; is that
 10 right?
 11 A. Yes.
 12 Q. Between who and who?
 13 A. Cane Clark and SDI.
 14 Q. So the creditors that put the company in
 15 bankruptcy have joined forces with the debtor for
 16 purposes of preparing a planned disclosure statement;
 17 is that correct?
 18 A. To the best of any understanding, yes.
 19 Q. Why?
 20 A. I think we're trying to get the creditors as
 21 best we can possibly paid off, if at all possible, and
 22 to see if there's any life to the corporation itself.
 23 Unless we can do something, it is my fear that the
 24 corporation possibly by the end of the year, if not by
 25 November 19th or 20th will become delisted.

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1 Q. As the corporation sits today, other than the
2 25 percent interest in the property and the associated
3 insurance policy, it's a shell, corporate shell; is
4 that right?

5 A. It has no assets, yes.

6 Q. And, frankly, most of its liabilities are to
7 its professionals, to officers and directors; is that
8 right?

9 A. Yes.

10 Q. Other than taxes, are there any other
11 third-party obligations that the debtor has?

12 A. No. Only thing I got to check on is make
13 sure the franchise taxes, \$800 for California have been
14 paid.

15 Q. Did you review the disclosure statement
16 before it was filed?

17 A. Yes, I reviewed it.

18 Q. And, in essence, the plan is to sell the
19 shares of SDI to another entity; is that right? Is
20 that a fair statement or do I have it wrong?

21 A. I understand it more of to be a reverse
22 merger.

23 Q. With another entity?

24 A. Yes.

25 Q. So the other entity is a privately held

1 accomplish that. They felt the best way they could
2 accomplish it was through a reverse merger.

3 Q. How did they come to SDI?

4 A. It came to SDI by -- it was introduced by
5 Cane Clark.

6 Q. And at the time it was presented to SDI by
7 Cane Clark, was the deal negotiated?

8 A. No. It wasn't completed.

9 Q. How much involvement did SDI have in the
10 negotiations?

11 A. Very limited amount.

12 Q. Were any of the terms negotiated by SDI?

13 A. No.

14 Q. Were the terms negotiated between Cane Clark
15 and Galaxy Gaming to the best of your knowledge?

16 A. I wouldn't know who negotiated it, but I
17 would assume that's what the case was.

18 Q. So, basically, the deal was brought to SDI.
19 Here's a deal to resolve the company's dilemma; is that
20 fair?

21 A. Yes.

22 Q. Who brought that to your attention?

23 A. Cane Clark.

24 Q. And Cane Clark is a company, so who at Cane
25 Clark brought that to your attention?

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1 entity?

2 A. Yes.

3 Q. So, in other words, it would become a public
4 corporation by this transaction?

5 A. Yes.

6 Q. And the other entity is who?

7 A. Gaming Galaxy.

8 Q. Could it possibly be Galaxy Gaming, Inc.?

9 A. Yes.

10 Q. The principal of that company is who?

11 A. Robert Saucier.

12 Q. And that's spelled S-a-u-c-i-e-r?

13 A. To the best of my knowledge.

14 Q. Has he had any relationship with SDI prior to
15 this disclosure statement?

16 A. No.

17 Q. And I presume this disclosure statement was
18 in negotiation between SDI and Galaxy Gaming; is that
19 right?

20 A. SDI was very limited, involved in the
21 negotiations.

22 Q. So, then, how did this come about?

23 A. It came about in the sense that Galaxy Gaming
24 wanted to become a public company, and they reviewed
25 many assets or many possible routes in which to

1 A. I can't recall the individual. I don't know
2 if it was Kylene Cane or Bryant Clark, but I don't know
3 which one.

4 Q. One of them brought it to your attention?

5 A. One of them, yes.

6 Q. Who is Jeff Whitehead?

7 A. I'm not familiar with Jeff Whitehead.

8 Q. Now, the disclosure statement indicates he's
9 the trustee of the Alex Saucier Regulatory Trust. Does
10 that name ring a bell for you?

11 A. No, that name doesn't ring a bell for me.

12 Q. Have you ever spoken with anybody from Galaxy
13 Gaming?

14 A. Yes, last week.

15 Q. First time was last week?

16 A. I spoke with Robert Saucier, yes.

17 Q. And the first time you spoke to him was last
18 week?

19 A. Yes.

20 Q. Who drafted the disclosure statement?

21 A. I believe Mr. Huston, to the best of my
22 knowledge. I don't know who specifically did it.

23 Q. Prior to last week, who was doing the
24 communications with Mr. Saucier?

25 A. I would believe someone from Cane Clark.

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1 Q. So would it be fair to say the first time
2 that SDI was approached with respect to this deal was
3 last week?

4 A. It had been approached before that there was
5 some people that may be interested in doing a reverse
6 merger with SDI. I mean, I think that discussion went
7 through -- there's been a couple of discussions like
8 that, but the specific name came up a little bit before
9 last week. Last week was the first time I met with
10 Robert Saucier.

11 Q. Do you remember how long ago was the first
12 time you heard of Galaxy Gaming's interest?

13 A. Some time in 2008 but I can't tell you
14 exactly.

15 MR. FARROW: Mr. Huston, have you obtained a
16 hearing date for approval the disclosure statement
17 yet?

18 MR. HUSTON: There is one that's been
19 obtained, October 22nd.

20 MR. FARROW: But not noticed; is that right?

21 MR. HUSTON: It's been noticed.

22 MR. LAXAGUE: We mailed it out yesterday.

23 MR. FARROW: But you haven't filed the
24 notice?

25 MR. LAXAGUE: Notice was supposed to be filed

1 mailing matrix or as a party in interest on the mailing
2 matrix?

3 MR. HUSTON: The SEC as a party on the
4 mailing matrix? Yes.

5 MR. FARROW: They are listed?

6 MR. HUSTON: Yes.

7 MR. FARROW: To the best of your knowledge
8 they received notice of this case?

9 MR. HUSTON: To the best of my knowledge,
10 that's correct.

11 MR. FARROW: How was notice of this meeting
12 of creditors sent out

13 MR. HUSTON: You're asking me? It was sent
14 out to all of the shareholders and creditors who were
15 on the mailing matrix, absent those who for whom the
16 initial response of mailing out information had been
17 returned undeliverable for some reason or other.
18 Everyone who requested notice, everyone who is on the
19 mailing matrix, save only those where the mail was
20 returned.

