

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

STRONGHOLD TECHNOLOGIES INC
Form 10KSB
April 15, 2005

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

FORM 10-KSB
ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2004
Commission File No. 333-54822

STRONGHOLD TECHNOLOGIES, INC.

(Exact Name of Registrant as Specified in Its Charter)

Nevada

22-376235

(State or Other Jurisdiction of
Incorporation or Organization)

(I.R.S. Employer Identification No.)

106 Allen Road, Basking Ridge, NJ

07920

(Address of Principal Executive Offices)

(Zip Code)

(908) 903-1195

(Registrant's Telephone Number,
Including Area Code)

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

None.

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

None.

Check whether the Registrant: (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities 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:

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

State Registrant's revenues for fiscal year ended December 31, 2004: 2,489,790

State the aggregate market value of the common stock held by non-affiliates of the Registrant: \$160,873 as of April 11, 2005 based on the closing sales price of \$0.01 on that date.

Indicate the number of shares outstanding of each of the Registrant's classes of

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

common stock, as of April 11, 2005:

Class -----	Number of Shares -----
Common Stock, \$0.0001 par value	16,087,349

The following documents are incorporated by reference into the Annual Report on Form 10-KSB: None.

Transitional Small Business Disclosure Format

Yes: No:

TABLE OF CONTENTS

Item -----	Page -----
PART I	
Item 1. Business	1
Item 2. Properties	16
Item 3. Legal Proceedings	17
Item 4. Submission of Matters to a Vote of Security Holders	17
PART II	
Item 5. Market for Common Equity and Related Stockholder Matters .	18
Item 6. Management's Discussion and Analysis and Results of Operation	18
Item 7. Financial Statements	28
Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures	28
Item 8A. Controls and Procedures	29
Item 8B. Other Information	29
PART III	
Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(A) of The Exchange Act	30
Item 10. Executive Compensation	33
Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	37
Item 12. Certain Relationships and Related Transactions	39
Item 13. Exhibits	43
Item 14. Principal Accountant Fees and Services	44

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

SIGNATURES	46
EXHIBIT INDEX	48
FINANCIAL STATEMENTS	F-1
EXHIBITS	

PART I

Item 1. BUSINESS

OUR HISTORY

Our History

We were incorporated as a Nevada corporation on September 8, 2000, under the name TDT Development, Inc. On May 16, 2002, we acquired Stronghold Technologies, Inc., a New Jersey corporation, referred to herein as our "Predecessor Entity", pursuant to a merger of Stronghold Technologies into our wholly-owned subsidiary, TDT Stronghold Acquisition Corp., referred to herein as "Acquisition Sub". Our company, formerly TDT Development, Inc., was a reporting entity at the time. Its principals were Pietro Bortolatti, President, CEO and Chairman, Tiziana DiRocco, Vice-President and Director of European Operations and David Rector, Director. The merger was an arms length transactions and none of the parties had a prior existing relationship. As consideration for the merger, we issued 7,000,000 shares of our common stock valued at \$.75 per share to the stockholders of the Predecessor Entity in exchange for all of the issued and outstanding shares of the Predecessor Entity. No fairness opinion was issued in connection with this merger. Following the merger, Acquisition Sub, the survivor of the merger, changed its name to Stronghold Technologies, Inc. (NJ) and remains our only wholly-owned subsidiary. We approved the transaction as the sole shareholder of the Acquisition Sub as did the shareholders of the Predecessor Entity.

On July 11, 2002, we changed our name from TDT Development, Inc. to Stronghold Technologies, Inc. (NV). On July 19, 2002, we exchanged all of the shares that we held in our two other wholly-owned subsidiaries, Terre di Toscana, Inc. and Terres Toscanes, Inc., which conducted an import and distribution business specializing in truffle-based food product, for 75,000 shares of our common stock held by Mr. Pietro Bortolatti, our former president.

Our principal executive offices are located at 106 Allen Road, Basking Ridge, NJ 07920. Our telephone number at that location is 908-903-1195 and our Internet address is www.strongholdtech.com.

Overview of our Handheld Technology Business

On May 16, 2002, we entered the handheld wireless technology business via our acquisition by merger of the Predecessor Entity. The Predecessor Entity was founded on August 1, 2000 by Christopher J. Carey, our current Chief Executive Officer and President, and Lenard J. Berger, Chief Technology Officer and Salvatore F. D'Ambra, Vice President, Product Development, of our wholly-owned subsidiary. This founding group has substantial expertise in systems design, software development, wireless technologies and automotive dealer software applications. The Predecessor Entity was founded to develop proprietary handheld wireless technology for the automotive dealer software market. Since the merger of the Predecessor Entity into our subsidiary, we continue to conduct the Predecessor Entity's handheld wireless technology business.

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

We are engaged in the business of selling, marketing and installing an Intel based server that, together with wireless handheld PDA's, manages the auto dealer-client relationship. Our DealerAdvance(TM) suite of Customer Relationship Management ("CRM") software, has been designed to assist auto dealerships in collecting client contact information, following up on sales prospects and aiding dealership sales person in finalizing the sale of its automobiles. We are in various stages of development of complimentary CRM systems for our handheld devices, including the DealerAdvance Service Solution(TM), which is designed to manage dealer service operations, customer information and vehicle inventory. We are designing our products to be functionally equivalent to the devices used by automobile rental agencies in which automobile return and checkout is automated using scanning and other point of sale technology.

Description of Products

Most auto dealerships rely on a paper based process to capture its prospects and track their progress to purchasing a vehicle. This paper process is difficult to manage due to high turnover and skills of the typical sales force. Management does not have the tools to determine how many opportunities have been generated and if they are receiving follow up after leaving the dealership. DealerAdvance prompts the salesperson to capture more information about each prospect and advises them of the appropriate follow up. When a customer is ready to purchase a vehicle, the system aids the dealership in completing the sales through features such as forms printing. Management is able to view dealership traffic in real-time, by salesperson, and can easily pinpoint deficiencies in the capture and follow up process. The DealerAdvance Sales Solution(TM) has been designed to allow sales associates of our customers to maintain on the handheld units a personal calendar and instructions on follow-up tasks. Sales associates, using the handheld units, collect customer contact information and other data relevant to the customer's automotive needs.

We install an Intel based server in a dealership site. The server holds all of the customer data and connects to other services used by the dealership. These services include the legacy IT system used by the dealer (known as the Dealer Management System), Internet based services such as Internet Customer leads, telephony management services, and customer address lookup services. We provide an administrative workstation which includes a driver license scanning station, a printer for negotiation and purchase forms, letters and reports, and wireless handheld PDA's for each of the sales people. The company installs a wireless antennae network (Wi-Fi) with communications coverage of the building and most of the car lot. The DealerAdvance client application is installed, on the handhelds, on the administrative workstation and on the existing workstations in the sales department.

The DealerAdvance Sales Solution(TM) provides certain advantages to automobile dealerships, including:

- o convenient use associated with handheld mobile communications;
- o access to competitive and proprietary industry information from a variety of sources, such as convenient access to vehicle identification numbers, drivers license numbers and reverse telephone number information which provides home and business addresses;
- o employee access to sales contracts as well as access to sales and performance reports; and
- o allows integration with existing automotive dealer accounting and business systems such as ADP and Reynolds and Reynolds.

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

The DealerAdvance Sales Solution(TM) has been designed to be a comprehensive CRM system implemented through the use of a wireless handheld device connected to a server that distributes the functional applications to the units. Sales associates can also maintain on the handheld units a personal calendar and instructions on follow-up tasks. Sales associates, using the handheld units, collect customer contact information and other data relevant to the customer's automotive needs. The handheld, using the DealerAdvance Sales Solution technology aids automobile dealerships in making sales transactions quicker and more efficient.

The DealerAdvance Sales Solution(TM) offers features that aid in automobile sales and service such as:

- o enabling a high sales capture rate on walk-in customers;
- o streamlining and simplifying sales and follow-up processes;
- o providing current and comprehensive information and data for new and used car inventory, including information regarding competing products, and customer history with the dealership;
- o providing performance data and analysis on each member of a sales team; and o providing management with valuable and relevant transaction information on a real-time basis.

A user can enter data via the DealerAdvance application running on any desktop or handheld units. Data can be entered into the system typed by the user, through drivers license scanning, or via a DealerAdvance Import tool. Data entered by the user is transmitted to the server in real time.

The system contains a "rules" engine which is triggered at different points in the sales process. The rules engine updates the activities scheduled for each customer based on business rules defined by the dealer. For example, when a new customer is entered by a user, the system will schedule a letter to be sent to the customer and a follow up phone call for the next day. If that same customer buys a vehicle, the system will remove the letter and follow up call and replace it with activities appropriate for follow up.

Users also have the ability to manually schedule activities with a customer. All activities are displayed on the user's workplan in chronological order. The user may select any activity, view the details of the activity and customer information and complete the activity.

2

The system will prompt the user to schedule additional activities when completing follow up with a customer. For example, if the user completes a follow up call the system will prompt the user to set an appointment. The user can enter a date and time for the appointment, schedule an additional follow up call or indicate that no additional activities are required at this time.

The system offers a variety of reports to management to show the volume of traffic at the dealership and if those prospects are receiving follow up in a timely fashion.

The DealerAdvance Suite includes Master Server Software, which manages all customer data and access to third party services. One copy of server software is required for each dealership. DealerAdvance Desktop Application, which used to access customer data, present workplans, reports and logs, scan drivers licenses, and manage user access to the system. This application must be

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

installed on each desktop in the dealership. Dealership receives a license to install an unlimited number of desktops associated with a particular DealerAdvance Server. DealerAdvance Handheld Application, which is used to access customer data, present workplans, product comparison, available inventory. Each dealership must purchase a license of this application for each handheld in use at the dealership.

The system has the following features:

- o Prospect capture and profiling, which allows the user to input the required information, reverse phone lookup, duplicate record checking, electronic guest sheet and capture signatures electronically for credit card processing.
- o The system tracks compliance with National Registry and Dealership specific DNC list. Customers marked "DNC" have phone number hidden to avoid accidental calling. In addition, the dealer can print a report to insure compliance.
- o The system can scan and authenticate driver licenses.
- o Provides a call management system for follow ups.
- o Provides daily workplan and appointment scheduling which appointments and calls for salespeople.
- o Generate prospect reports, scoreboard, appointment calendar and activity reports sorted by salesperson.
- o Receive leads from all internet lead sources and manage follow up from DA. Features include: route leads to a specific user based on lead source, auto responders, templates, customers using multiple lead sources, lead protection.

DEALERADVANCE is compatible with and works with:

- o Intel Based Server running Red Hat Linux
- o Wireless Network Access Points (802.11 - WiFi). We supply a model made by Vivato but any 802.11b compliant Access Point will work.
- o Windows 98, 2000, XP.
- o Magnetic Stripe Reader or 2D Bar Code Scanner.

We primarily use commercially available off the shelf products primarily purchased from Dell and Compaq. All these products are typically available on demand within reasonable ordering and receipt cycles that range from one to ten days.

We installed Version 1.0 of the DealerAdvance Sales Solution(TM) in six pilot dealerships during 2001 in New Jersey, California and Connecticut. The initial release contained the ability to capture and display information about a prospective customer, search the dealership inventory, display competitive product information, a financial calculator, and paging functionality from a wireless handheld. Drivers license scanning, from a desktop station, was introduced for the State of California. Stronghold introduced Version 2.0 of DealerAdvance Sales Solution(TM) at all of its sites by the end of September 2001. Version 2.0 offered an electronic desk log, email and internet access from the handheld, printing of correspondence (forms letters) , a reporting engine, the printing of sales forms, and the ability to import prospect records from 3rd party sources.

We introduced Version 3.0 of our software and installed another 3 dealership sites in the quarter ended March 31, 2002, adding customers in New York. Version 3.0 introduced the CRM rules engine, which allowed the system to automatically schedule and manage customer follow up activities for salespeople based on rules established by the dealership management. Other features included DMS deal creation (allowing a user to pass information from DealerAdvance to the DMS), management reporting, and the expansion of drivers license scanning to include 39 states (through a partnership with Intellicheck).

In the quarter ended June 30, 2002, through our wholly owned subsidiary, we installed another 7 sites, adding customers in Arizona, Southern California and South Carolina and introduced Version 3.1 of its software to improve the communication protocol between the handheld and the DealerAdvance Server. In the quarter ended September 30, 2002, through our wholly owned subsidiary, we implemented another 10 sites, adding customers in Virginia, Florida, South Carolina and Central California. In the fourth quarter ending December 31, 2002, through our wholly owned subsidiary, we installed an additional 13 dealerships, adding customers in Texas, Indiana and Michigan. Overall, in 2002, through our wholly owned subsidiary, we installed DealerAdvance Sales Solution(tm), in a total of 33 dealership sites representing Toyota, Honda, Ford, Chevrolet, Nissan, Volkswagen, Buick, Pontiac, Cadillac, Chrysler, Dodge, Kia and Hyundai.

In the first quarter of 2003, we installed in 11 dealerships and released Version 3.2. New features included reverse phone lookup (via partnership with Axicom), searches for duplicate customer records, wireless PDA trade appraisal, electronic buyers order, nightly download of sold customers from the DMS, and customer search. Additional functionality was added to the rules engine, forms printing, management functions were added to the PDA, 3rd party data imports, and customer tracking. In the quarter ended June 30, 2003, we installed another 11 systems in 9 dealerships in California, Nevada, Indiana, Washington, Ohio, and Michigan. We implemented our goal to expand our direct sales network and operational support personnel for coverage of 14 major cities from nine at the end of 2002. Additionally, in the second quarter we realigned our sales force into geographic markets and hired several experienced industry veterans as regional business development managers.

We plan to utilize our direct sales force to market the DealerAdvance Sales Solution(tm) on a national basis. We have established a strong presence in most regions of the United States, and are continuing to add business development and operations offices pursuant to an organized growth plan. As of December 31, 2003, we had employees in Northern New Jersey, San Francisco, Washington, DC, Atlanta, Los Angeles, Phoenix, Miami, Seattle, Cleveland, and Dallas.

Version 3.3, released in August 2003 introduced the concept of a work-plan, which assists the user in prioritizing follow up for prospective customers. The work-plan generates a simple daily "to-do" list for each salesperson, which can be viewed and updated on the handheld. Version 3.3 also introduced the concept of "prompted follow up" to guide the salesperson through best of breed follow up processes. The salesperson is prompted to indicate the action taken to complete an activity and to enter a next activity for the customer with the goal of scheduling a next activity for a prospective customer until they either purchase a vehicle or indicate they are no longer in the market.

As of December 31, 2003, a total of 70 dealers were using the DealerAdvance Sales Solution(tm), of which approximately 40 had reached or

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

exceeded the 60-day performance period generally associated with installation. In January 2004 we installed systems in 2 dealerships in Oregon.

Version 3.4 released in January 2004 introduced integration with WhosCalling and Call Bright, the two leading providers of phone call management services. The dealer is assigned several toll free numbers to place in a specific advertising outlet (newspaper, tv, radio, etc). When the customer dials the toll free number, the call management service identifies the callers information (name, address, demographics) and records the call. The call information and a link to the call recording is passed by the call management service to DealerAdvance. Version 3.4 introduced the ability to receive Internet leads in DealerAdvance. An Internet Manager can view leads and follow up via email with prospective customers that view the dealer's web site or are passed by 3rd party lead providers. Through a subscription service, in Version 3.4, the dealer can maintain their compliance with the National Do Not Call Regulations managed by the FTC. DealerAdvance will automatically determine which customers are safe to call based on the "established business relationship" rules defined in the regulations. The system can produce the documentation required to demonstrate compliance.

