

NEXIA HOLDINGS INC  
Form 10QSB  
May 22, 2006

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

\_\_\_\_\_  
**FORM 10-QSB**  
\_\_\_\_\_

*(Mark One)*

Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended March 31, 2006.

Transition report under Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from \_\_\_ to \_\_\_.

Commission file number: 33-22128-D

\_\_\_\_\_

**NEXIA HOLDINGS, INC.**  
(Exact name of small business issuer as specified in its charter)

\_\_\_\_\_

Nevada  
(State or other jurisdiction of  
incorporation or  
organization)

84-1062062  
(I.R.S. Employer  
Identification No.)

59 West 100 South, Salt Lake City, Utah 84101  
(Address of principal executive office) (Zip Code)

(801) 575-8073  
(Issuer's telephone number)

\_\_\_\_\_

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such 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 shell company. Yes [ ] No [X]

The number of outstanding shares of the issuer's common stock, \$0.001 par value, as of May 17, 2006 was 3,889,943,850.

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**ITEM 1. FINANCIAL STATEMENTS**

As used herein, the term "Nexia" refers to Nexia Holdings, Inc., a Nevada corporation, its subsidiary corporations and predecessors unless otherwise indicated. The accompanying unaudited, consolidated interim financial statements have been prepared in accordance with the instructions to Form 10-QSB pursuant to the Securities and Exchange Commission and, therefore, do not include all information and footnotes necessary for a complete presentation of our financial position, results of operations, cash flows and stockholders' equity in conformity with generally accepted accounting principles in the United States of America. In the opinion of management, all adjustments considered necessary for a fair presentation of the results of operations and financial position have been included and all such adjustments are of a normal recurring nature.

Our consolidated financial statements are attached hereto as pages 4 through 11 and are incorporated herein by this reference.

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**NEXIA HOLDINGS, INC. AND SUBSIDIARIES**  
**Consolidated Balance Sheets**

ASSETS	As of March 31, 2006 (Unaudited)	As of December 31, 2005
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 39,389	\$ 160,440
Accounts and notes receivable, trade - net of allowance of \$18,870 and \$18,870 respectively	35,947	36,833
Accounts receivable - related parties (Note 6)	4,577	7,342
Notes receivable - net of allowance of \$345,000 and \$345,000 respectively	10,242	13,164
Inventory	40,341	35,435
Prepaid expenses	33,435	28,191
Marketable securities	154,737	250,873
<b>TOTAL CURRENT ASSETS</b>	<b>318,668</b>	<b>532,278</b>
<b>PROPERTY AND EQUIPMENT</b>		
Property and equipment, net	3,075,573	3,094,373
Land	689,295	689,295
<b>TOTAL NET PROPERTY AND EQUIPMENT</b>	<b>3,764,868</b>	<b>3,783,668</b>
<b>OTHER ASSETS</b>		
Loan costs, net	3,076	3,970
<b>TOTAL OTHER ASSETS</b>	<b>3,076</b>	<b>3,970</b>
<b>TOTAL ASSETS</b>	<b>\$ 4,086,612</b>	<b>\$ 4,319,916</b>

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

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**NEXIA HOLDINGS, INC. AND SUBSIDIARIES**  
**Consolidated Balance Sheets, (Continued)**

<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>March 31, 2006 (Unaudited)</b>	<b>December 31, 2005</b>
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 274,171	\$ 233,606
Accounts payable - related parties (Note 6)	4,577	29,731
Accrued liabilities	378,940	293,687
Deferred revenue	1,074	988
Refundable deposits	15,892	15,892
Current maturities of long-term debt	910,411	929,908
<b>TOTAL CURRENT LIABILITIES</b>	<b>1,585,065</b>	<b>1,503,812</b>
<b>LONG-TERM LIABILITIES</b>		
Convertible debenture derivative	2,143	85,714
Convertible debenture	32,467	16,440
Long-term debt	1,513,477	1,524,339
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>1,548,087</b>	<b>1,626,493</b>
<b>TOTAL LIABILITIES</b>	<b>3,133,152</b>	<b>3,130,305</b>
<b>MINORITY INTEREST</b>	<b>237,282</b>	<b>226,426</b>
<b>STOCKHOLDERS' EQUITY</b>		
Preferred Series B stock, \$0.001 par value, 50,000,000 shares authorized, 8,000,000 shares issued and outstanding	8,000	8,000
Preferred Series C stock, \$0.001 par value, 5,000,000 shares authorized, 100,000 shares issued and outstanding	100	100
Common stock \$0.001 par value, 10,000,000,000 shares authorized, 3,889,943,850 and 3,189,945,834 shares issued (post reverse split) and outstanding, respectively	3,889,944	3,539,946
Additional paid-in capital	10,586,206	10,808,402
Treasury stock -29,138 and 29,138 shares at cost, respectively	(100,618)	(100,618)