21 BY MR. FARROW:

22 Q. Sir, are you aware that the filings that bear
23 your name on them are filed under penalty of perjury?

24 A. With the SEC?

25 Q. I'm talking about the ones in this

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1 probably in the last two hours.

2 MR. FARROW: Fair enough, because I looked at
3 the docket at about noon and it wasn't filed.

4 When is it? October when?

5 MR. HUSTON: October 22nd.

6 MR. FARROW: Sir, for purposes of the record,
7 can you state your appearance.

8 MR. LAXAGUE: Joel Laxague on behalf of Cane
9 Clark.

10 BY MR. FARROW:

11 Q. Have you spoken with any representatives of
12 the SEC regarding this potential transaction?

13 A. No.

14 Q. Do you believe there's any approvals that are
15 necessary from the SEC to consummate this
16 transaction?

17 A. I'm not sure, but I'm going to think, to the
18 best of my knowledge, no.

19 MR. HUSTON: That asks for a legal
20 conclusion.

21 MR. FARROW: Just asking to the extent he
22 knows.

23 MR. LAXAGUE: The answer is no, by the way.

24 BY MR. FARROW:

25 Q. Has the SEC been listed as a creditor on the

1 bankruptcy.

2 A. Yes.

3 Q. I'm just talking about the bankruptcy case.
4 What I'm talking about are the schedules and statement
5 of financial affairs.

6 A. Yes.

7 Q. Who authorized the filing of this bankruptcy
8 case?

9 A. It was involuntary.

10 Q. I'm sorry, bad question. What I meant to ask
11 you was this: SDI consented to the entry of an order
12 for relief making the case an involuntary case. Are
13 you aware of that?

14 A. I'm not sure how the legal wheels work, but I
15 understand what you're saying.

16 Q. This case was filed involuntarily by Cane
17 Clark?

18 A. Yes.

19 Q. At some point SDI signed a paper that said,
20 yeah, I agree to be in Chapter 11. I'm not going to
21 fight you on that.

22 A. Yes.

23 Q. And SDI made that decision; is that right?

24 A. Yes.

25 Q. And why?

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1 A. I didn't know there was any other options
2 to -- if there were any other options available to the
3 company.

4 Q. And you were the individual that authorized
5 consenting to being in bankruptcy?

6 A. Yes.

7 Q. And you did that in your capacity as the CEO
8 and director?

9 A. CEO, yes.

10 Q. Was there a directors' meeting approving
11 that?

12 A. No.

13 Q. What kind of legal entity is SDI? It's a
14 publicly traded --

15 A. Closed corporation.

16 Q. And is it current on its SEC filings?

17 A. Yes.

18 Q. When's the next filing due?

19 A. The exact filing is 45 days after
20 September 30. So about November 14, November 15.

21 Q. Does SDI propose who it should retain to
22 prepare that filing?

23 A. At this point in time we're looking at Morgan
24 to do the audit. At the quarterly it's a review.

25 Q. Now, did Moore do any of the prior filings?

1 Q. Are they in any way related to SDI other than
2 holding the shares?

3 A. They were the people that the Cannery was
4 purchased from.

5 Q. Tell me about that.

6 A. They were the group, Iomega, LLC, and the
7 West family, Helen West, were the managing members in
8 Iomega, LLC, from whom management at the time
9 negotiated the purchase of the Cannery shopping center.

10 MR. HUSTON: When was that, roughly?

11 THE WITNESS: 2004, 2005.

12 BY MR. FARROW:

13 Q. How did the debtor determine who the
14 shareholders of SDI were at the time of the filing of
15 the bankruptcy case?

16 A. Shareholder list.

17 Q. And who maintains that list?

18 A. Right now it's maintained by Quicksilver.

19 Q. And that is what?

20 A. A transfer agent.

21 Q. Does that list have any nominee names or are
22 they all direct owners?

23 A. There may be some street names or nominee
24 names.

25 Q. But to the best of your knowledge all of the

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1 A. 2007 K and the Qs for 2008.

2 Q. Have you ever reviewed those documents?

3 A. I've gone over them, yes. I've reviewed
4 them.

5 Q. Do you believe they were true and accurate at
6 the time they were filed?

7 A. To the best of my knowledge and ability,
8 yes.

9 Q. Were you the individual who provided the
10 information to Moore?

11 A. Yes.

12 Q. And do you believe that they accurately
13 reported the information you provided them?

14 A. Yes. To the best of my understanding, yes.

15 Q. Why is it that you want to retain them
16 again?

17 A. Because of financial concerns.

18 Q. Explain that to me.

19 A. They can do the audits a little bit quicker
20 and they can do them for less. It's just a -- strictly
21 monetary.

22 Q. Tell me about how the shares are held.

23 A. There's approximately 162,000 shares. The
24 largest block of shares is held by the West family or
25 Iomega Investments.

1 people on the shareholder list received notice of the
2 bankruptcy?

3 A. To the best of my knowledge, if we had the
4 correct addresses.

5 Q. SDI has never been in bankruptcy before; is
6 that correct?

7 A. How far do you want me to go back? I'm not
8 sure if I understand your question.

9 Q. Has SDI ever filed bankruptcy before?

10 A. SDI itself, Secured Diversified Investment,
11 Ltd., no, but its predecessors I'm not sure about. I
12 think its predecessors may have.

13 Q. Does SDI have any current subsidiaries?

14 A. No.

15 Q. Does it have any sister or parent
16 companies?

17 A. No.

18 Q. Does SDI currently have employees besides
19 yourself?

20 A. No.

21 Q. And you're a 1099 employee?

22 A. For 2008 I would be, yes.

23 Q. And you've been paid through May, but nothing
24 since for 2008?

25 A. January to May, yes.

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1 Q. Our office received a call sometime after the
2 bankruptcy filing regarding the possibility of SDI
3 documents located in that foreclosed property we talked
4 about earlier. Did you undertake an investigation to
5 determine whether or not there were SDI documents at
6 the property in Scottsdale?