4

We generally grant a 60-day performance guarantee period for each new installation. If performance goals are met, the contracts become noncancellable for their terms, usually 36 months. As of December 30, 2003, a total of 69 dealers were using the DealerAdvance Sales Solution(TM), of which approximately 55 had reached or exceeded the 60-day performance period. In the year ended December 31, 2003, approximately 7 dealers cancelled after the 60-day performance guarantee period.

New Product Developments

We have identified five major prospect and customer sources within an auto dealership that can be leveraged for revenue and profit: walk in showroom traffic, call-in prospects, internet based leads, the existing owner base of customers and service prospects. The vision for

DealerAdvance(TM) is to provide a single solution to attack all of these groups to increase profitability and improve customer service in the dealership. DealerAdvance(TM) provides information captured from prospects, and provides automobile dealerships with the ability to manage prospects and customers through a disciplined follow-up process.

The development plan includes the addition of the following applications and functions:

- o With Version 3.4 introduced in January 2004, we introduced a Call Management application that is expected to allow dealerships to automatically capture and track prospects that contact the dealership via phone. This new program allows salespeople to retrieve customer information while talking to the customer and to conduct a needs analysis for handling prospect phone calls. The Call Management application automatically generates management logs and reports designed to identify sales associates that need phone skills training. In addition, we have partnered with the two leading Call Management Systems providers, Call Bright and Who's Calling, who provide 800 number and web based system forwarding functions to DealerAdvance(TM). We have created a software to poll the web sites for incoming caller ID and provide prospect assignment, and comparative analysis relating to follow up activities. This

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

application is expected to significantly increase the conversion of call-in prospects to customers.

- o In Version 3.4 we expanded our offerings to include an initial application for Internet Lead Management. Most dealerships secure Internet leads through multiple sources including their own web site, manufacturers' forwarded leads, and subscription services including Autobytel and others. These lead sources are received through DealerAdvance(TM), which processes a quick response via email, and then passes qualified leads to sales associates for phone follow-up leading to appointment setting. We plan several enhancements to this application.
- o In January 2004, we also introduced an application that lessens potential violations of the 2003 federal Do Not Call regulations. Our system automatically and regularly compares the prospect and customers within the system to the Do Not Call registry data base. The application also allows the dealership personnel to log prospect and customer requests not to be contacted. The system deletes from the database telephone numbers that match numbers in the Do Not Call database.
- o In February 2004, we introduced Services Marketing. Services Marketing is offered in partnership with Market One, LLC. Through Market One, we offer services in database marketing, data warehousing, predictive modeling, marketing consulting, campaign fulfillment, direct mail, telemarketing and surveys, and Internet communications services. During 2004, we intend to combine the Services Marketing application from Market One with follow-up and reporting capabilities within DealerAdvance(TM), to provide activities reporting for increasing repeat sales to dealership customers.
- o In the third quarter of 2005, we plan to introduce online consumer credit reporting to our customers through an ASP web hosted model integrated to inquiries from DealerAdvance(TM). The service accesses credit reports from Experian, Equifax and Transunion.
- o DealerAdvance(TM) Service Solution, a handheld wireless tablet for service advisors in a dealership is under development. This system is designed to improve customer service and reduced vehicle check in time by allowing dealer representatives to scan a vehicle identification number from the windshield or door. DealerAdvance(TM) Service Solution also is designed to provide instant client and vehicle history including warrantee and service advice, all to the service technicians' wireless tablet. We expect this product will add premium-pricing to increase repair order revenue and to add service marketing through the DealerAdvance CRM application. We intend to complete the DealerAdvance(TM) Service Solution through the acquisition of the required technology to finalize this product. We have entered into a non-binding letter of intend to acquire this technology. If we are unable to obtain this technology at a reasonable cost, then we may not be able to complete the DealerAdvance(TM) Service Solution.

Our Revenues

Our revenues are primarily received from system installation, software

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

licenses and system maintenance. The approximate average selling package price of the system and installation also is \$70,000. Additional revenues are derived from 36 month system maintenance agreements that have a monthly fee of \$850 per month and a total contract value of \$30,600. The revenues derived from these categories are summarized below:

- o **Software License Revenues:** This represents the software license portion of the Dealer Advance Service Solution purchased by our customers. The software and intellectual property of Dealer Advance has been developed and is owned by us. The average upfront license cost to the customer is approximately \$35,000.
- o **System Installation Revenues:** This represents the installation and hardware portion of the Dealer Advance Service Solution. All project management during the installation is performed by us. The installation and hardware portions include cable wiring subcontracting services and off the shelf hardware and handheld computers ("PDA"s). The average upfront installation cost to the customer is approximately \$35,000.
- o **Monthly Recurring Maintenance Revenue:** This represents the maintenance and support contract for the Dealer Advance Service Solution that the customer executes with the system installation. The typical maintenance contract is for 36 months and is \$850.00 per month. The average total 36 month maintenance portion of the contact is \$30,600. In our three year operating history, approximately 50% of all our customers have prepaid the maintenance fees through a third party leasing finance company. These prepaid maintenance fees have provided additional cash flow to us and have generated a deferred revenue liability on or balance sheet.

The average gross profit and cost of sales for the revenues associated with software licenses and systems installation are summarized in the following table:

Average Gross Profit per Installation

Software License Revenue	\$35,000	
System Installation Revenue	\$35,000	
-----	-----	
Gross Revenue per Installation:	\$70,000	
Gross Profit	GP \$	GP %
	----	----
Software License Revenue	\$31,500	90%
System Installation Revenue	\$12,600	36%

Gross Revenue per Installation:	\$44,100	63%
Cost of Sales		
Software License Revenue	\$3,500	10%
System Installation Revenue	\$22,400	64%

Gross Revenue per Installation:	\$25,900	37%

Cost of sales for software licensing with the installation are minimal and are estimated at 10% of revenue for reproduction, minor customer specific configurations and the setup cost of interface with the customers' DMS. Cost of

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

sales for the system installation includes direct labor and travel, subcontractors and third party hardware. The average gross profit and cost of sales for the revenues from recurring maintenance of software is approximately \$850.00 per system which includes Auto Research (approximately \$27.5), Driver License data (approximately \$12.50), Legacy System Interface (approximately \$161.00), CDI integration (approximately \$ 54.00), with total cost of sales of \$255.00, gross profit of \$595.00 or 70%.

General and Administrative Operating Expenses

Our general operating expenses are primarily comprised of:

- o Marketing and Selling;
- o General and Administrative; and
- o Development & Operations.

Our marketing and selling expenses include all labor, sales commissions and non-labor expenses of selling and marketing of our products and services. These include the salaries of two Vice Presidents of Sales and the Business Development Manager ("BDM") staff. The sales commission plan compensates the sales force at the rate of 6% and is broken down in the following table:

BDM per contract	3.5%
Regional VP	1.5%
Management Override	1.0%

	6.00%

Our general and administrative expenses include expenses for all facilities, insurance, benefits, telecommunications, legal and auditing expenses are included as well as the executive management group wage expense.

Our development & operations expenses include the expenses for the Client Consultant group which advises and supports the installations of our Dealer Advance(TM) clients.

Research and Development

Since our inception in September 2000, we have spent approximately \$3,612,685 on research and development activities. While we have been successful in meeting planned goals in the development and introduction of DealerAdvance Sales Solution(TM), there can be no assurance that our research and development efforts will be successful with respect to additional products, or if successful, that we will be able to successfully commercially exploit such additional products.

Competition Related to Handheld Technology Business

We do not believe that we have direct competition for our handheld product. However, we expect competitors in the wireless handheld solutions market in the future. We compete with the traditional CRM providers and the emerging new CRM providers in the retail automotive dealer software market.

Some of our potential competitors include:

- o Automotive Directions, a division of ADP Dealer Services, and a provider of PC-based customer relationship management systems as well as marketing research and consulting services;
- o Higher Gear, a provider of client server based front-end sales and

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

customer relationship management software which serves the retail automotive industry exclusively;

7

- o Autobase, a provider of PC based front-end software which serves the retail automotive industry exclusively;
- o Cowboy Corporation, recently acquired by Cobalt Corporation, and a provider of ASP sales prospect management systems and customer relationship management systems which services the retail automotive industry exclusively; and
- o Autotown, a provider of PC and web-based front-end sales systems, which services the retail automotive industry exclusively.

We believe that our proprietary technology is unique and, therefore, places us at a competitive advantage in the industry. However, there can be no assurance that our competitors will not develop a similar product with properties superior to our own or at greater cost-effectiveness.

Marketing and Sales

We have identified a target market of approximately 12,000 automobile dealerships in the United States that meet the base criteria for our system. More specifically, we target a primary market of 6,500 dealerships that sell a minimum of 75 new and used cars each month and do not currently have CRM systems. Generally, our target market consists of midline dealerships, including brands such as Chevrolet, Ford, Nissan, Volkswagen, Toyota, Honda, Buick, Pontiac, GMC Trucks, Chrysler and Dodge. The reason for this is that midline dealers typically have high prospect and customer traffic, which makes for large untapped prospect opportunities that the client can leverage through the follow-up process from DealerAdvance. In addition, these dealers often have not made significant investments in sales automation and in Customer Relationship Management systems.

We further qualify our market as dealerships with over \$15 million in annual revenue. Obviously, a larger dealership has more traffic, more customer transactions, more sales people, and can more easily justify the investment. Finally, we limit our market to dealerships in those parts of the country where it has sales and support coverage.

We have both a direct and a third party distribution strategy. Our direct distribution strategy consists of a four person direct sales force selling in California, Oregon, Nevada, Washington, Georgia, North Carolina, and South Carolina. In connection with our third party distribution strategy, we presently have distribution agreements with various third parties with sales people covering Texas, Arkansas, Arizona and Illinois. We established our third party distribution system in order to more effectively reach a larger portion of our market while eliminating expenses associated with the expansion of a traditional internal sales team. Our third party distribution system includes a network of 3 distributors which we have engaged to sell our products to automobile dealerships. In order to establish our third party distribution system, it was necessary to enter into agreements with each of our agents as well as train them to utilize our products with hands on education seminary and the provision of training guides.

With these partners in place, and in conjunction with our direct sales force, we are covering 11 states.

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

Our Intellectual Property

We have a trademark for "DealerAdvance(TM)" and have one patent application pending covering the system for management of information flow in automotive dealerships using handheld technology. The patent application is currently being reviewed by the United States Patent and Trademark Office. We may face unexpected competition from various sources if our patent is denied however we do not believe this will have a material impact on our business.

Summary of Discontinued Truffle Business Operations

From our inception on September 8, 2000, through July 19, 2002, we imported, marketed and distributed specialized truffle-based food products, including fresh truffles, truffle oils, truffle pates, truffle creams and truffle butter, through our former wholly-owned subsidiaries, Terre di Toscana, Inc. and Terres Toscanes, Inc. Our target market included retailers such as restaurants, specialty food stores, delicatessens and supermarkets. We imported products directly from Italian producers and marketed our products in the specialty food industry primarily in Florida, South Carolina, North Carolina and California, and also earned commissions on sales made in Belgium, Holland and Germany. On July 19, 2002, we exchanged all of the shares that we held in our wholly-owned subsidiaries for 75,000 shares of our Common Stock held by Mr. Pietro Bortolatti, our former president. As a result of our transfer of our interest in the truffle business to Mr. Bortolatti, we are no longer involved in the truffle business. The sale of these subsidiaries was part of our effort to focus on the handheld technology business.

8

EMPLOYEES

As of December 31, 2004, we had a total of 21 full-time employees, of which 9 are dedicated to marketing and sales and regional customer support. As of December 31, 2004, we had 5 employees in 5 California, 1 in Florida, 1 in Georgia, 2 in North Carolina, 5 in New Jersey, 1 in Texas, 5 in Virginia and 1 in Washington state.

We have no collective bargaining arrangements with our employees. We believe that our relationship with our employees is good.

SAFE HARBOR STATEMENT

The statements contained in this Annual Report on Form 10-KSB that are not historical facts are forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 ("the Securities Act"), as amended and the Private Securities Litigation Reform Act of 1995. Such forward-looking statements may be identified by, among other things, the use of forward-looking terminology such as "believes," "expects," "may," "will," "should," or "anticipates" or the negative thereof or other variations thereon or comparable terminology, or by discussions of strategy that involve risks and uncertainties. In particular, our statements regarding the anticipated growth in the markets for our technologies, the continued development of our products, the approval of our Patent Applications, the successful implementation of our sales and marketing strategies, the anticipated longer term growth of our business, and the timing of the projects and trends in future operating performance are examples of such forward-looking statements. The forward-looking statements include risks and uncertainties, including, but not limited to, the timing of revenues due to the uncertainty of market acceptance and the timing and completion of pilot project analysis, and other factors, including general economic conditions, not within our control. The factors discussed herein and

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

expressed from time to time in our filings with the SEC could cause actual results to be materially different from those expressed in or implied by such statements. The forward-looking statements are made only as of the date of this filing and we undertake no obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances.

Factors that Might Affect Our Business, Future Operating Results, Financial Condition and/or Stock Price

The more prominent risks and uncertainties inherent in our business are described below. However, additional risks and uncertainties may also impair our business operations. If any of the following risks actually occur, our business, financial condition or results of operations may suffer.

Risks Concerning Our Business

We Have A History Of Incurring Net Losses; We Expect Our Net Losses To Continue As A Result Of Planned Increases In Operating Expenses; And, Therefore, We May Never Achieve Profitability Which May Cause Us To Seek Additional Financing Or To Cease Operations.

We have a history of operating losses and have incurred significant net losses in each fiscal quarter since our inception. We had a net loss of \$3,089,614 and \$4,258,007 for the fiscal years ended December 31, 2004 and December 31, 2003, respectively. We have an accumulated net operating loss of approximately \$10,620,000 for the period from May 17, 2002 through December 31, 2004 to offset future taxable income. Losses prior to May 17, 2002 were passed directly to the shareholders and, therefore, are not included in the loss carry-forward. We expect to continue to incur net losses and negative cash flows for the foreseeable future. As a result of recurring losses, substantial working capital and stockholders' deficit and negative cash flows from operations our auditors in their report dated March 22, 2005 for the year ended December 31, 2004 expressed substantial doubt about our ability to continue as a going concern. We will need to generate significant additional revenue to achieve profitability. Our ability to generate and sustain significant additional revenues or achieve profitability will depend upon the factors discussed elsewhere in this "Risk Factors" section, as well as numerous other factors outside of our control, including:

- o Competing products that are more effective or less costly than ours;

9

- o Our ability to develop and commercialize our own products and technologies; and
- o Our ability to increase sales of our existing products and any new products.

It is possible that we may never achieve profitability and, even if we do achieve profitability, we may not sustain or increase profitability in the future. If we do not achieve sustained profitability, we may be unable to continue our operations.

If we do not obtain financing when needed, our business will fail as we will not have sufficient funds to produce and market the Dealeradvance Suite of Products

Our current operating funds together with the \$300,000 to be received from the final closing of the March 2005 Securities Purchase Agreement will allow us to continue our operations until the end of the second quarter. In order for us

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

to successfully market our products, we will need to obtain additional financing after May 2005. As of December 31, 2004, we had cash in the amount of \$500 and accounts receivables of \$303,798 and our net loss for year ended December 31, 2004 was \$3,089,614. Our business plan calls for significant expenses in connection with the marketing of DealerAdvance over the next 12 months including the following:

- o Attendance and booth presence at the National Automobile Dealers Association annual convention; and
- o regular advertising in trade magazines and mass mailings.