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Stock subscriptions receivable	(91,479)	(11,325)
Other comprehensive Loss \	(67,428)	(5,721)
Accumulated deficit	(13,508,547)	(13,275,599)
Total Stockholders' Equity	716,178	963,185
TOTAL LIABILITIES AND STOCKHOLDERS'		
EQUITY	\$ 4,086,612	\$ 4,319,916

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

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**NEXIA HOLDINGS, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Operations and Other Comprehensive (Loss)**

	<b>For the Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2006</b>	<b>2005</b>
	(Unaudited)	(Unaudited)
<b>REVENUE</b>		
Rental revenue	\$ 60,109	\$ 96,636
Rental revenue - related party		-
Sales - Salon and Retail	265,241	-
<b>TOTAL REVENUE</b>	<b>325,350</b>	<b>96,636</b>
<b>COST OF REVENUE</b>		
Cost associated with rental revenue	60,853	75,696
Depreciation and amortization associated with rental revenue	32,459	36,652
Interest associated with rental revenue	62,072	58,992
Cost of sales - Salon and Retail	104,303	-
Cost associated with consulting revenue	-	62,383
<b>TOTAL COST OF REVENUE</b>	<b>259,687</b>	<b>233,723</b>
<b>GROSS INCOME (LOSS)</b>	<b>65,663</b>	<b>(137,087)</b>
<b>EXPENSES</b>		
General and administrative expense	343,822	306,590
Depreciation expense	11,307	2,560
<b>TOTAL EXPENSES</b>	<b>355,129</b>	<b>309,150</b>
<b>OPERATING LOSS</b>	<b>(289,466)</b>	<b>(446,237)</b>
<b>OTHER INCOME (EXPENSE)</b>		
Interest expense	(14,372)	(12,926)
Interest expense - accretion of debt	(16,027)	-
Interest income	61	18,742
Loss on marketable securities	(4,983)	(568)
Loss on disposal of assets	(959)	-
Unrealized gain related to adjustment of derivative liability to fair value of underlying security	83,571	-
Other income - debt forgiven	-	14,442
Other income	594	3,172
<b>TOTAL OTHER INCOME</b>	<b>47,885</b>	<b>22,862</b>
<b>NET LOSS BEFORE MINORITY INTEREST</b>	<b>(241,581)</b>	<b>(423,375)</b>



MINORITY INTEREST IN LOSS	8,633	4,261
NET LOSS	(232,948)	(419,114)
OTHER COMPREHENSIVE LOSS		
Change in unrealized loss on marketable securities	(61,708)	(21,994)
TOTAL COMPREHENSIVE LOSS	\$ (294,956)	\$ (441,108)

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

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**NEXIA HOLDINGS, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Operations and Other Comprehensive Loss**  
**(Continued)**

	<b>For the Three Months Ended March 31,</b>	
	<b>2006 (Unaudited)</b>	<b>2005 (Unaudited)</b>
Net income (loss) per common share, basic and diluted:		
Income (loss) before minority loss	\$ 0.00	\$ (0.00)
Minority interest in income	-	-
Net loss per weighted average common shares outstanding	\$ 0.00	\$ (0.00)
Weighted average shares outstanding - basic & diluted	3,652,722,611	2,613,634,221

(Weighted average shares outstanding for year 2004 have been adjusted retroactively to reflect a reverse stock split on November 1, 2004)

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

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**NEXIA HOLDINGS, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Cash Flows**

	<b>For the Three Months Ended March 31,</b>	
	<b>2006 (Unaudited)</b>	<b>2005 (Unaudited)</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (232,948)	\$ (419,114)
Adjustments to reconcile net (loss) to net cash used in operating activities:		
Impairment of marketable securities	-	155
Change in minority interest	10,856	(4,260)
Depreciation expense	42,862	39,212
Amortization of lease / loan costs	894	894
Intrinsic and fair value of stock options issued	35,000	131,494
Issued common stock for services	-	80,268
Allowance for bad debts	-	(950)
Accretion of convertible debenture	16,027	-
Gain from forgiveness of note payable	-	(14,442)
Unrealized gain related to adjustment of derivative to fair value of underlying security	(83,571)	-
Stock certificate issued in 2003 returned and cancelled	(11,800)	-
Loss on disposal of vehicle	961	-
Changes in operating assets and liabilities:		
Accounts receivable	886	7,326
Accounts receivable, related parties	(3,410)	(14,112)
Notes receivable		
Inventory	(4,906)	-
Prepaid expenses	(5,244)	(1,721)
Accounts payable	(18,209)	(111,310)
Accounts payable , related parties	39,795	-
Accrued liabilities	85,253	(25,973)
Unearned rent	-	(11,547)
Deferred revenue	86	345
Refundable deposits	-	2,851
Convertible debenture	-	(5,000)
Net cash used in operating activities	(127,468)	(345,884)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(25,023)	(69,414)
Gain from sale of marketable securities	36,802	-
Loss from sale of marketable securities	(2,378)	-
Proceeds from note receivable	-	25,000