7 A. There may have been some documents there.

8 Q. Did you make any attempts to collect those
9 documents?

10 A. Jan Wallace did. I myself did not go to the
11 property.

12 Q. How did Jan Wallace know to do that?

13 A. We had heard the property was in foreclosure.
14 She had been trying to get on to the property to clear
15 the property out. She wasn't allowed to get on the
16 property and then we received a phone call that would
17 appear to be SDI documents being discarded.

18 Q. Do you know if any of those documents, her
19 original books, are records of SDI?

20 A. Possibly some minutes, board minutes.

21 Q. From what period of time?

22 A. I'm going to think 2004 -- 2003, 2004.

23 Q. So it would not involve any records from 2005
24 forward?

25 A. I don't think so. I'm not sure. I know 2006

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1 forward, no, but 2005, I'm not quite sure.

2 Q. So would it be your testimony that SDI had
3 maintained control and possession of all of its
4 business records from the period 2006 and forward?

5 A. Yes.

6 Q. And 2005 you're not sure?

7 A. All the accounting records are secured. Only
8 thing that may be missing, some of the minutes.

9 Q. Other than that you believe all the documents
10 are secured?

11 A. Yes.

12 MR. FARROW: At this point I'm going to open
13 it up for creditors to ask questions. I'll do that one
14 at a time. Does anyone wish to ask questions?

15 MR. HUSTON: You mean creditors and
16 shareholders, I assume?

17 MR. FARROW: Yes, creditors and lienholders.

18 EXAMINATION

19 BY MR. BIDDLE:

20 Q. I'm William Biddle, ex-director and vice
21 president of SDI. I'm a preferred stock A and
22 preferred stock B stockholder in common stock. I
23 represent myself and the William Biddle Family Trust.

24 It was brought up earlier here that the
25 Cannery sale -- I was instrumental in bringing the

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1 Cannery sale to SDI for approval. The board of
2 directors approved it back in 2005 while I was on the
3 board. The board instructed that those funds from the
4 sale be placed with a real estate accommodator until we
5 located an upleg or a 1031 exchange for that real
6 estate.

7 MR. FARROW: Gentlemen, hold on. Are you
8 getting to the question?

9 BY MR. BIDDLE:

10 Q. I just wanted to lay the ground. My question
11 is based on the fact that SDI received in excess of
12 1,600,000 cash. What happened to that money, because
13 it never went into an accommodator. I'd like someone
14 to explain to me where that money went.

15 (Court reporter asks for clarification.)

16 THE WITNESS: 1,580,000 came in from the sale
17 of the Cannery property. During that, 500,000 of those
18 proceeds were used for the two real estate investments
19 that have been discussed earlier in these proceedings.
20 Approximately 100,000 or so was paid over a period of
21 time, was paid to the William's law firm for the
22 settlement with the Lewis Leon breach of contract,
23 employment contract, and settlement.

24 Approximately 155,000 was used to try to
25 start a mortgage lending operation, which failed, which

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1 started and ended in 2006. Monies were paid for the
2 auditing of the company's public filings and then other
3 monies went to compensation.

4 MR. FARROW: Can you tell me how much of the
5 money went to compensation?

6 THE WITNESS: I received 84,000. That was my
7 employment agreement and then Jan Wallace received her
8 15,000 a month. And then Jim Brondino received 6,000 a
9 month and then we had a receptionist.

10 MR. FARROW: Mr. Biddle, do you have any
11 other questions?

12 MR. BIDDLE: That money was earmarked to go
13 into an accommodator to buy real estate, not pay bills.
14 I feel badly about it, but 500,000 of that money went
15 to self-serving -- to two people on SDI, Jan Wallace
16 and went to the board of directors --

17 MR. FARROW: I'm sorry, Mr. Biddle. You can
18 ask questions.

19 BY MR. BIDDLE:

20 Q. Why did it go to them?

21 A. We felt the company had no investments. If
22 the company wanted to go forward, we felt that we had
23 to have some real estate investments to see if we can
24 get a return on the money. Everybody felt the real
25 estate market was going well and it didn't end up that

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1 way.

2 MR. FARROW: We're going to let Mr. Biddle
3 ask his questions and when he's done we'll go to the
4 next person.

5 BY MR. BIDDLE:

6 Q. If I'm permitted, I'll end that question.
7 I'm a class A and class B preferred stockholder. I
8 attempted to redeem, per contractual agreement, to
9 convert into common stock at a dollar a share. The
10 company denied me that privilege after I was off the
11 board of directors. Then they had a twenty to one
12 reverse split and then converted the stock without my
13 knowledge.

14 I'd like to know from the company, I had
15 159,000 shares of class A. What happened to my
16 \$159,000 of value? Where's it at? What happened?

17 A. The class of Shares, when the designations
18 were done or established at the very beginning of 2003
19 and 2002, at the time the company didn't have any
20 operations, had no income and had no basis for the
21 evaluation.

22 When Mr. Biddle and other people sent in
23 their request for the conversion, they said to be
24 converted based on appraisals of assets and properties
25 that were pursuant to the asset purchase agreement. We

1 the due diligence of the assets.

2 The board of directors of SDI chose to waive
3 the due diligence of those assets and acquire them. So
4 the basis of buying those assets had no equities. It
5 was strictly a share deal based on outstanding shares
6 of Seashore. Then when their letter came for that
7 conversion, we advised them that the asset purchase was
8 not done in the manner as specified in their letter.

9 The other problem with their letter was they
10 included certain people that were involved in the
11 purchase of the Hospitality Inn from Dickinson, North
12 Dakota. When the asset purchase agreement was signed
13 and to be consummated, the Hospitality Inn was excluded
14 from the transaction of the asset purchase agreement.

15 So instead of 10 million shares being issued,
16 approximately 7 million shares were issued because
17 approximately 3.3 million of those shares were
18 attributable to the Hospitality Inn. The reason the
19 Hospitality Inn was excluded from the transaction was
20 the Hospitality Inn was having difficulties and was
21 about to be go into foreclosure.

22 So the board of directors at that point in
23 time said the Hospitality Inn should be removed from
24 the transaction and discussed at a later point in time.
25 The Hospitality Inn was discussed at a later point in

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1 had responded indicating to the company that the asset
2 purchase agreement wasn't based on equities.