In the event that we are unable to fund these marketing activities, our sales volume could be significantly reduced thereby adding to our growing deficits. In the event that we are not able to raise additional funds beyond the requirements for operation through the end of the second quarter of 2005, we may be insolvent and unable to continue operations.

We will also require additional financing if our costs are greater than anticipated. We will require additional financing to sustain our business operations if we are not successful in generating additional revenues. We currently do not have any arrangements for additional financing and we may not be able to obtain financing when required. If we fail to obtain the required financing and our business fails, you may be unable to sell your shares of common stock.

We Have Recently Entered An Installment Agreement with the United States Internal Revenue Service and if we default under such Installment Agreement, the IRS could attempt to seize our assets for payment of taxes owed.

On April 30, 2004, we entered into an installment agreement with the IRS to pay withholding taxes due in the amount of \$1,233,101.35, which includes interest and penalties, under the terms of which we will pay \$35,000 each month, commencing June 28, 2004, until we have paid the withholding taxes due in full. We estimate that at the rate of \$35,000 per month, we will make 36 monthly payments to the IRS. To date, we have made all payments under the installment agreement. If we violate the installment agreement, the IRS could take possession of our assets and we may be forced to cease operations and/or to file for bankruptcy protection.

We Have A Limited Operating History, Therefore It Is Difficult To Evaluate Our Financial Performance And Prospects.

We were formed in September 2000 to import and market truffle oil products. As of May 16, 2002, our business purpose focus shifted to the development and marketing of handheld wireless technology for the automotive dealer software market. We entered the handheld wireless technology business through the acquisition of an entity with a 23-month operating history. We are, therefore, subject to all of the risks inherent in a new business enterprise. Our limited operating history makes it difficult to evaluate our financial performance and prospects. We cannot assure you that in the future we will operate profitably or that we will have adequate working capital to meet our obligations as they become due. Because of our limited financial history, we believe that period-to-period comparisons of our results of operations will not be meaningful in the short term and should not be relied upon as indicators of future performance.

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

And Results Of Operations Could Be Harmed.

We are still in the early marketing stages of our DealerAdvance(TM) suite of products. Our first pilot system for DealerAdvance Sales Solution(TM) was installed in April 2001 and our sixth and final pilot system was installed in September 2001. We implemented a total of 33 additional sites in 2002. As of December 31, 2003, a total of 64 Dealerships were using the DealerAdvance Sales Solution(TM) in 13 states. As of December 31, 2005 a total of 91 Dealerships were using the DealerAdvance Sales Solution(TM). We may experience design, marketing, and other difficulties that could delay or prevent our development, introduction, or marketing of these and other new products and enhancements. In addition, the costs of developing and marketing our products may far outweigh the revenue stream generated by such products. Finally, our prospects for success will depend on our ability to successfully sell our products to key automobile dealerships that may be inhibited from doing business with us because of their commitment to their own technologies and products, or because of our relatively small size and lack of sales and production history.

The nature of our handheld product and technology requires us to market almost exclusively to automobile dealerships. Should any particular dealership or group of dealerships decide not to utilize our services to the extent anticipated, our business may be adversely affected. Large and costly consumer products such as automobiles are sensitive to broad economic trends. Therefore, our business could suffer if automobile dealerships are affected by poor economic conditions. If dealer sales are trending downward, capital expenditures, like those associated with our DealerAdvance (TM) suite of products, may be delayed or abandoned.

We Depend On Attracting And Retaining Key Personnel To Maintain Our Competitive Advantage, Therefore The Loss Of Their Services May Significantly Delay Or Prevent The Achievement Of Our Strategic Objectives.

We are highly dependent on the principal members of our management, research and sales staff. The loss of their services might significantly delay or prevent the achievement of our strategic objectives. Our success depends on our ability to retain key employees and to attract additional qualified employees. Competition for personnel is intense, and we cannot assure you that we will be able to retain existing personnel or attract and retain additional highly qualified employees in the future.

Our subsidiary, Stronghold, has an employment agreement in place with its President and Chief Executive Officer, Christopher J. Carey, which provides for vesting of options exercisable for shares of our Common Stock based on continued employment and on the achievement of performance objectives defined by the board of directors. Stronghold does not have similar retention provisions in its employment agreements with other key personnel. If we are unable to hire and retain personnel in key positions, our business could be significantly and adversely affected unless qualified replacements can be found.

Our success is dependent on the vision, technological knowledge, business relationships and abilities of our president, Mr. Carey. Any reduction of Mr. Carey's role in our business would have a material adverse effect on us. Mr. Carey's employment contract expired on December 31, 2004. He has not, however, expressed any intention or desire to leave the Company.

Risks Concerning Our Handheld Technology

We Obtain Products And Services From Third Parties, Therefore An Interruption In The Supply Of These Products And Services Could Cause A Decline In Sales Of Our Products And Services.

We are dependant upon certain providers of software, including Microsoft

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

Corporation and their Pocket PC software, to provide the operating system for our applications. If there are significant changes to this software, or if this software stops being available or supported, we will experience a disruption to our product and development efforts.

In designing, developing and supporting our wireless data services, we rely on mobile device manufacturers, content providers, database providers and software providers. These suppliers may experience difficulty in supplying us products or services sufficient to meet our needs or they may terminate or fail to renew contracts for supplying us these products or services on terms we find acceptable. Any significant interruption in the supply of any of these products or services could cause a decline in sales of our products and services, unless and until we are able to replace the functionality provided by these products and services. We also depend on third parties to deliver and support reliable products, enhance their current products, develop new products on a timely and cost-effective basis and respond to emerging industry standards and other technological changes.

11

Competition In The Wireless Technology Industry Is Intense And Technology Is Changing Rapidly, Therefore We May Be Unable To Compete Successfully Against Our Current And Future Competitors In The Future.

Many wireless technology and software companies are engaged in research and development activities relating to our range of products. The market for handheld wireless technology is intensely competitive, rapidly changing and undergoing consolidation. We may be unable to compete successfully against our current and future competitors, which may result in price reductions, reduced profit margins and the inability to achieve market acceptance for our products. Our competitors in the field are major international car dealership service companies, specialized technology companies, and, potentially, our joint venture and strategic alliance partners. Many of our competitors have substantially greater financial, marketing, sales, distribution and technical resources than us and have more experience in research and development, sales, service, manufacturing and marketing. We anticipate increased competition in the future as new companies enter the market and new technologies become available. Our technology may be rendered obsolete or uneconomical by technological advances developed by one or more of our competitors.

We May Not Have Adequately Protected Our Intellectual Property Rights, Therefore We May Not Be Successful In Protecting Our Intellectual Property Rights.

Our success depends on our ability to sell products and services for which we do not currently have intellectual property rights. We currently do not have patents on any of our intellectual property. We have filed for a patent which protects a number of developments pertaining to the management of information flow for automotive dealer-based software. We plan to file an additional patent application which will address certain proprietary features pertaining to our systems components, related equipment and software modules. We cannot assure you we will be successful in protecting our intellectual property right through patent law.

We rely primarily on trade secret laws, patent law, copyright law, unfair competition law and confidentiality agreements to protect our intellectual property. To the extent that these avenues do not adequately protect our technology, other companies could develop and market similar products or services, which could adversely affect our business.

We May Be Sued By Third Parties For Infringement Of Their Proprietary Rights,

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

Therefore We May Incur Defense Costs And Possibly Royalty Obligations Or Lose The Right To Use Technology Important To Our Business.

The wireless technology and software industries are characterized by the existence of a large number of patents and frequent litigation based on allegations of patent infringement or other violations of intellectual property rights. As the number of participants in our market increases, the possibility of an intellectual property claim against us could increase. Any intellectual property claims, whether with or without merit, could be time consuming and expensive to litigate or settle and could divert management attention from the administration of our business. A third party asserting infringement claims against the Company or our customers with respect to our current or future products may adversely affect us.

Risks Relating to Our Current Financing Arrangement

There Are a Large Number of Shares Underlying Our Callable Secured Convertible Notes, and Warrants That May be Available for Future Sale and the Sale of These Shares May Depress the Market Price of Our Common Stock.

As of April 11, 2005, we had 16,087,349 shares of common stock issued and outstanding and callable secured convertible notes outstanding or an obligation to issue callable secured convertible notes that may be converted into an estimated 1,460,000,000 shares of common stock at current market prices, and outstanding warrants or an obligation to issue warrants to purchase 3,650,000 shares of common stock. In addition, the number of shares of common stock issuable upon conversion of the outstanding callable secured convertible notes may increase if the market price of our stock declines. All of the shares, including all of the shares issuable upon conversion of the notes and upon exercise of our warrants, may be sold without restriction. The sale of these shares may adversely affect the market price of our common stock. As the market price declines, then the callable secured convertible notes will be convertible into an increasing number of shares of common stock resulting in dilution to our shareholders.

The Continuously Adjustable Conversion Price Feature of Our Callable Secured Convertible Notes Could Require Us to Issue a Substantially Greater Number of Shares, Which Will Cause Dilution to Our Existing Stockholders.

Our obligation to issue shares upon conversion of our callable secured convertible notes is essentially limitless. The following is an example of the amount of shares of our common stock that are issuable, upon conversion of the Notes (excluding accrued interest), based on market prices 25%, 50% and 75% below the average of the three lowest intraday trading prices for our common stock during the previous 20 trading days as of April 11, 2005 of \$0.01.

12

% Below Market	Price Per Share	With Discount at 75%	Number of Shares Issuable	% of Outstanding Stock
-----	-----	-----	-----	-----
25%	\$.0075	\$.0019	1,946,666,667	99.18%
50%	\$.0050	\$.0013	2,920,000,000	99.45%
75%	\$.0025	\$.0006	5,840,000,000	99.73%

As illustrated, the number of shares of common stock issuable upon conversion of our secured convertible notes will increase if the market price of our stock declines, which will cause dilution to our existing stockholders.

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

The Continuously Adjustable Conversion Price feature of our Callable Secured Convertible Notes May Encourage Investors to Make Short Sales in Our Common Stock, Which Could Have a Depressive Effect on the Price of Our Common Stock.

The callable secured convertible notes are convertible into shares of our common stock at a 75% discount to the trading price of the common stock prior to the conversion. The significant downward pressure on the price of the common stock as the selling stockholder converts and sells material amounts of common stock could encourage short sales by investors. This could place further downward pressure on the price of the common stock. The selling stockholder could sell common stock into the market in anticipation of covering the short sale by converting their securities, which could cause the further downward pressure on the stock price. In addition, not only the sale of shares issued upon conversion or exercise of notes, warrants and options, but also the mere perception that these sales could occur, may adversely affect the market price of the common stock.

The Issuance of Shares Upon Conversion of the Callable Secured Convertible Notes and Exercise of Outstanding Warrants May Cause Immediate and Substantial Dilution to Our Existing Stockholders.

The issuance of shares upon conversion of the callable secured convertible notes and exercise of warrants may result in substantial dilution to the interests of other stockholders since the selling stockholders may ultimately convert and sell the full amount issuable on conversion. Although the selling stockholders may not convert their callable secured convertible notes and/or exercise their warrants if such conversion or exercise would cause them to own more than 4.99% of our outstanding common stock, this restriction does not prevent the selling stockholders from converting and/or exercising some of their holdings and then converting the rest of their holdings. In this way, the selling stockholders could sell more than this limit while never holding more than this limit. There is no upper limit on the number of shares that may be issued which will have the effect of further diluting the proportionate equity interest and voting power of holders of our common stock, including investors in this offering.

If we fail to obtain stockholder approval to increase our authorized shares of common stock, we may be required to repay the callable secured convertible debentures as well as various penalties.

We presently do not have an adequate amount of authorized and unissued shares of common stock to issue in connection with the financings entered in June 2004 and March 2005. Although we do not have current plans to hold a meeting for the purpose of obtaining stockholder approval to increase our authorized shares of common stock, we intend to coordinate this in the near future. In the event that we are unable to obtain an increase in our authorized common stock, we will be required to repay the callable secured convertible debenture and we will be subject to prepayment penalties.

If We Are Required for any Reason to Repay Our Outstanding Callable Secured Convertible Notes, We Would Be Required to Deplete Our Working Capital, If Available, Or Raise Additional Funds. Our Failure to Repay the Callable Secured Convertible Notes, If Required, Could Result in Legal Action Against Us, Which Could Require the Sale of Substantial Assets.

In June 2004, we entered into a Securities Purchase Agreement for the sale of an aggregate of \$3,000,000 principal amount of callable secured convertible notes.

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

In addition, in March 2005, we entered into a Securities Purchase Agreement for the sale of an aggregate of \$650,000 principal amount of callable secured convertible notes. The callable secured convertible notes are due and payable, with 12% interest, two years from the date of issuance, unless sooner converted into shares of our common stock. Although we currently have \$3,350,000 callable secured convertible notes outstanding, the investors are obligated to purchase additional callable secured convertible notes in the aggregate amount of \$300,000. In addition, any event of default such as our failure to repay the principal or interest when due, our failure to issue shares of common stock upon conversion by the holder, our failure to timely file a registration statement or have such registration statement declared effective, breach of any covenant, representation or warranty in the Securities Purchase Agreement or related convertible note, the assignment or appointment of a receiver to control a substantial part of our property or business, the filing of a money judgment, writ or similar process against our company in excess of \$50,000, the commencement of a bankruptcy, insolvency, reorganization or liquidation proceeding against our company and the delisting of our common stock could require the early repayment of the callable secured convertible notes, including a default interest rate of 15% on the outstanding principal balance of the notes if the default is not cured with the specified grace period. We anticipate that the full amount of the callable secured convertible notes will be converted into shares of our common stock, in accordance with the terms of the callable secured convertible notes. If we are required to repay the callable secured convertible notes, we would be required to use our limited working capital and raise additional funds. If we were unable to repay the notes when required, the note holders could commence legal action against us and foreclose on all of our assets to recover the amounts due. Any such action would require us to curtail or cease operations.

Risks Concerning Our Capital Structure

Our Management And Other Affiliates Have Significant Control Of Our Common Stock And, Therefore, Could Control Our Actions In A Manner That Conflicts With Our Interests And The Interests Of Other Stockholders.

As of December 31, 2004, our executive officers and directors held approximately 31.64% of the voting power of the Company on a fully diluted basis. As a result, these stockholders, acting together, will be able to exercise considerable influence over matters requiring approval by our stockholders, including the election of directors, and may not always act in the best interests of unaffiliated shareholders. Such a concentration of ownership could have the effect of delaying or preventing a change in control, including transactions in which our stockholders might otherwise receive a premium for their shares over then current market prices.

We Are Controlled By Our President, Which, Therefore, May Result In Shareholders Having No Control Over Our Direction Or Affairs.

As of December 31, 2004, our President and Chief Executive Officer held approximately 29.51% of the voting power of the Company on a fully diluted basis. As a result, he has the ability to control us and direct our affairs and business, including the approval of significant corporate transactions. This concentration of ownership could have the effect of delaying, deferring or preventing a change in control and may make some transactions more difficult or impossible without his support. Any of these events could decrease the market price of our Common Stock.

We Do Not Intend to Pay Cash Dividends On Our Shares of Common Stock, Therefore Our Stockholders Will Not Be Able to Receive a Return on Their Shares Unless They Sell Them.