Adjustments between notes receivable and accounts receivable balances	-	1,839
Net cash provided by (used) in investing activities	9,406	(42,575)

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

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**NEXIA HOLDINGS, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Cash Flows, (Continued)**

**For the Three Month Ended**  
**March 31,**

<b>2006</b>	<b>2005</b>
<b>(Unaudited)</b>	<b>(Unaudited)</b>

**CASH FLOWS FROM FINANCING ACTIVITIES**

Payments on long-term debt	(27,437)	(18,884)
Receipt of stock subscriptions receivable	24,448	373,516
Proceeds from issuance of long-term debt	-	57,795
Issuance of common stock for stock options exercised	-	38,506
Net cash provided by (used) in financing activities	(2,989)	450,933

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(121,051)	62,474
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CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	160,440	232,491
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CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 39,389	\$ 294,965
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**SUPPLEMENTAL DISCLOSURE OF INFORMATION****CASH PAID FOR:**

Interest	\$ 64,258	\$ 68,055
Income taxes	\$ -	\$ -

**SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:**

Common stock issued for services	\$ -	\$ 80,268
Intrinsic and fair value of options issued	\$ 35,000	\$ 131,494
Common stock issued for subscription receivable	\$ 105,000	\$ 15,000
Common stock issued for building improvements	\$ -	\$ 20,200
Unrealized gain on adjustment of derivative to fair value of underlying security	\$ 83,571	\$ -

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

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**NEXIA HOLDINGS, INC. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**  
**March 31, 2006**

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**NOTE 1 - BASIS OF FINANCIAL STATEMENT PRESENTATION**

The accompanying unaudited consolidated financial statements for Nexia Holdings, Inc. and Subsidiaries (the Company) have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States of America have been condensed or omitted in accordance with such rules and regulations. The information furnished in the interim consolidated financial statements includes normal recurring adjustments and reflects all adjustments, which, in the opinion of management, are necessary for a fair presentation of such financial statements. Although management believes the disclosures and information presented are adequate to make the information not misleading, it is suggested that these interim consolidated financial statements be read in conjunction with the Company's most recent audited consolidated financial statements and notes thereto included in its December 31, 2005 Annual Report on Form 10-KSB. Operating results for the three months ended March 31, 2006 are not indicative of the results that may be expected for the year ending December 31, 2006.

**NOTE 2 - GOING CONCERN**

The Company's consolidated financial statements are prepared using accounting principles generally accepted in the United States of America applicable to a going concern which contemplates the realization of assets and liquidation of liabilities in the normal course of business. The company has incurred cumulative operating losses through March 31, 2006 of \$13,508,547 which raises substantial doubt about the Company's ability to continue as a going concern. This represents an increase in the cumulative operating loss of \$232,948 for the quarter ended March 31, 2006. The Company had a negative working capital balance at March 31, 2006 of \$1,266,397.

Revenue has not been sufficient to cover the Company's operating costs. Management's plans to enable the company to continue as a going concern include the following:

- Increase revenue from rental properties by implementing new marketing programs.
- Make improvements to certain rental properties in order to make them more marketable.
- Reduce expenses through consolidating or disposing of certain subsidiary companies.
- Purchase revenue producing real estate.
- Decrease payroll expenses.
- Raise additional capital through private placements of the Company's common stock.
- Use stock and option-based compensation to cover payroll and other permissible labor costs.
- Refinancing of the note secured by the real property held by Wasatch Capital Corporation would have a significant effect on the working capital deficit of the Company, such refinancing is being sought by Company management.

There can be no assurance that the Company can or will be successful in implementing any of its plans or that it will be successful in enabling the company to continue as a going concern. The Company's consolidated financial

statements do not include any adjustments that might result from the outcome of this uncertainty.

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Table of Contents**NOTE 3 - OUTSTANDING STOCK OPTIONS**

A summary of the status of the Company's stock option plans as of March 31, 2006 and December 31, 2005 and changes during those periods is presented below. The numbers of options reflect the effect of the November 1, 2004 reverse stock split:

	Three months ended March 31, 2006		Year ended December 31, 2005	
	Average Exercise Shares	Price	Average Exercise Shares	Price
Outstanding,				
Beginning of period	135,000	\$ 0.001	722,500	\$ 0.001
Granted	350,000,000	0.000	1,000,000,000	0.00016
Exercised	(350,000,000)	0.000	(1,000,587,500)	0.00016
Outstanding, end of period	135,000	0.001	135,000	0.001
Exercisable	135,000	0.001	135,000	0.001

The Company determined the fair value of the stock options issued during the periods at the grant dates by using the Fair Market Value on the date of option grant less the 75% share of cash received by the Company.