3 When the asset purchase agreement was
4 implemented it wasn't based on equities. The asset
5 purchase agreement were based strictly on shares.
6 Seashore had ten million shares outstanding, so SDI was
7 issued ten million shares for the assets that were to
8 be acquired.

9 During that process, the asset purchase
10 agreement asked for and requested a complete due
11 diligence of the assets that were being acquired. The
12 asset purchase agreement required a due diligence be
13 completed of the assets to be acquired.

14 Seashore was having difficulties and its
15 books and records were in total disarray. Seashore
16 could not provide us with a complete due diligence of
17 the assets to be acquired. The directors and officers
18 of SDI wanted to continue with the asset purchase
19 agreement and issue the ten million shares to Seashore.

20 The ten million shares to be issued were a
21 combination of common and preferred A, one-third
22 common, two-third A. But that's not what the agreement
23 said. However, the agreement did provide that if the
24 board of directors of SDI wished to -- what's the
25 proper word -- waive due diligence, they could waive

1 time, however, at that point, Seashore was eliminated
2 from that transaction.

3 Seashore was the general partner, and if I
4 remember right, I believe Seacrest Limited Partnership
5 was the limited partner and there were approximately
6 six or seven people involved, maybe twelve people on
7 that limited partnership, including certain officers
8 and directors of Seashore and SDI. That transaction
9 was done separately.

10 Seacrest Limited Partnership worked out the
11 deal, came back to SDI and said now we're ready to do
12 the transaction. At that point SDI did not receive a
13 fee simple interest. SDI received a leasehold
14 interest. We did not receive the real estate. We just
15 received the improvements at 4 million Shares.

16 So when the request came in, everybody on
17 that request was not tied to the asset purchase
18 agreement. They were asked to segregate those and do
19 that separately and we never heard back from them.

20 MR. FARROW: Mr. Biddle, do you have any
21 other questions?

22 BY MR. BIDDLE:

23 Q. He didn't answer my question. My question is
24 as a class A preferred stockholder, I wanted to convert
25 at a dollar share as per the contract and there was

1 nothing in the contract that had anything to do with
2 anything he's talking about. In the meantime I sent a
3 letter objecting to what they were attempting --

4 MR. FARROW: I'm sorry, Mr. Biddle. Let me
5 tell you, you can certainly dispute anything he says
6 and that's fine if you don't agree with what he said.
7 My question is, do you have any other questions to ask
8 him?

9 BY MR. BIDDLE:

10 Q. I want to know about that 500,000, who it
11 went to.

12 A. It was paid --

13 Q. I want to know their names.

14 A. 200,000 was paid to Jan Wallace for the
15 one-third interest in the Scottsdale property and
16 300,000 paid to Fazql, Inc.

17 Q. Was he on the board of directors?

18 A. Yeah, Patrick McNevin.

19 MR. HUSTON: That's already been asked and
20 answered.

21 BY MR. BIDDLE:

22 Q. I'm asking a question and I'm through asking
23 that question.

24 One more question. A statement was made that
25 Ambrosio was our attorney for SDI. While I was on the

1 of the assets.

2 MR. FARROW: Just to be clear, this is an
3 opportunity to ask questions. I want to make sure you
4 have time to do that, so please just ask your
5 questions.

EXAMINATION

7 BY MR. STRAND:

8 Q. I'd like to ask the question as to why the
9 debt that was owed to Seashore, and it was disclosed in
10 all of the filings up through, I believe, '05 and '06,
11 audited filings, ceased to appear, and is not shown as
12 an obligation in this bankruptcy?

13 A. The 2005 filings and the 2006 filings
14 disclose why it's no longer considered a debt by the
15 company. First of all, most of the debt was
16 undocumented. We did accrue the debt for accounting
17 purposes to make sure we didn't have any problems with
18 disclosure going forward. However, that Seashore debt
19 is directly related to the asset I was talking about,
20 the Hospitality Inn purchase.

21 When the Hospitality Inn was purchased, like
22 I said earlier, instead of receiving the ground and the
23 improvements for 3.3 million shares, we only received
24 the improvements for 4 million shares, so we actually
25 paid out more shares and got less asset back. In

1 board of directors, I don't remember him being our
2 attorney of record. It was Chris Wilson and then
3 Kylene Cane, I think, later. My question is when did
4 Ambrosio become a corporate attorney?

5 A. She started doing corporate work for us
6 sometime in 2005.

7 Q. I was on board until August 31, 2005 and she
8 was not our corporate attorney. That's my last
9 question.

10 MR. FARROW: Thank you, sir. Are there any
11 other creditors who wish to ask questions?

12 (Brief pause in proceedings.)

13 MR. STRAND: My name is Clifford Strand.

14 MR. FARROW: Who do you represent?

15 MR. STRAND: I'm here in a dual capacity:
16 First I'd like to speak to --

17 MR. FARROW: You said dual capacity. Who do
18 you represent?

19 MR. STRAND: I'm representing Seashore by
20 virtue of a limited power of attorney that I have here
21 with me that I'll be happy to provide to you.

22 MR. FARROW: Go ahead.

23 MR. STRAND: Also myself. And I'll speak to
24 Seashore first. Seashore, as it's been disclosed here,
25 a little bit of background, was the predecessor owner

1 addition, the resolutions specifically say that asset
2 was supposed to be delivered to the company free and
3 clear of taxes, payroll taxes, and other liens. The
4 asset was not delivered to the company in that manner.

5 In a board of directors meeting I had brought
6 this attention to the board of directors that the asset
7 was not acquired and closed or consummated in the
8 manner specified by the terms and conditions of the
9 agreement and the resolution. This was a primary
10 concern because officers and directors of SDI were part
11 of the limited partnership of the Hospitality Inn.

12 As a condition of that, what happened was --
13 is we were showing this debt, probably 75 percent of it
14 undocumented but we still accrued it. It was about
15 \$160,000. The board of directors had indicated to
16 offset what was picked up by SDI, which was not
17 supposed to be picked up by SDI, could be offset by
18 that debt.

19 So that's why the documented portion of the
20 debt was written off and the undocumented portion,
21 because of statute of limitations from our counsel and
22 agreed upon by auditors, we did not show that debt
23 after 2005.