We have never declared or paid dividends on our Common Stock and we do not

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

intend to pay any Common Stock dividends in the foreseeable future. We intend to retain any future earnings to finance the development and expansion of our business. We do not anticipate paying any cash dividends on our Common Stock in the foreseeable future. Unless we pay dividends, our stockholders will not be able to receive a return on their shares unless they sell them.

14

Our Common Stock is Subject to the "Penny Stock" Rules of the SEC and the Trading Market in Our Securities is Limited, Which Makes Transactions in Our Stock Cumbersome and May Reduce the Value of an Investment in Our Stock.

The Securities and Exchange Commission has adopted Rule 15c-9 which establishes the definition of a "penny stock," for the purposes relevant to us, as any equity security that has a market price of less than \$5.00 per share or with an exercise price of less than \$5.00 per share, subject to certain exceptions. For any transaction involving a penny stock, unless exempt, the rules require:

- o that a broker or dealer approve a person's account for transactions in penny stocks; and
- o the broker or dealer receive from the investor a written agreement to the transaction, setting forth the identity and quantity of the penny stock to be purchased.

In order to approve a person's account for transactions in penny stocks, the broker or dealer must:

- o obtain financial information and investment experience objectives of the person; and
- o make a reasonable determination that the transactions in penny stocks are suitable for that person and the person has sufficient knowledge and experience in financial matters to be capable of evaluating the risks of transactions in penny stocks.

The broker or dealer must also deliver, prior to any transaction in a penny stock, a disclosure schedule prescribed by the Commission relating to the penny stock market, which, in highlight form:

- o sets forth the basis on which the broker or dealer made the suitability determination; and
- o that the broker or dealer received a signed, written agreement from the investor prior to the transaction.

Generally, brokers may be less willing to execute transactions in securities subject to the "penny stock" rules. This may make it more difficult for investors to dispose of our common stock and cause a decline in the market value of our stock.

Disclosure also has to be made about the risks of investing in penny stocks in both public offerings and in secondary trading and about the commissions payable to both the broker-dealer and the registered representative, current quotations for the securities and the rights and remedies available to an investor in cases of fraud in penny stock transactions. Finally, monthly statements have to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks.

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

Item 2.

DESCRIPTION OF PROPERTIES

We do not currently own any real property. We lease a 2,400 square foot development facility in Sterling, Virginia, which is staffed with 6 development and field support personnel. The lease for the Sterling, Virginia facility expires on June 1, 2006. We also operate and lease business development and operations offices in Basking Ridge, New Jersey, and Lafayette, California. The lease for the Basking Ridge, New Jersey facility expires on February 28, 2008 and the lease for the Lafayette, California facility expires on November 1, 2005. We carry insurance for each of these properties. These facilities are suitable for our current operations.

We are obligated under these leases through August 2007. In addition to the base rent, one lease requires us to pay a proportionate share of operating costs and other expenses.

Future aggregate minimum annual rent payments under these leases are approximately as follows:

15

Year ended December 31,

2005	115,000
2006	90,000
2007	81,000
2008	14,000

Total	300,000
	=====

Rent expenses were approximately \$182,000 for the year ended December 31, 2004.

Item 3.

LEGAL PROCEEDINGS

From time to time, we may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business. Except as disclosed below, we are currently not aware of any such legal proceedings or claims that we believe will have, individually or in the aggregate, a material adverse affect on our business, financial condition or operating results.

On April 27, 2004, PNC Bank, N.A., as successor by merger to UnitedTrust Bank filed a complaint in the Superior Court of New Jersey, Law Division, Union County (Docket No. UNN-L_001522-04) against our company and Christopher J. Carey, in his capacity as guarantor, to collect the sums outstanding under the Loan Agreement, dated as of September 30, 2002. On July 15, 2004, we entered into a fully executed forbearance agreement with PNC Bank, N.A. whereby PNC agreed to delay the pursuit of its lawsuit in exchange of scheduled payments. We made an initial principal payment of \$420,000 with the execution of the forbearance as well as payments of \$50,000 on August 15, 2004, September 15, 2004 and October 15, 2004. We made the final scheduled payment of \$601,000, on March 31, 2005.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

None.

16

PART II

Item 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our Common Stock is traded on the OTC Bulletin Board, referred to herein as the OTCBB, under the symbol "SGHT". The following table sets forth the high and low bid prices of our Common Stock, as reported by the OTCBB for each quarter since January 1, 2003. The quotations set forth below reflect inter-dealer prices, without retail mark-up, markdown or commission and may not represent actual transactions.

2003	High	Low
----	-----	-----
January 1, 2003 - March 31, 2003	\$1.70	\$0.25
April 1, 2003 - June 30, 2003	\$1.01	\$0.59
July 1, 2003 - September 30, 2003	\$0.98	\$0.47
October 1, 2003 - December 31, 2003	\$0.70	\$0.30
2004	High	Low
----	-----	-----
January 1, 2004 - March 31, 2004	\$0.85	\$0.45
April 1, 2004 - June 30, 2004	\$0.60	\$0.24
July 1, 2004 - September 30, 2004	\$0.27	\$0.11
October 1, 2004 - December 31, 2004	\$0.40	\$0.11
2005	High	Low
----	-----	-----
January 1, 2005 - March 31, 2005	\$0.23	\$0.01

As of March 9, 2005, there were approximately 126 holders of record of our Common Stock.

We have appointed Continental Stock Transfer & Trust Company, 17 Battery Place, New York, New York 10004, as transfer agent for our shares of Common Stock.

Item 6. MANAGEMENT'S DISCUSSION AND ANALYSIS AND RESULTS OF OPERATIONS

This section provides a narrative on the Company's operating performance, financial condition and liquidity and should be read in conjunction with the accompanying financial statements. Certain statements under the caption "Management's Discussion and Analysis and Results of Operation" constitute "forward-looking statements" under the Private Securities Litigation Reform Act of 1995. See "Risk Factors-Cautious Note Regarding Forward Looking Statements". For a more complete understanding of our operations see "Risk Factors" and "Description of Business".

Our History

We were incorporated as a Nevada corporation on September 8, 2000, under the name TDT Development, Inc. On May 16, 2002 we acquired Stronghold Technologies, Inc., a New Jersey corporation referred to herein as our "Predecessor Entity", pursuant to a merger of the Predecessor Entity into our wholly-owned subsidiary, TDT Stronghold Acquisition Corp., referred to herein as "Acquisition Sub". As consideration for the merger, we issued 7,000,000 shares

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

of our common stock to the stockholders of the Predecessor Entity in exchange for all of the issued and outstanding shares of the Predecessor Entity. Following the merger, Acquisition Sub, the survivor of the merger, changed its name to Stronghold Technologies, Inc. (NJ) and remains our only wholly-owned subsidiary. On July 11, 2002, we changed our name from TDT Development, Inc. to Stronghold Technologies, Inc. On July 19, 2002, we exchanged all of the shares that we held in our two other wholly-owned subsidiaries, Terre di Toscana, Inc. and Terres Toscanes, Inc., which conducted an import and distribution business specializing in truffle-based food product, for 75,000 shares of our common stock held by Mr. Pietro Bortolatti, our former president.

17

Overview of our Handheld Technology Business

On May 16, 2002, we entered the handheld wireless technology business via our acquisition by merger of the Predecessor Entity. The Predecessor Entity was founded on August 1, 2000 to develop proprietary handheld wireless technology for the automotive dealer software market. Since the merger of the Predecessor Entity into our subsidiary, we continue to conduct the Predecessor Entity's handheld wireless technology business.

Our past results of operations and ensuing financial condition have resulted from our allocating significant resources to the development of our wireless technology business for use by the automobile dealership market that have been traditionally slow to accept such products. We have achieved initial acceptance, which has resulted in our generating limited revenue. The sales to date from our inception through the second quarter of 2004 have been achieved through direct selling efforts defined as employees of our company selling directly to dealers. We believe the initial sales of our products have positioned our company to now start selling through third party sellers that have established distribution channels. We announced our first distribution agreement in the third quarter and have realized the first sale pursuant to this distribution agreement.

In the event that our distribution efforts through third party sellers do not increase our revenue to where we attain cash flow self sufficiency, then we would have to raise additional capital beyond the final tranche of funding to be provided with five days after the effective date of the registration statement. Additionally, should there be a significant slow down in the purchase of automobile vehicles in the USA domestic market; this could cause dealers to slow down there buying decision of new technology which would negatively impact our results of operations.

Our Revenues

Our revenues are primarily received from system installation, software licenses and system maintenance. The approximate average selling package price of the system and installation is \$70,000. Additional revenues are derived from monthly system maintenance agreements that have a monthly fee of \$850 per month and a total contract value of \$30,600. The revenues derived from these categories are summarized below:

Software License Revenues

This represents the software license portion of the Dealer Advance Service Solution purchased by customers of our company. The software and intellectual property of Dealer Advance has been developed and is owned by our company.

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

System Installation Revenues:

This represents the installation and hardware portion of the Dealer Advance Service Solution. All project management during the installation is performed by us. The installation and hardware portions include cable wiring subcontracting services and off the shelf hardware and handheld computers ("PDA"s).

Monthly Recurring Maintenance Revenue:

This represents the maintenance and support contract for the Dealer Advance Service Solution that the customer executes with the system installation. The typical maintenance contract is for 36 months. In the three year operating history of our company, approximately 50% of all our company's customers have prepaid the maintenance fees through a third party leasing finance company. The third part leasing arrangements are commitments by the dealer client directly with a financing company with no recourse to us. These prepaid maintenance fees have provided additional cash flow to us and have generated a deferred revenue liability on or balance sheet.

Cost of sales for software licensing with the installation are estimated at 10% of revenue for reproduction, minor customer specific configurations and the setup cost of interface with the customers' DMS. Cost of sales for the system installation includes direct labor and travel, subcontractors and third party hardware.

18

General and Administrative Operating Expenses

Our general operating expenses are primarily comprised of: Marketing and Selling; General and Administrative; and Development & Operations. Our marketing and selling expenses include all labor, sales commissions and non-labor expenses of selling and marketing of our products and services. These include the salaries of two Vice Presidents of Sales and the Business Development Manager ("BDM") staff. Our general and administrative expenses include expenses for all facilities, insurance, benefits, telecommunications, legal and auditing expenses are included as well as the executive management group wage expense. Our development and operations expenses include the expenses for the Client Consultant group which advises and supports the installations of our Dealer Advance(TM) clients.

Bad debt expenses are also included under Selling, General and Administrative Expenses. The policy for recognition of bad debt expenses established for the year end December 31, 2003 is still in effect. This policy has been established utilizing the amount of future returns estimated based on historical calculations, technology obsolescence and return period. We have set the policy for reserves for doubtful accounts at 20% of our accounts receivables to account for estimated rights of returns and uncollectible accounts. This is based on a historical return rate of 18% for 2003 and 16% in 2004. In the first full operating year of 2002 the return rate was 25%. The estimate for total returns in the life of our company as of November 2004 is 21 returns on 104 sales for a return rate of 20% for the life of operations. In recognizing revenue, we consider the following factors:

- o Our price to the buyer is substantially fixed or determinable at the date of sale as evidenced by the contract signed for each sales and the terms and conditions of each;

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

- o The buyer has paid our company and the buyers obligation is not contingent on resale of the product;
- o The buyer's obligation to our company would not be changed in the event of theft or physical destruction or damage of the product;
- o The buyer acquiring the product for resale has economic substance apart from that provided by our company;
- o we do not have significant obligations for future performance to directly bring about resale of the product by the buyer; and
- o The amount of future returns can be reasonably estimated based on historical calculations, technology obsolescence and return period.

Year ended December 31, 2004 Compared to the Year Ended December 31, 2003.

Revenue

For the year ended December 31, 2004 we had revenue of \$2,489,790 compared with revenue of \$2,996,344 for the year ended December 31, 2003 for a decrease of 17%. Revenue is generated from software license and system installation, maintenance support and service revenues. Revenues for the years ended December 31, 2004 and December 31, 2003 are broken down as follows:

	2004	2003	\$ Change	\$ Change
	-----	-----	-----	-----
Software License & System				
Installation	\$1,923,523	\$2,639,964	\$ (716,441)	-27%
Support & Maintenance	\$ 515,948	\$ 288,075	\$ 227,874	79%
Services	\$ 37,380	\$ 68,305	\$ (30,925)	-45%
	-----	-----	-----	-----
Total Revenue	\$2,476,851	\$2,996,344	\$ (506,554)	-17%

Software license and system installation revenue decreased \$716,441 in 2004 to \$1,923,523 as compared to \$2,639,964 in 2003 for a decrease of 27%. The company installed 27 sites in 2004 with an average sales price of \$58,000 as compared to 40 sites in 2003, with an average sales price of \$60,000. The decrease in revenue in software license and system installations is primarily attributable to the following:

- o the steps we made to address our limited funding that included reductions of our sales, marketing and client consultant staffs,
- 19
- o a strategic decision to allocate resources to establish our first sales efforts through third party distributors; and
 - o a loss of momentum in the late part of the second quarter and the early part of the third quarter resulting from concerns regarding closure of our pending funding that was needed to maintain operations.

Support and maintenance revenues increased \$227,874 in 2004 to \$515,948 as compared to \$288,075 in 2003 for an increase of 79%. This increase was attributable to an increase of 29 sites under maintenance contracts from 55 at the end of 2003 to 84 at the end of 2004.

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

Services revenue consisting of training decreased \$30,925 in 2004 to \$37,380 as compared to \$68,305 in 2003 for a decrease of 45%.

Given that the company has continued to generate losses and are reliant on raising capital to support operations, the continued loss of momentum may cause us our revenues to continue to decrease.

Cost of Sales

Cost of sales on a percentage of revenue basis was reduced 7.5% to 33.51% of revenue for the twelve months ended December 31, 2004 as compared to 41.06% of revenue for the twelve months ended December 31, 2003. The table below shows the Cost of Sales and percentage by category and the comparison in dollars and percentage for the twelve months ended December 31, 2004 and twelve months ended December 31, 2003. The decrease in Cost of Sales as a percentage of revenue of 7.54% is primarily attributed to corresponding percentage decreases in Hardware Components, Software and Licensing, Subcontractors and Installations/Travel, offset by percentage increases in Distribution Fees and Labor. Our cost of sales as a percentage of revenue may increase in the future as we utilize additional third party distributors.

	2004	2003	2004	2003	% Change
Cost of Sales	Dollars	Dollars	% of	% of	
			Revenue	Revenue	
5100 - Hardware Components	\$ 341,245	\$ 479,949	13.71%	16.02%	-2.31%
5200 - Client Software & Licensing	\$ 97,537	\$ 151,780	3.92%	5.07%	-1.15%
5300 - Distribution Fees	\$ 11,810	\$ --	0.47%	0.00%	0.47%
5400 - Subcontractors	\$ 28,987	\$ 79,456	1.16%	2.65%	-1.49%
5500 - Misc Installation Costs	\$ 5,306	\$ 17,527	0.21%	0.58%	-0.37%
5600 - Installations/Travel	\$ 149,243	\$ 254,173	5.99%	8.48%	-2.49%
5700 - Shipping	\$ 41,677	\$ 66,247	1.67%	2.21%	-0.54%
5800 - Labor	\$ 158,545	\$ 181,040	6.37%	6.04%	0.33%
TOTAL COST OF SALES	\$ 834,350	\$ 1,230,174			
TOTAL COST OF SALES % OF REVENUE	33.51%	41.06%			-7.54%

Gross Profits

We generated \$1,655,441 in gross profits from sales for the year ended December 31, 2004, which was a decrease of \$110,729 from the year ended December 31, 2003, when we generated \$1,766,170 in gross profits. Our gross profit margin percentage increased by 7.54% from 58.94% in the year ended December 31, 2003 to 66.49% in the year ended December 31, 2004. The Company's ability to increase its gross profit margin despite the reduction in revenue is due to the Company's ability to maintain prices and eliminate excess labor capacity present in 2003.