For the period ended March 31, 2006, the average price per share for outstanding options was \$0.001.

On March 21, 2006, the Board of Directors of the Company adopted the "2006 Benefit Plan of Nexia Holdings, Inc." under which the Company may issue stock or stock options to employees, consultants, advisors or other individual persons. The total number of shares covered by the 2006 plan is 500,000,000 shares of the Company's common stock. This plan expires on the earlier of the date that is five years from the date the plan was adopted or the date on which the five hundred millionth share is issued. No shares have been issued pursuant to this registration as of the filing of this report.

**NOTE 4 - COMMON STOCK**

During the three months ended March 31, 2006, the Company issued 350,000,000 shares of common stock pursuant to the Company's S-8 Registration Statement.

**NOTE 5 - JOINT VENTURE AGREEMENT**

Wasatch Capital Corporation, a subsidiary of Nexia Holdings, Inc., signed a joint venture agreement with Diversified Holdings X, Inc., doing business as Black Chandelier, Inc., a related party of which Richard Surber is the president, on March 30, 2006. Wasatch Capital Corporation shall receive one-half of all net profit from the web sale of products by Diversified Holdings X, Inc. in exchange for the use of the equipment held by Wasatch Capital Corporation and which equipment Diversified Holdings X, Inc. is allowed to use in the production of its merchandise for sale. There

was no income received in the quarter ended March 31, 2006 from this agreement. Additional information on the Black Chandelier business operations can be found on its web site: [www.blackchandelier.biz](http://www.blackchandelier.biz). This is a related party company.

Table of Contents**NOTE 6 - RELATED PARTIES TRANSACTIONS**

Richard D. Surber owns a 60% controlling interest in Landis, LLC. Richard D. Surber has allowed Landis, LLC to use lines of credit, guaranteed by him, in the amount of \$62,774 as of March 31, 2006.

**NOTE 7 - INVESTMENT IN MARKETABLE EQUITY SECURITIES**

The following is a summary of the Company's investment in available-for-sale securities as of March 31, 2006.

	Available-for-Sale	
	Gross Unrealized Losses 2006	Fair Value 2006
Equity securities, free trading	\$ 24,326	\$ 39,837
Equity securities, restricted	43,102	114,900
	\$ 67,428	\$ 154,737

Changes in the unrealized loss on available-for-sale securities during the three months ended March 31, 2005 and the year ended December 31, 2005, reported as a separate component of stockholders' equity, are as follows:

	For The	
	Three Months Ended March 31, 2006	Year Ended December 31, 2005
Beginning balance	\$ (5,721)	\$ (6,767)
Increase in unrealized holding gains (losses)	(61,707)	1,046
	\$ (67,428)	\$ (5,721)

During the three months ended March 31, 2006 and the year ended December 31, 2005, the Company recognized \$0 and \$155 in permanent impairment expense on marketable securities.

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**NOTE 8 - SUBSEQUENT EVENTS**

The primary asset of Salt Lake Development Corporation, a subsidiary of Nexia Holdings, Inc., an office building at 268 West 400 South, Salt Lake City, Utah, was sold on April 19, 2006 for a cash sales price of \$850,000. The Company received \$238,647 after paying off the mortgage and settlement costs.

On April 27, 2006 the Company signed an Agreement with CollegeStock, Inc. of Tempe, Arizona, wherein CollegeStock agreed to provide certain public relations services to the Company in exchange for a cash payment of \$25,000. The term of the agreement runs from May 3, 2006 through June 3, 2006. The agreement may be extended at the Company's election at a cost of \$10,000 per month.

A condominium in Brian Head, UT , a mountain resort area about 260 miles south of Salt Lake City, was sold on April 28, 2006 for a cash sales price of \$77,500 by Diversified Holdings I, Inc., a subsidiary of Nexia Holdings, Inc. The Company received \$40,006 after paying off the mortgage and settlement costs.

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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**Cautionary Statement Regarding Forward-Looking Statements**

The information herein contains certain forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended, which are intended to be covered by the safe harbors created thereby. Investors are cautioned that all forward looking statements involve risks and uncertainty, including, without limitation, the ability of Nexia to continue its business strategy, changes in the real estate markets, labor and employee benefits, as well as general market conditions, competition, and pricing. Although Nexia believes that the assumptions underlying the forward looking statements contained herein are reasonable, any of the assumptions could be inaccurate, and therefore, there can be no assurance that the forward looking statements included in the Form 10QSB will prove to be accurate. In view of the significant uncertainties inherent in the forward looking statements included herein, the inclusion of such information should not be regarded as a representation by Nexia or any other person that the objectives and plans of Nexia will be achieved.

**General**

Nexia's current operations consist of the acquisition, leasing and selling of real estate. The following discussion examines Nexia's financial condition as a result of operations for the three month period ended March 31, 2006, and compares those results with the comparable period in 2005.