24 Q. Mr. Johal, what was my position with the
25 company up until August 31, 2005?

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1 A. You were chairman of the board and you were
2 also CEO. At one point you stepped down as CEO, was
3 the president and then I think you became CEO just
4 before you left.

5 BY MR. STRAND:

6 Q. Mr. Johal, where are the records of the
7 minutes of those board meetings that you are
8 referencing?

9 A. I think I can get copies. Those may have
10 been some of the minutes that got tossed out in
11 Scottsdale, but I do believe we have cross-reference
12 files.

13 Q. Mr. Johal, are the records of Seashore in
14 that same storage unit that is maintained by SDI?

15 A. Yes, some of Seashore's older records are
16 there.

17 Q. Is it true that SDI denied Seashore the
18 access to those records?

19 A. No, that is not true because Gernot Trolf,
20 the former CFO of Seashore, and the CEO of Seashore
21 was, to my understanding while it was in good standing,
22 also the chief operating officer and the asset manager
23 of SDI, placed those records in the custody of SDI
24 because SDI was paying for the storage facility.

25 MR. FARROW: Spell the name.

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1 THE WITNESS: G-e-r-n-o-t, Trolf, T-r-o-l-f.

2 BY MR. STRAND:

3 Q. Mr. Trolf is the CEO and, I believe, chairman
4 of the board. He would have been here today. He is in
5 the hospital with a back injury. He's the one that
6 issued the limited power of attorney for me to appear
7 for him today. Being that those records, some of those
8 records of SDI, which is Seashore, you've admitted are
9 on the premises of the storage facility, isn't it true
10 that there's a note that exists between SDI and
11 Seashore that is in those files that is in that storage
12 room?

13 A. I don't know.

14 MR. HUSTON: If you know.

15 THE WITNESS: I don't know if Seashore has a
16 copy of the file, but I do from the SDI site have a
17 copy of a note.

18 BY MR. STRAND:

19 Q. How can the directors unilaterally just
20 decide that an obligation, a debt that has been audited
21 and been on the books for a series of years, just goes
22 away? Explain to me how that happens.

23 A. We felt that because of the Seashore --
24 because of the acquisition of the Hospitality Inn and
25 the debt that was incurred by the company, that should

1 not have been incurred and may have been a benefit to
2 certain officers and directors, it was best to offset
3 that debt.

4 Q. Since you've mentioned the Hospitality Inn,
5 what was the debt secured by the Hospitality Inn at the
6 time it was acquired by Secured Diversified
7 Investment?

8 A. The debt, the company, the hotel, the
9 Hospitality Inn had liens or payables for payroll taxes
10 and other type of taxes that were supposed to be
11 delivered to the company free and clear. The asset was
12 not delivered to the company free and clear.

13 Q. Was there any mortgage?

14 A. No.

15 Q. Prior to it being conveyed to the company on
16 leased land, was there a mortgage?

17 A. Before the land was leased it was a mortgage.

18 Q. So would it be fair to say that Secured
19 Diversified Investment received the asset debt free of
20 mortgage on leased land?

21 A. There was no debt, but in lieu of a debt we
22 had a ground lease obligation.

23 Q. Would it be fair to say that the debt was
24 paid off and converted to a land lease prior to the
25 conveyance of the asset to Secured Diversified

1 Investment?

2 A. I wasn't involved in that, but we were
3 delivered the improvements free of any mortgage, but
4 with a land lease obligation.

5 Q. Was that not what the contract called for?

6 A. The original asset purchase agreement called
7 for delivery of a fee simple, and then approximately
8 3.3 million shares. When that could not be delivered
9 at the recommendation of certain people not to do that
10 transaction, it was subsequently delivered for 4
11 million shares but only with the improvements, no
12 ground and any other type of liens and had to be free
13 and clear of any other type of liens.

14 Q. Again, where are the board minutes that are
15 consistent with the statement that you just made?

16 A. I have a copy of that specific signed
17 resolution by all the directors.

18 Q. What year did that take place?

19 A. That was probably in 2003 as well.

20 Q. Did you testify earlier that the records for
21 2003, the minutes, were at the property in Scottsdale,
22 Arizona, that Wallace was trying to retrieve those
23 records?

24 A. Yes, but I also --

25 Q. So now you're saying --

1 MR. FARROW: Hold on. You asked a question.
2 You've got to let him answer.

3 THE WITNESS: Yes, but I also indicated that
4 some of the minutes are cross-referenced and
5 cross-filed, so we do have copies of some of those
6 minutes.

7 BY MR. STRAND:

8 Q. So it would be fair to say that you selected
9 certain minutes and you extracted those from where the
10 other corporate records were kept?

11 A. No. We kept copies of minutes. We kept
12 binders of minute books and some of the transactions, I
13 cross-referenced the minutes or the board resolutions.

14 Q. Did you serve as a secretary for this
15 corporation at one point in time?

16 A. Yes, I did.

17 Q. Where are those minutes, your handwritten
18 minutes kept?

19 A. I don't know where my handwritten minutes
20 are.

21 Q. Let me switch subjects then. As a
22 shareholder and a party in interest also, holding a
23 significant number of series A preferred stock in
24 Secured Diversified Investment and holding some common
25 shares in not only my own name but in family trust and

1 Wallace, CEO and the board of directors in which I
2 expressed my concern over their lack of conversion and
3 also calling to the attention there was a discrepancy.

4 They're saying in a letter from Ms. Wallace,
5 actually signed by you, in December, that we're not
6 going to convert for these reasons, while I've called
7 to the attention of the board on October 3rd the issues
8 and also calling to the attention of the board that
9 they did it convert on October 30th, 2006, prior to
10 this.

11 MR. HUSTON: I don't understand the question.

12 BY MR. STRAND:

13 Q. Are you aware of this filing?

14 A. A conversion took place -- the company
15 exercised its option to convert.

16 Q. In the letter sent to me or sent to
17 Mr. Trolf, December 27, 2006 signed by you, why didn't
18 it say that? You're denying the conversion?