Selling, General and Administrative Expenses

Total Selling, General and Administrative expenses in the year ended December 31, 2004 were \$3,878,044, a decrease of 29.64% or \$1,633,998 from the year ended December 31, 2003 of \$5,512,042. The significant reduction in expense is primarily attributable to efficiencies gained through the reduction of staff from 41 in December 31, 2003 to 21 in the year ended December 31, 2004. The significant reduction in staffing resulted in a reduction of payroll expenses of \$1,051,700, which was the largest portion of the \$1,633,998 reduction. Other

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

significant expense reductions within selling, general and administrative expenses for the year ended December 31, 2004 and December 31, 2003 included reductions as follows:

20

- o legal expenses of \$39,187,
- o printing and reproduction expenses of \$32,602
- o travel and automobile expenses reductions of \$155,127
- o marketing expenses of \$37,576.
- o recruiting of \$47,111
- o consultant expenses of \$154,835

Our interest and penalty expense increased from \$512,135 in the year ended December 31, 2003 to \$867,010 in the year ended December 31 2004. This increase of \$354,875 is primarily due a new non-cash category of interest expense resulting from the Beneficial Conversion Expense attributed to the AJW Convertible Notes. This new non-cash category expense is attributed to the Company's adherence to EITF 98-5 "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios" and EITF 00-27 "Application of Issue No. 98-5 to Certain Convertible Instrument". We recorded \$539,581 of Beneficial Conversion Expense in the year ended December 31, 2004 for the closing of the first three tranches of \$2,350,000 of convertible debt detailed in the notes to financials. The comparative increase of \$354,875 also included one time penalty charge in 2003 of \$130,000 for IRS penalties.

Operating Loss

Our operating losses decreased by \$1,523,268 in comparing the year ended December 31, 2004 to the year ended December 31, 2003, which were \$2,222,604 and \$3,745,872, respectively. This improvement in operating loss despite the significant reduction in revenues is attributable to the 7.54% increase of gross profit margins and the significant reductions of selling, general and administrative expenses of \$1,633,998.

Net Loss

We had a net loss of \$3,089,614 for the year ended December 31, 2004 compared to \$4,258,007 for the year ended December 31, 2003, a decrease in net losses of \$1,168,393. This reduction of net losses of 27.44% despite the decrease of revenue and increased interest expense is also primarily attributable to the 7.54% increase of gross profit margins and the significant reductions of selling, general and administrative expenses of \$1,633,998.

Our loss per share also reduced to \$.22 loss per share with a weighted average of 14,081,263 shares outstanding in the year ended December 31, 2004 as compared to \$0.38 loss per share in the year ended December 31, 2003 with a weighted average of 11,304,347 shares outstanding.

We have never declared or paid any cash dividends on our common stock. We anticipate that any earnings will be retained for development and expansion of our business and we do not anticipate paying any cash dividends in the foreseeable future. Our board of directors, subject to any restrictions or prohibitions that may be contained in our loan or preferred stock agreements,

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

has sole discretion to pay dividends based on our financial condition, results of operations, capital requirements, contractual obligations and other relevant factors.

Liquidity and Capital Resources

OVERVIEW

As of December 31, 2004, our cash balance was \$500. We had a net loss of \$3,089,614 for the fiscal year ended December 31, 2004. We had a net operating loss of approximately \$10,620,000 for the period from May 17, 2002 through December 31, 2004 to offset future taxable income. Losses incurred prior to May 17, 2002 were passed directly to the shareholders and, therefore, are not included in the loss carry-forward. There can be no assurance, however, that we will be able to take advantage of any or all tax loss carry-forwards, in future fiscal years. Our accounts receivable as of December 31, 2004, less allowance for doubtful accounts of \$219,891, was \$523,689, and \$805,234 as of the year ended December 31, 2003, less allowances for doubtful accounts of \$218,446. The reason for the decrease in accounts receivable of \$281,545 when comparing accounts receivable as of December 31, 2004 to December 31, 2003 was due to the decrease in revenues and a faster collection cycle. Accounts receivable balances represent amounts owed to us for new installations and maintenance, service, training services, software customization and additional systems components.

21

As of December 31, 2004, we had the following financing arrangements:

Debt Liability Summary Table

Current Debt liabilities

IRS Payment Plan	315,000
Interest payable, stockholders (founding shareholder)	472,779
Notes payable, stockholders, current portion (founding shareholder)	1,145,530
Notes payable, current portion (PNC Bank)	606,667

Total Debt current liabilities	3,045,876

Long-term Debt liabilities

Notes payable, stockholders, less current portion (founding shareholder and Stanford)	1,129,600
Note payable, convertible debt, net of debt issuance costs of \$1,810,419	539,581
IRS Payment Plan (Long term portion)	430,000

Total long term Debt liabilities	2,099,181

With respect to liabilities for real property leases, the following table summarizes these obligations:

LOCATION	DATE	TERM	MONTHS REMAINING	BALANCE ON LEASE
-----	-----	-----	-----	-----
NJ	8/1/2003	55 months	39	\$ 240,051
VA	6/1/2004	24 months	17	\$ 53,636
CA	11/1/2004	12 months	10	\$ 5,525

		Grand Total		\$ 299,212

FINANCING NEEDS

To date, we have not generated revenues in excess of our operating expenses. We have not been profitable since our inception, we expect to incur additional operating losses in the future and will require additional financing to continue the development and commercialization of our technology. We have incurred a net loss of approximately \$3,100,000 and have negative cash flows from operations of approximately \$1,699,000 for the year ended December 31, 2004, and have a working capital deficit of approximately \$4,196,000 and a stockholders' deficit of approximately \$4,873,000 as of December 31, 2004. These conditions raise substantial doubt about our ability to continue as a going concern. During 2005, our management will rely on raising additional capital to fund its future operations. If we are unable to generate sufficient revenues or raise sufficient additional capital, there could be a material adverse effect on the consolidated financial position, results of operations and we may be unable to continue our operations.

As of December 31, 2004, we had a commitment for an additional \$650,000 of financing, which was scheduled to be closed on the fifth business day following the effective date of our registration statement becoming effective. In March of 2005, we received the entire \$650,000 of committed funds subsequent to the balance sheet date reported herein of December 31, 2004 and prior to the effective date of the registration statement. Additionally, in March of 2005, we entered in to a new financing in the amount of \$650,000 of which \$350,000 was received and an additional \$300,000 to be closed on the fifth business day following the effective date of the registration statement. We expect that the remaining \$300,000 will provide the necessary cash to support operations throughout the second quarter of 2005. Prior to this funding we will operate with cash on hand and cash generated from operations. We do not have further commitments and we will need to raise additional funds after the second quarter of 2005. In the event that we are unable to maintain our sales volume, collect current receivables and sustain operations until the final \$300,000 is received, we may be unable to continue operations.

22

We expect our capital requirements to increase significantly over the next several years as we continue to develop and market the DealerAdvance(TM) suite and as we increase marketing and administration infrastructure and develop capabilities and facilities. Our future liquidity and capital funding requirements will depend on numerous factors, including, but not limited to, the levels and costs of our research and development initiatives, the cost of hiring and training additional sales and marketing personnel and the cost and timing of the expansion of our marketing efforts.

Financings

We have entered into the following financing transactions:

Loans from Christopher J. Carey, an executive officers, director and shareholder of our company

On July 31, 2000, the Predecessor Entity entered into a line of credit with Mr. Chris Carey, our President and Chief Executive Officer and the President and Chief Executive Officer of Stronghold. The terms of the line of credit made available \$1,989,500, which the Predecessor Entity could borrow from time to time, until August 1, 2001. The outstanding amounts accrued interest at

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

the per annum rate equal to the floating base rate, as defined therein, computed daily, for the actual number of days elapsed as if each full calendar year consisted of 360 days. The first interest payment under the line of credit was due on August 1, 2001. On such date, the parties agreed to extend the line of credit for one more year, until August 1, 2002.

On April 22, 2002, the Predecessor Entity issued 500,000 shares of its common stock to Mr. Carey (which converted into 1,093,750 shares of our common stock when we acquired the Predecessor Entity on May 16, 2002) in exchange for cancellation of \$1 million of outstanding indebtedness under the July 31, 2000 line of credit from Mr. Carey.

On May 16, 2002, the total amount outstanding under the July 31, 2000 line of credit with Mr. Carey was \$2.2 million. On such date, we issued 666,667 shares of our common stock to Mr. Carey in exchange for the cancellation of \$1 million of the then outstanding amount under the line of credit. We agreed to pay Mr. Carey the remaining \$1.2 million according to the terms of a non-negotiable promissory note, which was issued on May 16, 2002.

On September 30, 2002, we renegotiated the \$1,200,000 promissory note with Mr. Carey pursuant to a requirement contained in the promissory note with UnitedTrust Bank. According to the new terms of the loan, Mr. Carey extended the repayment of the principal amount until December 1, 2005. Until such time as the principal is paid, we will pay an interest only fee of 12% per year. Mr. Carey's promissory note is expressly subordinated in right of payment to the prior payment in full of all of the Company's senior indebtedness. Subject to the payment in full of all senior indebtedness, Mr. Carey is subrogated to the rights of the holders of such senior indebtedness to receive principal payments or distribution of assets. As of September 30, 2004, \$254,600 was outstanding under the promissory note issued to Mr. Carey.

On September 30, 2002, we entered into a loan agreement with CC Trust Fund to borrow an amount up to \$355,128. Christopher Carey Jr., Mr. Carey's son, is the beneficiary of the trust, and Mary Carey, Mr. Carey's wife, is the trustee of the trust. This bridge loan was for a period of twelve months, with all principal due and payable on September 30, 2003. The 12.5% interest on the outstanding principal is due each year. At the end of the loan period, the CC Trust Fund will be entitled to exercise 25,000 warrants at \$1.50 per share. On September 30, 2003, the CC Trust Fund agreed to extend the term of their loan to December 30, 2003. On December 30, 2003, the CC Trust Fund agreed to extend the term of their loan to June 30, 2004. On March 30, 2004, the CC Trust Fund agreed to extend the term of their loan to March 31, 2005. On May 1, 2004, the AC Trust Fund agreed to extend the term of their loan to November 1, 2005. As of December 31, 2004, \$402,322, including interest, was outstanding under the CC Trust Fund loan agreement.

On September 30, 2002, we entered into a loan agreement with AC Trust Fund to borrow an amount up to \$375,404. Amie Carey, Mr. Carey's daughter, is the beneficiary of the trust, and Mary Carey, Mr. Carey's wife, is the trustee of the trust. This bridge loan is for a period of twelve months, with all principal due and payable on September 30, 2003. The 12.5% interest on the outstanding principal is due each year. At the end of the loan period, the Fund will be entitled to exercise 25,000 warrants at \$1.50 per share. On September 30, 2002, the AC Trust Fund agreed to extend the term of their loan to December 30, 2003. On December 30, 2003, the AC Trust Fund agreed to extend the term of their loan to June 30, 2004. On March 30, 2004, the AC Trust Fund agreed to extend the term of their loan to March 31, 2005. On May 1, 2004, the AC Trust Fund agreed to extend the term of their loan to November 1, 2005. As of December 31, 2004, \$425,087, including interest, was outstanding under the AC Trust Fund loan agreement.

In October 2002, in connection with a loan to the Company in the amount of \$165,000, we issued a promissory note to Christopher J. Carey for \$165,000. Such promissory note was due on or before December 31, 2003. On December 30, 2003, Mr. Carey agreed to extend the term of his loan to June 30, 2004. On March 30, 2004, Mr. Carey agreed to extend the term of his loan to March 31, 2005. As of September 30, 2004, the amount outstanding on this promissory note was \$10,000. Until such time as the principal is paid, interest on the note will accrue at the rate of 12.5% per year.

On March 18, 2003, we entered into a bridge loan agreement with Christopher J. Carey, for a total of \$400,000. The agreement stipulates that the Company will pay an 8% interest rate on a quarterly basis until the loan becomes due and payable on June 30, 2004. We also issued to Mr. Carey 391,754 warrants exercisable for common stock for 10 years at a price of \$0.97 per share. On December 30, 2003, Christopher J. Carey agreed to extend the term of the promissory note to June 30, 2004. As of December 31, 2004, \$371,977, including interest, was outstanding under this bridge loan agreement. On May 1, 2004, Christopher J. Carey agreed to extend the term of the loan to June 1, 2005.

On April 24, 2003, our President and Chief Executive Officer, Christopher J. Carey, agreed to convert outstanding loans of \$543,000 to 603,333 shares of our common stock at a price of \$.90 per share in conjunction with the Series B Convertible Stock Financing detailed below.

Financings from PNC Bank (formerly United Trust Bank)

On November 1, 2001, the Predecessor Entity entered into a line of credit with UnitedTrust Bank (now PNC Bank) pursuant to which the Predecessor Entity borrowed \$1.5 million. This line of credit was due to expire by its terms, and all outstanding amounts were due to be paid, on September 30, 2002. On September 30, 2002, the line of credit came due and the bank granted a three-month extension. On September 30, 2002, we converted the outstanding line of credit with UnitedTrust Bank into a \$1,500,000 promissory note. Such promissory note is to be paid in 36 monthly installments, which commenced in February 2003 and is due to terminate on January 1, 2006. Interest accrues on the note at the prime rate, adjusted annually, which is the highest New York City prime rate published in The Wall Street Journal. The initial prime rate that applied to the promissory note was 4.750%.

On August 7, 2003, we entered into a modification of the loan agreement with UnitedTrust Bank, of which the principal balance was \$1,291,666 at the time of closing of the modification. Pursuant to the modification agreement, UnitedTrust Bank agreed to subordinate its lien against our assets to a new lender and reduce the monthly payments from \$41,666 per month principal plus accrued interest as follows: (a) from the date of closing through December 15, 2003, \$10,000 per month plus accrued interest (b) from January 15, 2004 through December 15, 2004, \$15,000 per month plus accrued interest, (c) from January 15, 2005 through December 15, 2005, \$20,000 per month plus interest and (d) on the maturity date of January 1, 2006, a balloon payment equal to all the outstanding principal and accrued interest. We are current with our payment of \$15,000 per month.

On January 9, 2004, we were served with a notice of an event of default by United Trust Bank, now PNC Bank, a successor by merger effective January 2004 with United Trust Bank, ("the Bank"), under its Loan Agreement. Pursuant to section 6.01(d) of the Loan Agreement, an Event of Default exists due to the Company's failure to pay Payroll Tax Obligations aggregating in the amount of \$1,089,897 as of December 31, 2003 (including estimated penalties and interest). The Company continues to make timely scheduled payments pursuant to the terms of

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

the loan and is in forbearance negotiations with the Bank with respect to the default. On April 1, 2004, the Company received a second Notice of Event of Default stating that the Bank had accelerated the maturity of the Loan and declared all principal, interest, and other outstanding amounts due and payable.