In November 2005, the Company acquired a 20% equity interest in Landis LLC for a \$100,000 cash payment. Landis operates an Aveda™ lifestyle salon that features Aveda™ products for retail sale. Landis LLC is controlled by Nexia's Chief Executive Officer, Richard Surber, who owns a 60% interest in Landis. Nexia has consolidated Landis for accounting purposes because of its ownership interest and common control. Nexia is considering significantly increasing its ownership interest in Landis LLC dependent upon its financial success over the next 12 months and the viability of significantly expanding the operations of Landis. Currently, Landis consists of a single location in Salt Lake City, Utah and during the quarter ended March 31, 2006 reported revenue of \$265,241. Additional information on the Landis Salon can be found on its website at [www.landissalon.com](http://www.landissalon.com).

**Real Estate Operations**

Nexia's objective, with respect to real estate operations, is to acquire, through subsidiaries, properties which management believes to be undervalued and which Nexia is able to acquire with limited cash outlays. Nexia will consider properties anywhere within the continental United States. Nexia attempts to acquire such properties by assuming existing favorable financing and paying the balance of the purchase price with nominal cash payments or through the issuance of shares of common stock. Once such properties are acquired, Nexia leases them to primarily commercial tenants. Nexia also makes limited investments to improve the properties with the objective of increasing occupancy and cash flows. Management believes that, with limited improvements and effective management, properties can be sold at a profit within a relatively short period of time.

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Nexia recorded rental revenues of \$60,109 for the three months ended March 31, 2006, as compared to \$96,636 for the comparable period in 2005. The decreases in the three month rental revenue of \$36,527, or 38%, was due to the reduction in rental properties held by the Company in 2006 compared to 2005.

Nexia had a loss from real estate operations of \$95,275 for the three months ended March 31, 2006, compared to a loss of \$74,704 for the comparable period in 2005. The increase in the three month losses of \$20,568, or 28%, are attributable to the reduction in rental revenue resulting from the sale of Glendale Plaza in April of 2005 and the loss of two tenants from the Kearns Development property.

Nexia will continue efforts to improve profitability and cash flow by working to increase occupancy and rental income from those properties currently held and to seek new investment opportunities as they can be located and evaluated. Accordingly, Nexia hopes to not only minimize any real estate cash flow deficit, but also generate sufficient cash to record a substantial profit upon property disposition.

**Company Operations as a Whole:**

**Revenue**

Gross revenues for the three month period ended March 31, 2006, were \$325,350 as compared to \$96,636 for the same period in 2005. The increase in the three month revenues of \$228,714, or 237%, are due to inclusion of sales revenue from the operation of the Landis Salon in the sum of \$265,241. Landis began operations in November 2005.

**Operating Losses**

Nexia recorded operating losses of \$289,466 for the three month period ended March 31, 2006, compared to losses of \$446,237 for the comparable period in the year 2005. The decrease in three month operating losses of \$156,771, or 35%, was the result of the reduction of general and administrative costs, reduction of costs from discontinued consulting activities and a decrease in expenses related to real estate operations, resulting from the sale of Glendale Plaza in April of 2005.

**Net Income**

Nexia recorded net losses of \$232,948 for the three month period ended March 31, 2006, as compared to net losses of \$419,114 for the comparable period in 2005. The decrease in the three month net losses of \$190,444, or 45%, compared to the same period in 2005, reported above, is attributable primarily to the revenue recognized from the Landis Salon operations, reporting \$83,571 in unrealized gain related to the adjustment of a derivative liability to the fair value of the underlying security and reduced expenses described in the operating losses paragraph hereinabove.

Nexia may not operate at a profit through fiscal 2006. Since Nexia's activities are tied to its ability to operate its real estate properties at a profit, future profitability or its revenue growth tends to follow changes in the real estate market place. There can be no guarantee that profitability or revenue growth can be realized in the future.

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**Expenses**

General and administrative expenses for the three month period ended March 31, 2006, were \$343,822 compared to \$306,590 for the same period in 2005. The increase in three month expenses of \$37,232, or 13%, was due primarily to Landis expenses of \$211,000, which did not exist in 2005 and an increase of \$18,000 for accounting/audit fees paid during the quarter ended March 31, 2006 compared to the quarter ended March 31, 2005. These increased expenses more than offset reductions in payroll, legal and investor relations expenses of \$144,000 during the quarter ended March 31, 2006 compared to the quarter ended March 31, 2005.

Depreciation and amortization expenses for the three months ended March 31, 2006, were \$43,766 compared to \$40,106 for same period in 2005. The increase in the three month expense of \$4,554, or 12%, was attributable primarily to Landis depreciation of \$10,028 taken during the quarter ended March 31, 2006 compared to zero during the quarter ended March 31, 2005 (Landis operations began in November 2005).