19 A. I was responding to your request of the
20 conversion.

21 MR. FARROW: Anyone else wish to ask
22 questions?

23 MR. ATKINSON: Robert Atkinson, counsel. I'm
24 here on behalf of Bill Biddle as an individual, Bob
25 Leonard as an individual, and Cliff Strand as an

1 minor children's names and in some cases in an LLC or
2 corporate entity, I have a question.

3 Earlier you stated that the board of
4 directors of SDI determined to not convert series A as
5 per the request that was made by the shareholders; is
6 that correct?

7 A. Yes, there was a request came in but that
8 request was not completed, yes.

9 Q. Are you aware of your filing in 2006 signed
10 by Ms. Wallace that says on October 30th, 2006 our
11 board of directors acted under section 4.02 to
12 convert?

13 A. The board of directors under the conversion
14 rules the corporation converted but not at the
15 request -- it wasn't done at the request that you had
16 submitted.

17 Q. Isn't it true that the designation of series
18 A preferred calls for the shareholder to convert, not
19 the company to convert?

20 A. No. It's my understanding that the company
21 can call for the conversion.

22 Q. At some point in time we will deposit a copy
23 of that designation, which I don't believe it says
24 that. Of concern to me is that in a letter -- are you
25 aware of the letter dated October 3, 2007 to Jan

1 individual.

2 EXAMINATION

3 BY MR. ATKINSON:

4 Q. You earlier testified that for \$200,000 in
5 approximately February 2006, the company purchased a
6 one-third interest in a property in Maricopa County;
7 correct?

8 A. Scottsdale, Arizona, yes.

9 Q. Have you seen this document before? It's a
10 quitclaim deed expressing that transaction where Jan
11 Wallace quitclaims one-third interest in that property
12 to SDI for consideration of \$200,000.

13 MR. HUSTON: Have you seen that?

14 BY MR. ATKINSON:

15 Q. Have you seen that document before?

16 A. I believe I have.

17 Q. Do you recall your 10-Q filing from Q1, 2007,
18 that expresses that on that property there was a first
19 deed of trust held by Chase for approximately 300,000
20 and a second deed of trust on the property held by
21 Ms. Wallace in the order of 226,000?

22 A. I believe that's what we reported, yes.

23 Q. Were you aware of a subsequent transaction on
24 that property?

25 MR. HUSTON: Subsequent to what?

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1 BY MR. ATKINSON:

2 Q. After the quitclaim in early 2006, were you
3 aware of any transaction in which SDI was a party,
4 grantor or grantee, with respect to that subject
5 property?

6 A. No, I do not recall.

7 Q. Are you aware that Jan Wallace herself has
8 several properties in Scottsdale?

9 A. No, I'm not aware of her personal
10 situation.

11 Q. Are you aware of this warranty deed by SDI as
12 grantor on that subject property recorded in the
13 Maricopa County records on July 3rd, 2007? That deed
14 purports to grant SDI's interest back to Jan Wallace.

15 A. No. I'm not aware.

16 Q. You're not aware of her signature as CEO at
17 the top?

18 A. No.

19 Q. Are you aware of this document which was
20 recorded simultaneously but next in order, which is a
21 deed of trust on the property made out to Jan Wallace
22 for approximately \$600,000?

23 A. No, I'm not.

24 Q. That was filed concurrently and very next in
25 order on the same date.

1 MR. HUSTON: If you know.

2 THE WITNESS: I'm not that familiar.

3 BY MR. ATKINSON:

4 Q. Are you aware that on all of your SEC filings
5 you list it as North Scottsdale Road, Phoenix,
6 Arizona?

7 A. If that's what the filings show, yes.

8 Q. What is the ZIP code on the Scottsdale
9 property?

10 A. I don't know. Off the top of my head I don't
11 know.

12 Q. Are you aware that the Scottsdale property
13 ZIP code, as recorded in the Maricopa County records is
14 a different ZIP code than what is on your SEC
15 filings?

16 A. No, I'm not aware of that.

17 Q. You earlier represented or had counsel
18 represent that the SEC is on the mailing matrix.
19 Here's a copy of the mailing matrix from three, four
20 hours ago. Can you please point out where the SEC is
21 listed?

22 MR. HUSTON: I guess it's not here. Sorry, I
23 was doing that by memory.

24 BY MR. ATKINSON:

25 Q. When does Debtor plan to file their list of

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1 Are you aware of this document which was
2 recorded next in line in exactly the next order,
3 numerical order, at the Maricopa County clerk records
4 in which Jan Wallace then deeded one-third of the
5 property back to SDI?

6 A. No. I wasn't aware of this.

7 Q. This is the first time you've ever heard of
8 this transaction in terms of deed, mortgage, deed?

9 A. Yeah, I'm not aware.

10 Q. Based on your understanding of how mortgages
11 work, would you say that this deed of trust that was
12 recorded on that day would have paid off the first two
13 lienholders on the home?

14 MR. LAXAGUE: Lacks foundation. Calls for
15 legal conclusion.

16 BY MR. ATKINSON:

17 Q. What was the address of that property?

18 A. I believe it was 12202 Scottsdale Road on the
19 corner of Cactus and Scottsdale.

20 Q. Is that in Phoenix or Scottsdale?

21 A. I thought it was Scottsdale. I get confused
22 between the borders of between Phoenix and
23 Scottsdale.

24 Q. Have you ever been aware in your life that
25 there's a North Scottsdale Road in Phoenix?

1 equity securityholders by class, including name and
2 address pursuant to Rule 1073?

3 MR. HUSTON: You're asking me?

4 MR. ATKINSON: I'm asking Debtor when does
5 Debtor plan to have that filed? It was due 15 days
6 later, which was August 15. When can we expect to see
7 it?

8 MR. HUSTON: Soon.

9 MR. ATKINSON: Will that directly and exactly
10 match what is on the transfer records of Quicksilver?

11 MR. HUSTON: I've already testified that it
12 will. Except for the those that were returned with bad
13 addresses it will, yes.

14 MR. FARROW: To clarify, you've not
15 testified. You just made those statements.

16 MR. HUSTON: I just made that statement, yes.

17 BY MR. ATKINSON:

18 Q. There is 16 pages, over 400 people on the
19 creditor mailing matrix. Are you aware of that?

20 A. No, I wasn't.

21 Q. Do you know why all of these people are
22 listed even though so few people are listed and
23 entities are listed on the schedules?