Because we were in default under the terms of the loan due primarily to our payroll tax default, the Bank has instituted the default rate of interest which is 5% above the "highest New York City prime rate" stated above. We have entered into an installment agreement with the United States Internal Revenue Service to pay the withholding taxes, under the terms of which we will pay \$100,000 by May 31, 2004 and \$35,000 each month, commencing June 28, 2004, until we have paid the withholding taxes due in full.

On April 27, 2004, PNC Bank, N.A., as successor by merger to UnitedTrust Bank filed a complaint in the Superior Court of New Jersey, Law Division, Union County (Docket No. UNN-L_001522-04) against our company and Christopher J. Carey, in his capacity as guarantor, to collect the sums outstanding under the Loan Agreement, dated as of September 30, 2002.

On July 15, 2004, we entered into a fully executed forbearance agreement with PNC Bank, N.A. We made an initial principal payment of \$420,000 with the execution of the forbearance. Additionally, we are required to make four consecutive monthly installments of \$50,000.00 on August 15, 2004, September 15, 2004, October 15, 2004 and November 15, 2004 followed by the remaining principal on or before December 15, 2004. Failure to adhere to this schedule may cause the suit to be reinstated and PNC Bank may resume collection of the sum under the suit.

24

On November 12, 2004, our company and PNC Bank agreed upon terms of an amendment to the forbearance agreement whereby by the payment schedule will change to include interest only payments on November 15, 2004, December 15, 2004 and January 15, 2005. We have made all interest payments.

On March 31, 2005, the Company paid off and satisfied the note due to PNC bank in the principal amount of \$606,667. All accrued interest in the amount of \$16,830 was all paid off.

Financings by Stanford Venture Capital Holdings, Inc.

On May 15, 2002, we entered into a Securities Purchase Agreement with Stanford Venture Capital Holdings, Inc., referred to herein as Stanford, in which we issued to Stanford (i) such number of shares of our Series A \$1.50 Convertible Preferred Stock, referred to herein as Series A Preferred Stock, that would in the aggregate equal 20% of the total issued and outstanding shares of our common stock, and (ii) such number of warrants for shares of our common stock that would equal the number of shares of Series A Preferred Stock issued to Stanford. The total aggregate purchase price for the Series A Preferred Stock and warrants paid by Stanford was \$3,000,000. The issuance of the Series A Preferred Stock and warrants took place on each of four separate closing dates from May 16, 2002 through and July 19, 2002, at which we issued an aggregate of 2,002,750 shares of our Series A Preferred Stock and warrants for 2,002,750 shares of our common stock to Stanford.

The Series A amounts and closing dates are as follows:

-----	-----
CLOSING DATE	PURCHASE PRICE
-----	-----

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

May 17, 2002	\$750,000
-----	-----
July 3, 2002	\$750,000
-----	-----
July 11, 2002	\$750,000
-----	-----
July 19, 2002	\$750,000
-----	-----

The warrants issued in 2002 were valued at \$294,893 using the Black-Scholes model using the following assumptions and a stock price of \$1.50:

- o Conversion price \$1.50;
- o expected volatility of 0%;
- o expected dividend yield rate of 0%;
- o expected life of 5 years; and
- o a risk-free interest rate of 4.91% for the period ended June 30, 2002.

In connection with our Series B financing, as partial consideration for the funds received pursuant to the Series B financing, we agreed to decrease the exercise price to \$.25. With respect to the decrease in the exercise price and the warrants being treated as a cost of the series B financing, the reduction of series A warrants was written in to the Series B preferred stock agreements as part of the negotiation. At the end of fiscal 2003, Stanford exercised the warrants for 2,002,750 shares of our common stock.

25

On April 24, 2003, we entered into a Securities Purchase Agreement with Stanford Venture Capital Holdings, Inc. for the issuance of 2,444,444 shares of our Series B \$0.90 Convertible Preferred Stock. The issuance of the Series B Preferred Stock took place on six separate closing dates beginning on May 5, 2003 through September 15, 2003. In connection with the Securities Purchase Agreement, we agreed to modify the previously issued five-year warrants to purchase 2,002,750 shares of our common stock: (i) to reduce the exercise price to \$.25 per share; and (ii) to extend the expiration date through August 1, 2008. In addition, our President and Chief Executive Officer, Christopher J. Carey, agreed to convert outstanding loans of \$543,000 to 603,333 shares of our common stock at a price of \$.90 per share. In addition, the Company and Stanford entered into a Registration Rights Agreement, dated April 30, 2003, in which the Company agreed to register the shares of the Company's common stock issuable upon conversion of the Series A and Series B Preferred Stock with the Securities and Exchange Commission, no later than November 15, 2003. The Company and Stanford agreed to extend the date of the filing requirements of the Registration Rights Agreement to March 14, 2004. We have not yet filed a registration statement, and are in negotiations with Stanford regarding an extension of the registration filing date.

On March 3, 2004 and March 15, 2004 we received loans in the amount of \$437,500 each from Stanford, resulting in a total loan of \$875,000. We have agreed to pay Stanford an 8% annual dividend on the funds invested and to redeem the securities not later than three years from the date of funding.

Private Placements with Accredited Investors

During August and September 2002, we entered into 9 subscription

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

agreements with accredited private investors, as defined in Rule 501 of the Securities Act, pursuant to which we issued an aggregate of 179,333 shares of our common stock at \$1.50 per share. These private investments generated total proceeds to us of \$269,000.

In October 2003, we commenced offerings to accredited investors in private placements of up to \$3,000,000 of our common stock. In the period of October 2003 through January 9, 2004 we raised \$225,000 under the terms of these private placements. The shares offered in the private placement are priced at the 5 trading day trailing average closing price of the common stock on the OTCBB, less 20%. For each share purchased in the private placements, purchasers received a warrant to purchase one half (0.5) share of common stock at 130% of the purchase price. A minimum of \$25,000 was required per investor. The number shares issued under this placement total 509,559, at an average price of \$0.44/share.

Callable Secured Convertible Notes

Callable Secured Convertible Notes

To obtain funding for its ongoing operations, the Company entered into a Securities Purchase Agreement (the "Securities Purchase Agreement") with New Millennium Capital Partners II, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and AJW Partners, LLC (collectively, the "Investors") on June 18, 2004 for the sale of (i) \$3,000,000 in callable convertible secured notes (the "Notes") and (ii) stock purchase warrants to buy 3,000,000 shares of the Company's common stock (the "Warrants").

The Investors purchased \$3,000,000 in Notes, and received Warrants to purchase an aggregate of 3,000,000 shares of our common stock, in four different tranches dated June 18, 2004 for \$1,500,000, July 27, 2004 for \$500,000, October 22, 2004 for \$350,000, and March 18, 2005 for \$650,000.

The Notes bear interest at 12%, mature two years from the date of issuance, and are convertible into our common stock, at the Investors' option, at the lower of (i) \$0.70 or (ii) 75% of the average of the three lowest intraday trading prices for the Company's common stock during the 20 trading days before, but not including, the conversion date. The Company may prepay the Notes in the event that no event of default exists, there are a sufficient number of shares available for conversion of the Notes and the market price is at or below \$0.57 per share. The full principal amount of the Notes is due upon default under the terms of Notes. In addition, the Company has granted the investors a security interest in substantially all of its assets and intellectual property as well as registration rights. The agreement entered into on June 18, 2004 was amended on March 4, 2005, changing the conversion price of the convertible notes to the lower of (i) \$0.70 or (ii) 25% of the average of the three lowest intraday trading prices for our common stock during the 20 trading days before, but not including, the conversion date. The original agreement had the conversion price as the lower of (i) \$0.70 or (ii) 50% of the average of the three lowest intraday trading prices for our common stock during the 20 trading days before, but not including, the conversion date.

26

The Note payable, convertible debt is recorded at \$2,350,000 and the Note payable, convertible debt, debt discount of \$1,810,000 are reported in accordance with Emerging Issues Task Force "EITF" 98-5 "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios" and EITF 00-27 "Application of Issue No. 98-5 to Certain Convertible Instruments". The Debt Discount is reported at 100% of the

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

net proceeds of the Convertible Debt Financing in accordance with paragraph 6 of EITF 98-5 that specifies that the beneficial conversion expense may not exceed the net proceeds. Additionally, the debt discount is net of amortization charged to interest expense of approximately \$540,000 recorded for the year ended December 31, 2004.

The Warrants are exercisable until five years from the date of issuance at a purchase price of \$0.57 per share. In addition, the exercise price of the Warrants is adjusted in the event the Company issues common stock at a price below market. Since the Company does not intend to issue common stock at below market price the warrants were valued at \$NIL using the Black- Scholes option pricing model including the following assumptions: exercise price of \$0.57, expected volatility of approximately 15%, expected dividend yield rate of 0%, expected life of 5 years, and a risk free interest rate of 4.23% for December 31, 2004.

The Investors have contractually agreed to restrict their ability to convert the Notes and exercise the Warrants and receive shares of the Company's common stock such that the number of shares of the Company's common stock held by them and their affiliates after such conversion or exercise does not exceed 4.99% of the then issued and outstanding shares of the Company's common stock.

All shares of the Company's common stock associated with this private placement are restricted securities in accordance with Rule 144 as promulgated under the of the Securities Act of 1933.

New Callable Secured Convertible Notes Issuance

On March 31, 2005, in order to obtain funding for its ongoing operations, we entered into a new Securities Purchase Agreement the Investors for the sale of (i) \$650,00 in Notes and (ii) warrants to purchase 650,000 shares of the Company's common stock. On March 31, 2005 the Investors purchased \$350,000 in Notes, and received Warrants to purchase an aggregate of 350,000 shares of the companies stock. The remaining \$300,000 of convertible secured notes will be purchased within five business days of the effectiveness of the registration statement.

The Notes bear interest at 12%, mature two years from the date of issuance, and are convertible into our common stock, at the Investors' option, at the lower of (i) \$0.70 or (ii) 75% of the average of the three lowest intraday trading prices for the Company's common stock during the 20 trading days before, but not including, the conversion date. The Company may prepay the Notes in the event that no event of default exists, there are a sufficient number of shares available for conversion of the Notes and the market price is at or below \$0.03 per share, the market price at the time of the closing. The full principal amount of the Notes is due upon default under the terms of Notes. In addition, the Company has granted the investors a security interest in substantially all of its assets and intellectual property as well as registration rights.

The Investors have contractually agreed to restrict their ability to convert the Notes and exercise the Warrants and receive shares of the Company's common stock such that the number of shares of the Company's common stock held by them and their affiliates after such conversion or exercise does not exceed 4.99% of the then issued and outstanding shares of the Company's common stock.

Results of Operations

Operations through May 16, 2002, were comprised solely of our truffle business, which was conducted through our wholly-owned subsidiaries, Terre di Toscana, Inc. and Terres Toscanes, Inc. Operations from May 16, 2002 through June 30, 2002 were comprised of our truffle business (which was divested on July

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

19, 2002, as described above) and our handheld wireless technology business. Our results of operations as described below reflect the treatment of the truffle business as discontinued operations and, therefore, figures from those periods reflect operations of our handheld wireless technology business only, other than with respect to other expenses. We believe that a comparison of our truffle business to our handheld wireless technology business is not a relevant analysis. Therefore, results of operations for the fiscal years ended 2001 and 2002 reflect operations of our handheld wireless technology business only.

We entered the handheld wireless technology business through the acquisition of the Predecessor Entity, which had only twenty-two months of operating history. We are subject to all of the risks inherent in a new business enterprise. Our limited operating history makes it difficult to evaluate our financial performance and prospects. We cannot make assurances at this time that we will operate profitably or that we will have adequate working capital to meet our obligations as they become due. Because of our limited financial history, we believe that period-to-period comparisons of our results of operations will not be meaningful in the short term and should not be relied upon as indicators of future performance.

27

Critical Accounting Policies and Use of Estimates

Financial Reporting Release No. 60, recently released by the Securities and Exchange Commission, requires all companies to include a discussion of critical accounting policies or methods used in the preparation of financial statements. The notes to the consolidated financial statements include a summary of significant accounting policies and methods used in the preparation of our Consolidated Financial Statements. In addition, Financial Reporting Release No. 61 was recently released by the SEC requires all companies to include a discussion which addresses, among other things, liquidity, off-balance sheet arrangements, contractual obligations and commercial commitments. The following is a brief discussion of the more significant accounting policies and methods used by us.

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of financial statements in accordance with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, including the recoverability of tangible and intangible assets, disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reported period.

On an on-going basis, we evaluate our estimates. The most significant estimates relate to our recognition of revenue and the capitalization of our software development.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements:

Revenue Recognition Policy

Revenue is recognized under the guidelines of SFAS No. 48 "Revenue Recognition When Right of Return Exists" and has a four step process that must be met prior to the recording of revenue. The steps consist of the following:

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

signing of sales contract, installation of hardware, completion of the training period and a signed contract from the customer stating they accept the product for the sixty-day trial period. Payment is due upon the completion of the trial period. The sales revenue and cost of sales reported in the consolidated statements of operations is reduced to reflect estimated returns. Service revenue is recognized when earned. All sales agreements with clients do not require significant production, modification, or customization of software, additionally all the functionality of the product is made available upon delivery, therefore the Company recognizes revenue in accordance with Paragraph 8 of 97-2 when:

- 1) Persuasive evidence of an arrangement exists as evidenced by a signed contract,
- 2) Delivery has occurred, please note that Stronghold does not recognize revenue prior to delivery,
- 3) The price of Stronghold's system is fixed and determinable as evidence by the contract, and
- 4) Collectability is highly probable.

Revenue related to the sale of products is comprised of one-time charges to dealership customers for hardware (including server, wireless infrastructure, desktop PCs, printers, interior/exterior access points/antennas and handheld devices), software licensing fees and installation/training services. Stronghold charges DealerAdvance Sales Solution(TM) dealers for all costs associated with installation. The most significant variable in pricing is the number of handheld devices purchased. Stronghold has not determined pricing for DealerAdvance Service Solution(TM).

Once DealerAdvance Sales Solution(TM) is installed, Stronghold provides hardware and software maintenance services for a yearly fee equal to approximately 10% of the one-time implementation fees. All dealerships are required to purchase maintenance with installations and pay maintenance fees on a monthly basis. Stronghold provides our customers with services, including software and report customization, business and operations consulting, and sales training services on an as needed basis and typically are charged on a time and expenses basis.

28

Stronghold offers all new customers a sixty-day performance trial period during which time performance targets are set. Stronghold installs the system and agrees to remove the system at no charge if the performance targets are not met. If performance is met, a large portion of the dealerships enter into a third party lease generally with lessors introduced by us. We have entered into a number of relationships with leasing companies in which the leasing company finances the implementation fees for the dealership in a direct contractual relationship with the dealership. The lease is based solely on the creditworthiness of the dealership without recourse to us. The leasing company receives an invoice from us, and remits funds upon acceptance by the dealership. We receive all funds as invoiced, with interest costs passed to the dealership. These leases typically run 36 months in duration, during which time we contract for service and maintenance services. Stronghold charges separately for future software customization after the initial installation, for additional training, and for additions to the base system (e.g., more handheld devices for additional sales people). Depending upon the dealership arrangement, the support and maintenance contracts are either billed monthly and recorded as revenue monthly, or are recorded up front to unearned maintenance fees at the present value of

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

the 36-month revenue stream and amortized monthly to revenue over the life of the agreement.

Deferred Revenue

Deferred revenue is recorded as a liability when we receive the three year maintenance contract in an a one-time advance payment. We then recognize the revenue from the maintenance portion of the contract on a pro rata basis over 36 months as the service is delivered.