**Capital Resources and Liquidity**

On March 31, 2006, Nexia had current assets of \$318,668 and \$4,086,612 in total assets compared to current assets of \$532,278 and total assets of \$4,319,916 as of December 31, 2005. Nexia had net working capital deficit of \$1,266,397 at March 31, 2006, as compared to a net working capital deficit of \$971,535 at December 31, 2005. The increase in working capital deficit of \$294,862 is due primarily to the reduced fair market value of marketable securities and increased accounts payable to related parties and accrued liabilities because of a large decrease in cash receipts. A major portion of the current obligation is a result of the loan on the Wallace-Bennett building being due within 90 days. Refinancing of this loan is being sought and several lenders have been contacted and are evaluating the information provided to them regarding the condition of the building and the current tenants.

Cash used by operating activities was \$127,468 for the three months ended March 31, 2006, compared to cash used by operating activities of \$345,884 for the comparable three month period in 2005. The decrease in cash used of \$218,416 was attributable to the sales generated by Landis and retail operations of \$265,241 compared to no such revenue during the comparable three month period in 2005.

Net cash provided by investing activities was \$9,406 for the three months ended March 31, 2006, compared to net cash used by investing activities of \$42,575 for the three months ended March 31, 2005. The decrease of cash used in the sum of \$51,981 was attributable primarily to a \$44,000 reduction in the purchases of property, plant and equipment.

Cash used by financing activities was \$2,989 for the three months ended March 31, 2006, compared to cash provided of \$450,933 for the three months ended March 31, 2005. The decrease of \$453,922 was due primarily to the large decrease in receipts from stock subscription receivable and no issuance of long term debt during the first quarter of 2006.

Nexia may experience occasional cash flow shortages due to debt service on real estate holdings and willingness to acquire properties with negative cash flow. To cover these shortages, Nexia may need to issue shares of its common stock in payment for services rendered. The Company is currently experiencing challenges with regard to cash flows. We are looking at several options to improve this situation, including having signed for an equity line of credit with Dutchess Private Equities Fund. The agreement with Dutchess provides that, following notice to Dutchess, Nexia may put to Dutchess up to \$10 million in shares of our common stock for a purchase price equal to 95% of the lowest closing best bid price on the Over-the-Counter ("OTC") Bulletin Board of our common stock during the five day period following that notice. The number of shares that we will be permitted to put pursuant to the agreement will be either: (a) 200% of the average daily volume of our common stock for the ten trading days prior to the applicable put notice,

multiplied by the average of the three daily closing “best bid” prices immediately preceding the day we issue the put, or (b) \$100,000; provided that in no event will the put amount be more than \$1,000,000 with respect to any single put. (Best Bid is a defined term in the agreement as the highest posted bid price for the common stock.) In turn, Dutchess has indicated that it will resell the shares of common stock in the open market, resell our shares to other investors through negotiated transactions or hold our shares in its portfolio. These shares are made the subject of an SB-2 Registration Statement that has not yet been declared effective and to which the Company is currently drafting amendments.



Table of Contents**Stock and Options To Employees and Contractors**

Nexia's subsidiary, Diversified Holdings I, Inc. relied on the issuance of Nexia stock under Nexia's S-8 Registration Statement and 2005 Employee Benefit Plan for a large portion of employee salary payments during the first quarter of 2006. During the three month period ended March 31, 2006, the Company issued, pursuant to S-8 Registration Statements, 350,000,000 shares as compensation to five persons in exchange for services provided to the Company. These services/shares were valued at \$35,000 and have been expensed in the current period.

**Impact of Inflation**

Nexia believes that inflation has had a negligible effect on operations over the past three years. Nexia believes that it can offset inflationary increases in the cost of materials and labor by increasing sales and improving operating efficiencies.

**Off Balance Sheet Arrangements**

We do not have any off-balance sheet financing arrangements.

**The following is a summary schedule of stockholders' equity and changes for the three months ended March 31, 2006 and the year ended December 31, 2005.**

**The numbers show the effect of the November 1, 2004 reverse split.**

	<b>Three Months Ended March 31, 2006 (Unaudited)</b>	<b>Year Ended December 31, 2005</b>
Balances December 31, 2005 and 2004	\$ 963,185	\$ 441,415
Intrinsic and fair value of options issued	35,000	56,750
Common stock issued for options exercised	105,000	34,500
Stock certificate from a previous year returned and cancelled	(11,800)	-
Increase in stock subscriptions receivable	(105,000)	(934,500)
Receipt of cash for stock subscriptions receivable	24,448	396,691
Change in comprehensive loss for three months ended March 31	(61,707)	1,046
Common stock issued for services	-	120,025
Common stock issued to contractors for services-restricted	-	25,000
Common stock issued to contractors applied to accounts payable	-	53,327
Common stock issued to contractors applied to building improvements	-	10,000
Proceeds from options stock applied to A/P - Sorensen	-	430
Proceeds from options stock applied to A/P - T Hall	-	7,555
Old stock subscription receivable reclassified	-	1,493
Return of common stock issued to J. Fry, Jr. on 11/12/2004	-	(20,000)
Net Consolidated Loss	(232,948)	(130,548)
Rounding	-	1
Balance for the three months ended March 31	\$ 716,178	\$ 963,185