24 A. All I know is that I thought the matrix came
25 from the transfer agent, Quicksilver.

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1 Q. Are you aware that Clifford Strand as an
2 individual and Bill Biddle as an individual are not on
3 here?

4 A. No, I wasn't aware of that.

5 Q. Do you believe that Bill Biddle and Cliff
6 Strand as an individual are common shareholders?

7 A. I have to go back and check. Depending on
8 the results of the rollback.

9 Q. Are you aware that Patrick McNevin of Fazql,
10 LLC, is allegedly or was allegedly the boyfriend of Jan
11 Wallace?

12 A. As I indicated earlier, Ms. Wallace's
13 personal life is none of my concern.

14 Q. Were you ever aware of a romantic
15 relationship between Patrick McNevin and Jan Wallace?

16 A. No.

17 Q. When was the first time you became aware of
18 the Galaxy transaction? You testified it was one week
19 ago approximately; is that correct?

20 A. No, they met with me a week ago.

21 Q. Were you aware of the proposed Galaxy
22 transaction before the involuntary petition was
23 filed?

24 A. There's been discussion about reverse merger
25 but no details.

1 Q. Are you aware of any connection between
2 Galaxy and Cane Clark, LLP, business relationship?

3 A. No.

4 Q. Are you aware of any business relationship or
5 shareholder ownership or other membership interest in
6 Galaxy and Kylene Cane as an individual or Brian Clark
7 as an individual?

8 A. No.

9 Q. I have here the 2008 actual and forecast for
10 Galaxy, which was from your filing from today. It
11 shows a negative income, net income, both actual and
12 forecast in 2008 for Galaxy. Did you review this
13 before your reorganization plan was submitted?

14 A. I looked at it and discussed a little bit
15 with Mr. Saucier.

16 Q. As the CE -- your position is CEO
17 currently?

18 A. Yes.

19 Q. As CEO of a publicly-traded company, do you
20 believe it's in your shareholders' best interest as a
21 fiduciary to do a reverse merger with a company that
22 has absolutely no net income, positive net income, for
23 any month except possibly December 2008?

24 A. It all depends on what happens in the future
25 and their ability to raise money.

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1 Q. Was that discussion about reverse merger with
2 Galaxy?

3 A. No names were given to me. Galaxy was
4 mentioned, but there are also other possibilities that
5 may be of interest.

6 Q. Other than the Iomega connection, are you
7 aware of any connection between Galaxy and either Cane
8 Clark, LLP, Kylene Cane as an individual or Brian Clark
9 as an individual?

10 MR. LAXAGUE: Objection. Misstates prior
11 testimony. I don't believe he said Iomega was related
12 to Galaxy.

13 MR. ATKINSON: Through the West he expressed
14 a connection there.

15 MR. FARROW: Counsel, let's take it apart.
16 Just ask each one if there's a relationship between SDI
17 or whoever it is between.

18 BY MR. ATKINSON:

19 Q. Is there any relationship that you're aware
20 of between Galaxy and Iomega?

21 A. No.

22 Q. Are you aware of any connection between
23 Galaxy and former principals or shareholders of
24 Iomega?

25 A. No.

1 Q. Did you read the reorganization plan?

2 A. No. I have the declaration. I haven't gone
3 through the reorganization plan.

4 Q. Have you read docket entry No. 33 at all
5 before it was filed? That is the joint --

6 MR. HUSTON: SEC disclosure statement.

7 THE WITNESS: I went through the disclosure
8 statement, yes.

9 BY MR. ATKINSON:

10 Q. You read it before it was filed?

11 A. Yes.

12 Q. And you concur?

13 A. It's an opportunity for that person. It's an
14 opportunity to see if we can get any of the creditors
15 paid off. I don't see how SDI in any other means is
16 going to be able to address paying its creditors.

17 Q. Did you ever file an 8K on your share
18 conversion, the preferred to common conversion?

19 A. I think we did. I'll have to go back and
20 check.

21 Q. Do you know who the principals or owners of
22 Makeup.com -- did I get that correctly -- the Newport
23 Beach company?

24 A. Yes.

25 Q. Who are the principals or shareholders or

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1 members of that company?

2 A. It's a wide list of shareholders but the
3 largest shareholder is Rick Jeffs.

4 Q. Does Jan Wallace have any ownership interest
5 to your knowledge in that company?

6 A. No.

7 Q. Is it 5030 Kansas Street, the other
8 location?

9 MR. HUSTON: Campus.

10 BY MR. ATKINSON:

11 Q. Was this a formerly owned building of SDI?

12 A. It's a subsidiary.

13 Q. It's an office building, not a single-family
14 residence?

15 A. It's a commercial office building.

16 Q. Who's Kelly Black?

17 A. Kelly Black was a person who came in with
18 Wallace. She was a consultant.

19 Q. Can you please describe Jan Wallace's
20 relationship with Cane Clark, LLP?

21 A. I believe she's been a client of Cane Clark
22 for some time. I don't know exactly how long. Jan
23 Wallace was -- when she took over as CEO of SDI she
24 brought Cane Clark in as securities counsel.

25 Q. When was the most recent set of SDI by-laws,

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1 amended by-laws put in place, voted in by the board of
2 directors?

3 A. I don't recall that.

4 Q. Do you recall what year?

5 A. No, I'd have to go back and check.

6 Q. Were they in fact amended?

7 MR. HUSTON: Ever?

8 THE WITNESS: I believe they were amended,
9 but I'm not sure. I believe they were.

10 BY MR. ATKINSON:

11 Q. Do you recall the purpose of any such
12 amendment?

13 A. No, I don't.

14 Q. Would you be able to produce the by-laws that
15 existed before that? Are they in your corporate
16 records?

17 A. I'd have to check to see if they are there.

18 MR. FARROW: Do you have any reason to
19 believe that the by-laws and by-law amendments are not
20 contained in the corporate records of SDI?

21 THE WITNESS: No.

22 MR. FARROW: So you think they're there. To
23 the extent they exist, they're there?

24 THE WITNESS: Yes.

25 BY MR. ATKINSON:

1 Q. Do you recall what the shareholder quorum
2 section of the current set of SDI by-laws is? What
3 percentage of shareholders constitutes a quorum?