Revenue Restatement

On December 26, 2002, we reclassified our consolidated financial statements for the first three quarters of 2002. This step was taken on the advice of Rothstein, Kass & Company, P.C., our accounting firm, to reflect the proper treatment of SOP-97-2..

Accordingly, our revenue was reclassified such that it may be recognized in future quarters. For the nine months ended September 30, 2002, revenue was reclassified from \$2,952,076 to \$1,898,884 with the difference treated as deferred revenue.

Historically, we recorded revenue as a three-stage process: at the time the equipment and software were delivered, installed and the personnel trained. We will now recognize each sale with an additional stage as outlined in the analysis provided by our accounting firm, which includes a fourth stage defined as, "the system is handed over to the customer to run on their own." This four-stage delivery process results in current sales revenues being carried into future quarters. We estimate that this change delays our recognition of revenue by approximately 20-50 days.

Software Development Capitalization Policy

Software development costs, including significant product enhancements incurred subsequent to establishing technological feasibility in the process of software production, are capitalized according to Statement of Financial Accounting Standards No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed." Costs incurred prior to the establishment of technological feasibility are charged to research and development expenses. For the year ended December 31, 2004, we capitalized \$407,585 of development costs in developing enhanced functionality of our DealerAdvance(TM) products. This compares with \$683,052 for the year ended December 31, 2003.

29

Item 7. FINANCIAL STATEMENTS

The financial statements required to be filed pursuant to this Item 7 are included in this Annual Report on Form 10-KSB beginning on page F-1. A list of the financial statements filed herewith is found on page F-1.

Item 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None.

Item 8A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

The Company maintains controls and procedures designed to ensure that it is able to collect the information it is required to disclose in the reports it files with the SEC, and to process, summarize and disclose this information within the time periods specified in the rules of the SEC. The Company's Chief Executive and Chief Financial Officers are responsible for establishing and maintaining these procedures and, as required by the rules of the SEC, evaluate their effectiveness. Based on their evaluation of the Company's disclosure controls and procedures, which took place as of the end of the period covered by this report, the Chief Executive and Chief Financial Officers believe that these procedures are effective to ensure that the Company is able to collect, process and disclose the information it is required to disclose in the reports it files with the SEC within the required time periods.

Internal Controls

The Company maintains a system of internal controls designed to provide reasonable assurance that: transactions are executed in accordance with management's general or specific authorization; transactions are recorded as necessary (i) to permit preparation of financial statements in conformity with generally accepted accounting principles and (ii) to maintain accountability for assets. Access to assets is permitted only in accordance with management's general or specific authorization and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

Since the date of the most recent evaluation of the Company's internal controls by the Chief Executive and Chief Financial Officers, there have not been changes in the Company's internal controls over financial reporting for the period covered by this report that materially affected or were likely to materially affect the Company's internal control over financial reporting.

30

PART III

Item 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

Our executive officers and directors and their respective ages and positions as of December 31, 2003 are as follows:

Name	Age	Position(s)
Christopher J. Carey.....	52	President, Chief Executive Officer and Director
Lenard Berger.....	35	Chief Technology Officer and Vice President
Robert Nawy.....	44	Chief Financial Officer
Robert J. Corliss*.....	51	Director
William Lenahan*.....	53	Director
Luis Delahoz*.....	44	Director

* Member of audit, compensation and governance/nominating committees.

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

The business address for each executive officer and director is 106 Allen Road, Basking Ridge, NJ 07920.

Christopher J. Carey has served as our President and Chief Executive Officer since May 2002. Mr. Carey is also the founder, President and Chief Executive Officer of Stronghold, our wholly-owned subsidiary. Since founding Stronghold in 2000, Mr. Carey has set the strategic direction and corporate vision for Stronghold, drawing on over 25 years of experience building technology-focused businesses. From 1976 until 1996, Mr. Carey was President and Chief Executive Officer of Datatec Industries, Inc., which specialized in the rapid deployment of network and computing systems. After negotiating a merger with Glasgal Communications in 1996, Mr. Carey became President of Datatec Systems, Inc., the combined entity until May 2002. Mr. Carey is currently a member of Board of Trustees of The Albert Dorman Honors College, New Jersey Institute of Technology, and a past Chairman of the New Jersey Chapter of the Young President's Organization.

Lenard Berger has served as our Chief Technology Officer and Vice President since May 2002. Mr. Berger is also the Chief Technology Officer and Vice President of our company. Prior to the founding of our predecessor entity in 2000, Mr. Berger was the President of eBNetworks, a division of Computer Horizons, Inc. From 1990 until 1999, Mr. Berger was the Vice President of RPM Consulting, Inc.

Robert Nawy joined Stronghold on July 22, 2003 and is responsible for financial management, with emphasis on strategic planning and day-to-day financial operations of the business. Mr. Nawy became the Chief Financial Officer in the fourth quarter of 2003. Mr. Nawy is a CPA, holds an MBA and is financial management veteran in the information technology industry, with over 19 years of experience in both public and privately held companies. Prior to joining us, Mr. Nawy served as CFO of Exenet Technologies, Inc. from 2001 through 2003. Prior to Exenet, Mr. Nawy served as CFO for Maden Technologies, Inc. 1998 to 2001.

Robert J. Corliss has been a director since May 2002. Mr. Corliss has been, since 1998, the President and Chief Executive Officer of the Athlete's Foot Group, Inc., a privately owned, 800-store retail chain with operations in 50 countries. Since 1999, Mr. Corliss has been a member of the board of Kahala Corporation, a publicly traded franchising corporation dedicated to the design, development and marketing of quick service restaurants serving nutritious products. From 1996 until 1998, Mr. Corliss was the President and Chief Executive Officer of Infinity Sports, Inc., a manufacturer, distributor and licensor of athletic products primarily under the brand Bike Athletic. Prior to founding Infinity Sports, Inc., Mr. Corliss was the Chief Executive Officer and President of Hermann's Sporting Goods retail chain. Mr. Corliss serves on the Advisory Council for the Sporting Goods Manufacturers Association's recently announced Physical Education for Progress (P.E.P.) initiative. Additionally, Mr. Corliss serves as a Director and Executive Committee member of the National Retail Federation and the National Retail Foundation and serves on the board of directors for The World Federation of the Sporting Goods Industry and serves on the board of directors of The Athlete's Foot Group, Inc. He is also an Advisor for Emory University's Goizueta Business School.

William Lenahan has been a director since May 2002. Mr. Lenahan has been the Chief Executive Officer of KMC Telecom Holdings, Inc. since 2000. KMC is a \$500 million nationwide provider of next generation telecommunications, including outsourcing services, consulting and financing for metro access and advanced voice, data and Internet services to business customers. Mr. Lenahan was the President and CEO of BellSouth Wireless Data (currently Cingular Wireless) from

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

1984 to 2000 and was responsible for financial performance and nationwide wireless data strategy for this division of BellSouth Corporation. Mr. Lenahan has served nearly 30 years in the information technology, telecommunications and data industries. He presently serves on the board of directors of Broadbeam Corporation.

Luis Delahoz has been a director since May 2002. Mr. Delahoz is the current President and Chief Executive Officer of TWS International, Inc., a leading provider of professional technical consulting services to the rapidly growing telecommunications industry. From 1998 until 2001, Mr. Delahoz was the Executive Vice President of Client Soft, Inc., a provider of e-business solutions. In 1996, Mr. Delahoz co-founded TOC Global Communications, Inc., where he served as Vice President until 1998. Currently, Mr. Delahoz is a member of the board of directors of TWS, Inc. and TWS International, Inc.

EXECUTIVE OFFICERS

Christopher J. Carey, Lenard Berger and Robert Nawy each have employment contracts with our company. The remaining officers serve at the discretion of our board of directors and holds office until his successor is elected and qualified or until his earlier resignation or removal. There are no family relationships among any of our directors or executive officers.

BOARD COMMITTEES

Our board of directors has an audit committee, compensation committee and governance/nominating committee. The audit committee reviews the results and scope of the audit and other services provided by our independent public accountant. The audit committee does not currently have an "audit committee financial expert", as defined by the SEC, due to our status as an early-development stage company. We are in the process of identifying an audit committee financial expert to join its board of directors and audit committee.

The compensation committee establishes the compensation policies applicable to our executive officers and administers and grants stock options pursuant to our stock plans. The governance/nominating committee oversees board procedures and nominates prospective members of the board should a vacancy arise. The current members of each of the audit, compensation and governance/nominating committees are Messrs. Corliss, Cox, Lenahan and Delahoz.

CODE OF ETHICS

Because we are an early-development stage company with limited resources, we have not yet adopted a "code of ethics", as defined by the SEC, that applies to our Chief Executive Officer, Chief Financial Officer, principal accounting officer or controller and persons performing similar functions. We are in the process of drafting and adopting a Code of Ethics.

DIRECTOR COMPENSATION

We have granted an initial one-time option grant to purchase 40,000 shares of common stock to each non-employee board member upon election to our board of directors. This one-time grant was awarded to the current non-employee board members on October 7, 2003. The options will vest 50% on each of the first and second anniversaries of the date of grant. The option is exercisable at \$.60 per share. In addition, each non-employee director will be granted, on an annual basis, an option to purchase 30,000 shares of our common stock, which will vest 50% on each of the first and second anniversaries of the date of grant. These options were granted in November 2004 and have an exercise price of \$.25. All stock options granted to members of our board of directors will have exercise prices equal to the fair market value of the Common Stock on the date of grant. We also reimburse directors for reasonable out-of-pocket expenses incurred in

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

attending meetings of the board of directors and any meetings of its committees.

32

Item 10. EXECUTIVE COMPENSATION

The following table sets forth executive compensation for fiscal years ended December 31, 2004, 2003 and 2002. We have not paid any salaries or bonuses to any of our officers from our inception through the date hereof. All of our executive officers also serve as officers of and are paid by our operating subsidiary. The following table shows compensation paid during the fiscal years ended December 31, 2002 and 2001 by our wholly owned subsidiary to our former president and other former executive officers. The table also provides information regarding executive compensation for our wholly owned subsidiary's current president and three other most highly compensated executive officers. We refer to all of these officers collectively as our "named executive officers."

Name and Principal Position -----	Year ----	Salary -----	Bonus -----	Other Annual Compensation -----
Former Officers and Directors -----				
Pietro Bortolatti President, Chief Executive Officer and Chairman of the Board	2003	--	--	--
	2002	--	--	20,500 (1)
Tiziana DiRocco Vice President Director of European Operations	2003	--	--	--
	2002	--	--	--
Current Officers(3) -----				
Christopher J. Carey(4) President, Chief Executive Officer and And chairman of the Board	2004	300,000	--	9,600
	2003	300,000	--	9,600
	2002	264,000	--	9,601
Lenard Berger(5) Vice President and Chief Technology Officer	2004	175,000	--	7,200
	2003	175,000	29,963	7,200
	2002	160,416	50,583	7,100
Salvatore D'Ambra(6) Vice President - Development	2004	--	--	--
	2003	134,375	27,135	5,912
	2002	121,397	8,000	6,600
Robert Nawy(8) Chief Financial Officer	2004	182,250	--	--
	2003	82,967	--	--
	2002	--	--	--

(1) Commissions of sales from Terre Di Toscana, Inc., and Terres Toscanas, Inc.

(2) Includes consulting service fees paid to the David Stephen Group, of which David Rector, our former director, is a principal.

33

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

(3) On May 16, 2002, our wholly-owned subsidiary merged with a New Jersey corporation, Stronghold Technologies, Inc. Our wholly-owned subsidiary survived and changed its name to Stronghold Technologies, Inc. ("Stronghold").

(4) Christopher J. Carey became our President and Chief Executive Officer on May 16, 2002, following the merger. Mr. Carey also remains the President, Chief Executive Officer and the sole Director of Stronghold. Mr. Carey's base salary from May 15, 2002 until December 31, 2002 was \$260,000, as set forth in his Employment Agreement with Stronghold. The terms of Mr. Carey's Employment Agreement are more fully set forth below. "Other Annual Compensation" consists solely of the reimbursement of automobile expenses. All of Mr. Carey's salary for 2002 has been deferred and accrued.

(5) Lenard Berger has been our Vice President and Chief Technology Officer since the merger, and holds the same positions with our wholly owned subsidiary. Mr. Berger's base salary for the period of July 2001 through July 2002 was \$112,000, as set forth in his Employment Agreement. As of July 2002, Mr. Berger's salary increased to \$122,000. \$36,000 of Mr. Berger's salary and other annual compensation was deferred and accrued in 2004. The terms of Mr. Berger's Employment Agreement are more fully set forth below. "Other Annual Compensation" consists solely of the reimbursement of automobile expenses.

(6) Salvatore D'Ambra has been our Vice President - Development of our wholly owned subsidiary from the merger until November 12, 2003. Mr. D'Ambra's base salary for the period of August 2001 through August 2002 was \$150,000, as set forth in his Employment Agreement. As of August 2002, Mr. D'Ambra's salary increased to \$175,000. Mr. D'Ambra resigned from his position with our wholly owned subsidiary in November 2003. "Other Annual Compensation" consists solely of the reimbursement of automobile expenses.

(7) Robert Nawy joined Stronghold on July 22, 2003 as Assistant Chief Financial Officer and became the Chief Financial Officer in November 2003. Mr. Nawy's base salary for the period of June 2003 through July 2004 is \$180,000, as set out in his Employment Agreement. As of August 1, 2004, Mr. Nawy's salary increased to \$185,400. \$15,300 of Mr. Nawy's salary and other annual compensation was deferred and accrued in 2004. "Other Annual Compensation" consists solely of the reimbursement of automobile expenses.

OPTIONS GRANTS

The following table sets forth information concerning individual grants of stock options under the 2002 Stock Incentive Plan during the fiscal year ended December 31, 2004 to each of the named executive officers.

OPTION GRANTS IN FISCAL YEAR ENDED DECEMBER 31, 2004

Name	Number of Securities Underlying Options	% of Total Options Granted to Employees in 2002	Exercise Base Price (\$/
Lenard Berger	--	--%	--
Robert Nawy	--	--%	--
Robert Nawy	--	--%	--

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

AGGREGATED OPTION/SAR EXERCISES IN LAST FISCAL YEAR AND FY-END OPTION/SAR VAL

NAME	SHARES ACQUIRED	VALUE	NUMBER OF SECURITIES		VALUE OF
	ON EXERCISE (#)	REALIZED (\$)(1)	UNDERLYING OPTIONS		AT
	-----	-----	-----		-----
			EXERCISABLE	UNEXERCISABLE	EXERCISA
Christopher J. Carey	--	--	--	200,000	--
Lenard J. Berger	--	--	7,600	--	--
Robert Nawy	--	--	216,667	33,333	44,000

34

(1) Based on the difference between the option exercise price and the fair market value of our common stock on the exercise date.

(2) Based on the difference between the option exercise price and the closing sale price of \$0.25 of our common stock as reported on the OTC Bulletin Board on December 31, 2004, the last trading day of our 2004 fiscal year. None of these options are currently in the money.

EMPLOYMENT AGREEMENTS WITH EXECUTIVE OFFICERS

CHRISTOPHER J. CAREY

On May 15, 2002, we assumed the employment agreement that was in place between Christopher J. Carey and the Predecessor Entity. Under the terms of the agreement, Mr. Carey's employment as Chairman of the Board, President and Chief Executive Officer of will continue until December 31, 2004, unless terminated sooner. The agreement may be renewed through mutual agreement of the parties. Mr. Carey receives a base salary of \$260,000 per year. Such base salary was increased effective January 1, 2003, to the annualized rate of \$300,000 and increased, effective January 1, 2004, to the annualized rate of \$350,000. Such salary will be reviewed annually and is subject to increase as determined by our board of directors or the Compensation Committee in its sole discretion.