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**Known Trends, Events, or Uncertainties**

**General Real Estate Investment Risks**

Nexia's investments are subject to varying degrees of risk generally incident to the ownership of real property. Real estate values and income from Nexia's current properties may be adversely affected by changes in national or local economic conditions and neighborhood characteristics, changes in interest rates and in the availability, cost and terms of mortgage funds, the impact of present or future environmental legislation and compliance with environmental laws, the ongoing need for capital improvements, changes in governmental rules and fiscal policies, civil unrest, acts of God, including earthquakes and other natural disasters which may result in uninsured losses, acts of war, adverse changes in zoning laws and other factors which are beyond the control of Nexia.

**Value and Illiquidity of Real Estate**

Real estate investments are relatively illiquid. The ability of Nexia to vary its ownership of real estate property in response to changes in economic and other conditions is limited. If Nexia must sell an investment, there can be no assurance that Nexia will be able to dispose of it in the time period it desires or that the sales price of any investment will recoup the amount of Nexia's investment.

**Property Taxes**

Nexia's real property is subject to real property taxes. The real property taxes may increase or decrease as property tax rates change and as the property is assessed or reassessed by taxing authorities. If property taxes increase, Nexia's operations could be adversely affected.

**ITEM 3. CONTROLS AND PROCEDURES**

Nexia's president acts both as the Company's chief executive officer and chief financial officer ("Certifying Officer") and is responsible for establishing and maintaining disclosure controls and procedures for Nexia. The Certifying Officer has concluded (based on his evaluation of these controls and procedures as of a date within 90 days of the filing of this report) that the design and operation of Nexia's disclosure controls and procedures (as defined in Rule 13a-14(c) under the Securities Exchange Act of 1934) are effective and adequate.

There were no significant changes made in Nexia's internal controls or in other factors that could significantly affect Nexia's controls subsequent to the date of the evaluation, including any corrective actions with regard to slight deficiencies and material weaknesses. Due to the Certifying Officer's dual role as chief executive officer and chief financial officer, Nexia has no segregation of duties related to internal controls.

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**PART II-OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

Since the filing of Nexia's 10-KSB for the period ended December 31, 2005 no material changes have occurred to the legal proceedings reported therein, except as noted below. For more information please see Nexia's Form 10-KSB for the year ended December 31, 2005, filed May 11, 2006.

Diversified Holdings I, Inc., a Nevada Corporation vs. West America Securities Corporation, a California Corporation and Robert Kay, an individual resident of California. This action was originally filed on September 14, 2004, in the Third District Court of the State of Utah, Salt Lake County, Civil Case No. 040919392 and re-filed on June 23, 2005 as Civil Case No. 050911181. By Assignment from Nexia Group, Inc., dated January 23, 2004, Diversified Holdings I, Inc. acquired all rights to an agreement between Axia Group, Inc. and the named defendants providing for a payment to be made to Axia in the sum of \$50,000 on or before December 31, 2003. Defendants have failed to make the provided for payment and Diversified Holdings I, Inc. has filed suit to seek payment of the balance due. Discussions related to resolving the matter have resulted in a partial payment to Diversified and subsequent to the end of the quarter a final payment was received that was agreed upon by the parties as final payment in settlement of this claim. The matter was dismissed with prejudice after the receipt of the payment.

**ITEM 5. OTHER INFORMATION**

Since the end of the quarter March 31, 2006, the board of directors of the Company has not authorized any additional shares of common stock to be issued pursuant to the S-8 Registration Statement of the Company for the payment of obligations owed to employees and contractors of the Company.

On April 19, 2006, the Company's subsidiary, Salt Lake Development closed on the sale of real property and a building located at 268 West 400 South, Salt Lake City, Utah for a total sales price of \$850,000. After the payment of the outstanding loans secured by the building, fees and costs associated with the sale, proceeds of \$238,646 were received. Nexia has announced its intention to dissolve Salt Lake Development and it will cease operating as a subsidiary of the Company.

A condominium in Brian Head, Utah, a mountain resort area about 260 miles south of Salt Lake City, was sold on April 28, 2006 for a cash sales price of \$77,500 by Diversified Holdings I, Inc., a subsidiary of Nexia Holdings, Inc. The Company received \$40,006 after paying off the mortgage and settlement costs.

**ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K**

(a) Exhibits. Exhibits required to be attached by Item 601 of Regulation S-B are listed in the Index to Exhibits on page 9 of this Form 10-QSB, and are incorporated herein by this reference.

(b) Reports on Form 8-K During the period covered by this report, Nexia filed two Form 8-K reports.