4 A. I couldn't tell you off the top of my head.
5 At the last shareholder meeting I thought it was
6 51 percent.

7 Q. Is there currently only one director?

8 A. Just myself. Jan Wallace hasn't resigned,
9 but I'm assuming it's just going to be myself.

10 Q. I have just one other question. Can you --
11 it's a little bit of a numerical exercise, but can you
12 please describe for us the set of stock transactions by
13 which --

14 MR. ATKINSON: How many shares did you have?

15 MR. BIDDLE: I had a million and a half
16 shares. 160 of series A and the rest common.

17 BY MR. ATKINSON:

18 Q. 1.5 million shares of series A, which by your
19 own records say they were completely converted to
20 common. Compare the origin and the current disposition
21 of Bill's former 1.5 million series A preferred and
22 this item 11, which was from your own filing as your
23 own SEC filing, saying that Bill Biddle is not listed
24 as any beneficial owner owning more than 5 percent of
25 the outstanding shares where it appears from the table

1 that 5 percent of outstanding shares is approximately
2 175 Shares?

3 MR. LAXAGUE: Objection to form.

4 BY MR. ATKINSON:

5 Q. How many shares, based on your recollection
6 of the conversion exercise, does Bill Biddle currently
7 own as a result of his conversion, series A preferred
8 to common?

9 A. I don't know off the top of my head.

10 Q. What is the providence of Jan Wallace's
11 430,000 shares?

12 MR. HUSTON: If you know.

13 THE WITNESS: She was issued shares by the
14 board of directors. That's all I know.

15 BY MR. ATKINSON:

16 Q. Did she have more than that at one time?

17 A. I'm not sure. She may have had more. I
18 can't tell without going back and looking at this
19 information.

20 Q. Based on your knowledge as a member of the
21 board of directors, was there ever a reverse share
22 split?

23 A. At the time the reverse share splits were
24 done, I was not a member of the board.

25 Q. What was that percentage, that ratio?

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1 A. I believe it was twenty to one.

2 Q. Do you know the business purpose of it?

3 A. No, I really couldn't tell you what the
4 purpose was.

5 Q. Does Jan Wallace currently own 430,000?

6 A. She does own shares. I don't know the exact
7 number.

8 Q. So although she may be resigning as a
9 director, she's still a substantial shareholder?

10 MR. LAXAGUE: Objection. Vague.

11 BY MR. ATKINSON:

12 Q. After her resignation as director, will she
13 still own 430,000?

14 A. I don't know what the numbers she'll have,
15 but she'll still be a shareholder.

16 MR. FARROW: Here's what I'm going to do with
17 respect to today. There are no documents attached to
18 this record other than to the extent that they are
19 recognized by the testimony, and if you want to say
20 what they are out loud, you can do that with the court
21 reporter when I'm done.

22 Here's what I want to do: My intention was
23 to conclude today, however, it now appears that the SEC
24 has not received notice of the meeting of creditors.
25 So I can do one of two things: My inclination is to

1 the SEC and let them know.

2 MR. HUSTON: I'll so stipulate.

3 MR. ATKINSON: For purposes of service, do
4 you have an opinion as to which address we're supposed
5 to be using or the current registered agent address
6 within the Secretary of State?

7 MR. FARROW: Service of what to who on what?

8 MR. ATKINSON: For a potential adversary
9 proceeding. It appears that the Nevada Secretary of
10 State records are not up to date. It lists Jan Wallace
11 as president.

12 MR. FARROW: Mr. Huston, what address should
13 service of process be sent on this?

14 MR. HUSTON: It can be sent to me.

15 MR. FARROW: So you will accept service on
16 behalf of SDI of papers and pleadings in the bankruptcy
17 case, whether it be through the main case or in
18 commencement of adversary?

19 MR. HUSTON: Yes.

20 MR. ATKINSON: And will it need to be served
21 by third-party or can I fax and e-mail it to you
22 directly?

23 MR. FARROW: I'm going to answer that by
24 saying look at the federal rules of bankruptcy
25 procedure.

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1 conclude it if I get a stipulation with the debtor that
2 says upon me sending Mr. Huston an e-mail setting a
3 date two weeks out, if the SEC requests an opportunity
4 to participate at a 341 Meeting of Creditors, that you
5 would agree to appear by -- Mr. Johal will appear for
6 purposes of answering questions at a continued 341 for
7 the SEC. Would you so stipulate?

8 MR. HUSTON: I'll so stipulate. I'll also
9 stipulate with counsel that we'll get notice off
10 immediately to the SEC.

11 MR. FARROW: That would be great. What I'd
12 like to do, obviously there's a standardized notice
13 address they're supposed to get, use that. And I would
14 also like you to contact directly, Mr. Johal, your
15 contact through the SEC. I assume there's somebody
16 that you know who you dealt with in the past. Is that
17 true or not?

18 THE WITNESS: No, I haven't dealt with
19 anybody at the SEC.

20 MR. FARROW: You need to talk to your
21 proposed consultant who prepared the statements. You
22 need to find somebody, and you need to get in contact
23 with them so that they're aware of the case because it
24 takes the government time to become aware of things.
25 So I need you to actually personally contact someone at

1 With that, we're going to go ahead and
2 conclude subject to the stipulations.

3 Thank you very much.

4 (Whereupon, the proceedings were
5 concluded at 4:02 p.m.)
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1 REPORTER'S CERTIFICATE

2
3 STATE OF NEVADA)

) ss

4 COUNTY OF CLARK)

5
6
7 I, KENDALL D. HEATH, a Certified Court
8 Reporter, do hereby certify that I took down in
9 Stenotype all of the proceedings had in the
10 before-entitled matter at the time and place indicated
11 and that thereafter said shorthand notes were
12 transcribed into typewriting at and under my direction
13 and supervision and that the foregoing transcript
14 constitutes a full, true and accurate record of the
15 proceedings had.

16
17 IN WITNESS WHEREOF, I have hereunto subscribed
18 my name at Las Vegas, Nevada, this 2nd day of October,
19 2008.

20
21
22
23 _____
KENDALL D. HEATH
CCR No. 475