- (1) On January 6, 2006, the Company filed a Form 8-K/A, amending the prior report on December 13, 2005 reporting on the changing of the Company's independent accountants from HJ & Associates to Bongiovanni & Associates.
- (2)

On January 27, 2006, the Company filed a Form 8-K reporting on the change of the Company's independent accountants to De Joya Griffith & Company LLC and at the same time reported the dismissal of Bongiovanni & Associates, PA from the same position.

- (3) On February 15, 2006, the Company filed a Form 8-K reporting that Salt Lake Development Inc. had signed an agreement for the sale of real property located at 268 West 400 South, Salt Lake City, Utah for a sales price of \$850,000 and an expected closing date of April 27, 2006.

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**SIGNATURES**

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, this 19<sup>th</sup> day of May, 2006.

**Nexia Holdings, Inc.**

Date: May 19, 2006

By: /s/ Richard Surber

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Richard Surber  
President and Director

Table of Contents**INDEX OF EXHIBITS**

<b>Exhibit No.</b>	<b>Exhibit Page No.</b>	<b>Description</b>
3(i)(a)	* *	Articles of Incorporation of the Company (incorporated herein by reference from Exhibit No. 3(i) to the Company's Form SB-2 as filed with the Securities and Exchange Commission on January 12, 2006).
3(i)(b)	*	Articles of Incorporation of Kelly's Coffee Group, Inc. filed with the Secretary of State of Nevada on August 3, 2000 (incorporated herein by reference from Exhibit No. 3(i) to the Company's Form SB-2 as filed with the Securities and Exchange Commission on January 12, 2006).
3(i)(c)	*	Articles of Merger merging Kelly's Coffee Group, Inc., a Colorado Corporation into Kelly's Coffee Group, Inc., a Nevada Corporation, filed with the Secretary of State of Colorado on September 22, 2000, and with the Secretary of State of Nevada on October 5, 2000 (incorporated herein by reference from Exhibit No. 3(i) to the Company's Form SB-2 as filed with the Securities and Exchange Commission on January 12, 2006).
3(i)(d)	*	Bylaws of the Company, as amended (incorporated herein by reference from Exhibit 3(ii) of the Company's Form SB-2 as filed with the Securities and Exchange Commission on January 12, 2006).
3(ii)	*	Amendment to the Articles of Incorporation changing the Company's name from Kelly's Coffee Group, Inc. to Nexia Holdings, Inc. (incorporated herein by reference as filed in the Company's Form SB-2 as filed with the Securities and Exchange Commission on January 12, 2006).
3(iii)	*	Amendment to the Articles of Incorporation changing the number of authorized shares of common stock of the Company to 10,000,000,000 (incorporated herein by reference as filed in the Company's Definitive 14(c) as filed with the Securities and Exchange Commission on March 5, 2004).
3(iv)	*	Form of certificate evidencing shares of "Common Stock" in the Company (incorporated from Exhibit 4(a) to the Company's Form SB-2 as filed with the Securities and Exchange Commission on January 12, 2006).

**MATERIAL CONTRACTS**

10(i) \*

**Certifications**

31.1	<u>CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002.</u>
31.2	<u>CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002.</u>
32	<u>CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002.</u>

**Other**

- 99(i) \* March 2, 2006, a Stock Option Agreement between the Company and Guy Cook granting 82,500,000 options with a floating option price set at 75% of the market price at the time of exercise, all of the options vested immediately. (Incorporated by reference from the 10-KSB for the year ended December 31, 2005 filed by the Company.)
- 99(ii) \* March 2, 2006, a Stock Option Agreement between the Company and Michael Golightly granting 82,500,000 options with a floating option price set at 75% of the market price at the time of exercise, all of the options vested immediately. (Incorporated by reference from the 10-KSB for the year ended December 31, 2005 filed by the Company.)
- 99(iii) March 2, 2006, a Stock Option Agreement between the Company and Pamela Kushlan granting 20,000,000 options with a floating option price set at 75% of the market price at the time of exercise, all of the options vested immediately. (Incorporated by reference from the 10-KSB for the year ended December 31, 2005 filed by the Company.)
- 99(iv) \* March 2, 2006, a Stock Option Agreement between the Company and John Mortensen granting 82,500,000 options with a floating option price set at 75% of the market price at the time of exercise, all of the options vested immediately. (Incorporated by reference from the 10-KSB for the year ended December 31, 2005 filed by the Company.)
- 99(v) \* March 2, 2006, a Stock Option Agreement between the Company and Sean Pasinsky granting 82,500,000 options with a floating option price set at 75% of the market price at the time of exercise, all of the options vested immediately. (Incorporated by reference from the 10-KSB for the year ended December 31, 2005 filed by the Company.)
- \* Previously filed as indicated and incorporated herein by reference from the referenced filings previously made by Nexia.