The employment agreement provides that each fiscal year after fiscal year 2002, Mr. Carey will be eligible to receive an annual bonus based upon our meeting and exceeding our annual budget, as same has been reviewed and approved by the board of directors for earnings before interest, taxes, depreciation and amortization, referred to as EBITDA. This bonus will be earned according to the following: (i) if we achieve 90-100% of budgeted EBITDA, Mr. Carey will receive a bonus of 10% of his then current annual base salary; (ii) if we achieve 101-110% of budgeted EBITDA, Mr. Carey will receive a total bonus of 20% of his then current annual base; and (iii) if we achieve 111-120% of budgeted EBITDA, Mr. Carey will receive a total bonus of 30% of his then current annual base salary; (iv) if we achieve 121-130% of budgeted EBITDA, Mr. Carey will receive a total bonus of 40% of his then current annual base salary; (v) if we achieve 131-140% of budgeted EBITDA, Mr. Carey will receive a total bonus of 50% of his then current annual base salary; (vi) if we achieve 141-150% of budgeted EBITDA, Mr. Carey will receive a total bonus of 55% of his then current annual base salary; and (vii) if we achieve 151% or more of budgeted EBITDA, Mr. Carey will receive a total bonus of 60% of his then current annual base salary. The bonus, if any, shall be paid in one lump sum within sixty (60) days after the close of the fiscal year for which it was earned. To date, Mr. Carey has not been awarded a bonus.

In accordance with the agreement, the Predecessor Entity granted to Mr. Carey

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

stock options under the 2000 Stock Option Plan for the purchase of an aggregate of 200,000 shares of the Predecessor Entity's common stock at an option exercise price equal of \$1.50 per share, the fair market value of the underlying common stock on the date of the grant. Such option converted into an option to purchase 437,500 shares of our Common Stock when we merged with the Predecessor Entity and our wholly-owned subsidiary, Stronghold, assumed the 2000 Stock Option Plan. While Mr. Carey is employed by our company, the option will become exercisable on the earlier of: (i) the seventh anniversary of May 15, 2002; or (ii) the achievement of the performance goals set forth above in the paragraph above.

Upon a change in control of our company, the unvested portion of the options shall immediately vest and become exercisable by Mr. Carey. If we terminate Mr. Carey's employment (i) after the expiration of the term of employment; or (ii) with cause; or if Mr. Carey resigns for no good reason, he will receive all accrued compensation and vested benefits. If we terminate his employment without cause, Mr. Carey will receive all unpaid accrued compensation, vested benefits and a severance benefit equal to his base salary until the earlier of the balance of the term of his agreement, the renewal term or twelve months following the date of termination.

Mr. Carey's agreement contains a confidentiality provision and further provides that Mr. Carey may not work for, or hold 1% or more of the outstanding capital stock of a publicly traded corporation, which is a competing business anywhere in the world for one year after the conclusion of his employment. Mr. Carey has not expressed a desire to leave.

35

LENARD BERGER

On August 1, 2000, the Predecessor Entity entered into an employment agreement with Lenard Berger, which we assumed. Under the terms of the agreement, Mr. Berger's employment as Vice President, Chief Technology Officer will continue until July 31, 2005 unless sooner terminated. The agreement may be renewed through mutual agreement of the parties. Mr. Berger received a base salary of \$10,500 per month during the first six months of the term of the agreement and \$12,500 per month commencing February 1, 2001. During the second year of the term of the agreement, Mr. Berger's base salary will be \$150,000, but may increase to \$175,000 if the our Net Sales achieved in the first year of the term of the agreement equal or exceed \$2,000,000. During the third year of the term of the agreement, Mr. Berger's base salary will be \$175,000, but may increase to \$200,000 if our Net Sales achieved in the second year of the term of the agreement equal or exceed \$10,000,000. During the fourth and fifth years of the term of his agreement, Mr. Berger's base salary will be increased annually by a percentage determined by the Consumers Price Index. Beginning his second year of employment, Mr. Berger is eligible for a commission not to exceed \$50,000 for any year during the balance of the term of the agreement. The commission is equal to 1% of net sales, which is determined by subtracting certain costs from the gross sales of products and services. To date, Mr. Berger has not been awarded a commission. Mr. Berger is also eligible to receive extra compensation at the discretion of our board of directors, a car allowance and any insurance and 401(k) plans provided by the employer.

Pursuant to his employment agreement, Mr. Berger received an option grant to purchase 100,000 shares of the Predecessor Entity's common stock. Such option converted into an option to purchase 218,750 shares of our common stock when we merged with the Predecessor Entity. The vesting schedule for such grant is set forth above under the section entitled "Option Grants". Upon a change of control of our company, 50% of any unvested options shall become vested and exercisable immediately. If we register shares of common stock in an initial public

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

offering, Mr. Berger has the right to include any shares of common stock that he owns in the registration.

If we terminate Mr. Berger's employment without cause, he will receive payment of his base salary in effect at the time of his termination for a period of one month. If Mr. Berger resigns for good reason after the first full year of employment, Mr. Berger shall receive as his severance pay the lesser of (x) base salary payable for the balance of the then existing term of the agreement or (y) two months' base salary, plus one week's base salary for each full or part year worked after the first year of employment.

Mr. Berger's agreement provides that all rights to discoveries, inventions, improvements, and innovations related to our business that originates during the term of Mr. Berger's employment will be the exclusive property of our company. Mr. Berger's agreement also contains a confidentiality provision and further provides that Mr. Berger may not work for or hold 5% or more of the outstanding capital stock of a publicly traded corporation, which is a competing business anywhere in the world for one year after the conclusion of his employment. Mr. Berger has not expressed a desire to leave our company.

ROBERT NAWY

On June 23, 2003, we entered into an employment agreement with Robert Nawy. Under the terms of the agreement, Mr. Nawy's employment as Chief Financial Officer will continue until July 31, 2006, unless terminated sooner. The agreement may be renewed through mutual agreement of the parties. Mr. Nawy receives a base salary at an annualized rate of \$180,000 from July 28, 2003 until July 31, 2004. From August 1, 2004 to July 31, 2006, Mr. Nawy's salary will be increased annually by a percentage determined by the Consumers Price Index. Such salary will be reviewed annually and is subject to increase as determined by the board of directors or the Compensation Committee in its sole discretion.

The employment agreement provides that each fiscal year after fiscal year 2003, Mr. Nawy will be eligible to receive an annual bonus based upon our meeting and exceeding its annual budget, as same has been reviewed and approved by the board of directors for earnings before interest, taxes, depreciation and amortization, referred to as EBITDA. This bonus will be earned according to the following: (i) if we achieve 65-99% of budgeted EBITDA, Mr. Nawy will receive a bonus of 10% of his then current annual base salary; (ii) if we achieve 100-124% of budgeted EBITDA, Mr. Nawy will receive a total bonus of 20% of his then current annual base; and (iii) if we achieve 125% or more of budgeted EBITDA, Mr. Nawy will receive a total bonus of 30% of his then current annual base salary. The bonus, if any, shall be paid in one lump sum within sixty (60) days after the close of the fiscal year for which it was earned. To date, Mr. Nawy has not been awarded a bonus.

In accordance with the agreement, we granted to Mr. Nawy stock options under the 2002 Stock Option Plan for the purchase of an aggregate of 200,000 shares of our common stock at an option exercise price equal to \$0.80 per share, the fair market value of the underlying common stock on the date of the grant. While Mr. Nawy is employed by us, the options will become exercisable at the rate of 25,000 options on July 28, 2003, 60,000 options on July 31, 2004, 60,000 options on July 31, 2005 and 55,000 options on July 31, 2006.

36

Upon a change in control of our company, an additional 50% of the unvested portion of the options shall immediately vest and become exercisable by Mr. Nawy.

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

If we terminate Mr. Nawy's employment without cause within one year following a change of control, or Mr. Nawy resigns after one year following a change of control, he will receive all accrued compensation and vested benefits. If we terminate his employment without cause, Mr. Nawy will receive a severance benefit equal to: one month salary if termination occurs within the first six months of employment; two months salary if termination occurs within the second six months of employment; and the lesser of the balance of the term of the agreement and three months if termination occurs after completion of one full year of employment.

Mr. Nawy's agreement contains a confidentiality provision and further provides that Mr. Nawy may not work for, or hold 1% or more of the outstanding capital stock of a publicly traded corporation, which is a competing business anywhere in the world for one year after the conclusion of his employment. Mr. Nawy has not expressed a desire to leave.

Item 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information regarding the beneficial ownership of our common stock as of April 11, 2005. The information in this table provides the ownership information for:

- o each person known by us to be the beneficial owner of more than 5% of our Common Stock;
- o each of our directors;
- o each of our executive officers; and
- o our executive officers and directors as a group.

Beneficial ownership has been determined in accordance with the rules and regulations of the SEC and includes voting or investment power with respect to the shares. Unless otherwise indicated, the persons named in the table below have sole voting and investment power with respect to the number of shares indicated as beneficially owned by them. Common Stock beneficially owned and percentage ownership is based on 16,087,349 shares outstanding on April 11, 2005, and assuming the exercise of any options or warrants or conversion of any convertible securities held by such person, which are presently exercisable or will become exercisable within 60 days after April 11, 2005.

Name and Address of Beneficial Owner	Number of Shares Beneficially Owned	Percentage Outstanding
-----	-----	-----
5% Stockholders		

Christopher J. Carey 450 Claremont Road Bernardsville, NJ 07924	5,131,250(1)	24.99
Stanford Venture Capital Holdings, Inc. 6075 Poplar Avenue Memphis, TN 38119	7,519,897(2)	36.62
Other Executive Officers and Directors		

Robert J. Corliss	--	--
William Lenahan	--	--

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

Luis Delahoz	--	--
Robert Nawy	200,000 (3)	0.97
	-----	-----
Executive Officers and Directors as a Group (5 people)	5,331,250	62.58

37

(1) 3,937,500 of these shares are owned by Christopher J. Carey and his wife, Mary Carey, as Joint Tenants with Right of Survivorship.

(2) The total beneficial ownership of Stanford Venture Capital Holdings, Inc. is 7,519,897 shares which consists of: (i) 2,002,750 shares of Common Stock issuable upon the conversion of 2,002,750 shares of our Series A Preferred Stock; and (ii) 2,444,444 shares of Common Stock issuable upon the conversion of 2,444,444 shares of our Series B Preferred Stock and (iii) 3,072,703 shares of Common Stock. James M. Davis has voting and investment control over the securities held by Stanford Venture Capital Holdings, Inc., but he disclaims beneficial ownership of such securities, except to the extent of any pecuniary interest therein.

(3) Includes an option grant to purchase 200,000 shares of Common Stock which was immediately exercisable on the date of grant.

EQUITY COMPENSATION IN FISCAL 2004

The following table provides information about the securities authorized for issuance under our equity compensation plans as of December 31, 2003.

EQUITY COMPENSATION PLAN INFORMATION

	Number of securities to be issued upon exercise of outstanding options (1)	Weighted-average exercise price of outstanding options	Number of se available fo under equity
Equity compensation plans approved by security holders	1,225,408	\$0.85	
Equity compensation plans not approved by security holders	--	--	
Total	1,225,408	\$0.85	

(1) Issued pursuant to our 2002 Stock Incentive Plan, our 2002 California Stock Incentive Plan, and our 2000 Stock Option Plan.

(2) 1,063,600 shares are available for future issuance pursuant to the 2002 Stock Incentive Plan and 78,533 shares are available for future issuance pursuant to the 2002 California Stock Incentive Plan. We do not intend to issue any additional options under our 2000 Stock Option Plan.

Item 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

Stronghold Technologies, Inc., the Predecessor Entity, became our wholly-owned subsidiary on May 16, 2002 pursuant to a merger with and into Acquisition Sub. Pursuant to the merger, the Predecessor Entity's stockholders surrendered all of their outstanding shares of the Predecessor Entity's common stock in exchange for a total of 7,000,000 shares of our common stock. Of these shares, Christopher J. Carey, our current President, and his wife received a total of 3,937,500 shares held jointly, and Mr. Carey received an additional 1,093,750 shares individually.

38

Pursuant to a Securities Purchase Agreement which we entered into on May 15, 2002, with Stanford, a major shareholder of our company, Pietro Bortolatti, a former officer and director of our company, and Mr. Carey, we agreed to issue to Stanford such number of shares of our Series A Preferred Stock that would in the aggregate equal 20% of the total issued and outstanding shares of our common stock, and a warrant to purchase an equal number of shares of our common stock. The aggregate purchase price for the Series A Preferred Stock and warrants purchased by Stanford was \$3,000,000. The Series A Preferred Stock and warrant purchase took place on four separate closing dates from May 16, 2002 through July 19, 2002, in which we issued an aggregate of 2,002,750 shares of our Series A Preferred Stock to Stanford and warrants for 2,002,750 shares of our common stock. So long as any shares of Series A Preferred Stock are outstanding and held by Stanford, Stanford had the right to maintain its percentage ownership with respect to any additional securities we may issue, with certain exceptions under the Series A Securities Purchase Agreement.

Pursuant to a Securities Purchase Agreement which we entered into on April 24, 2003, we agreed to issue to Stanford a total of 2,444,444 shares of our Series B \$0.90 Convertible Preferred Stock ("Series B Preferred Stock"). The issuance of the Series B Preferred Stock occurred on six separate closing dates beginning on April 24, 2003 and closing on September 15, 2003. In connection with the Purchase Agreement, we modified the warrants issued in connection with the Series A offering to reduce the exercise price to \$0.25 per share and extend the expiration date to August 1, 2008. Stanford was also granted the right to maintain its percentage ownership with respect to any additional securities we may issue, with certain exceptions under the Series B Securities Purchase Agreement. In addition, we agreed to convert all outstanding loans and unreimbursed expenses to certain stockholders of our company for 603,000 shares of our common stock at a price of \$0.90 per share. The value of the warrant modification was treated as additional costs associated with raising capital and was shown as a reduction of additional paid-in capital of approximately \$557,000 (computed using the Black-Scholes model with the following assumptions: expected volatility of 0%, expected dividend yield rate of 0%, expected life of 5 years, and a risk-free interest rate of 4.91% for September 30, 2003).

In connection with the Series B Purchase Agreement, we entered into a Registration Rights Agreement with Stanford, dated April 30, 2003, in which we agreed to register the shares of common stock issuable upon conversion of the Series B Preferred Stock, no later than November 15, 2003. Stanford has agreed to extend the date to register the common stock issuable upon conversion of the Series B Preferred Stock until March 15, 2004, which was further extended in June 2004.

In connection with the Series B Purchase Agreement, we entered into a Consulting Agreement with Stanford, pursuant to which Stanford has agreed to perform certain financial consulting and advisory services, in exchange for which we agreed to pay Stanford a fee of \$50,000 per year for two years, payable quarterly in equal installments of \$12,500, with the first such installment due on July 1, 2003. Pursuant to the terms of the Consulting Agreement, we may, at

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

our sole option, choose to issue shares of our common stock to Stanford in lieu of such payments.

On November 11, 2003, we agreed with Stanford to modify the terms of the Series A and Series B Preferred Stock to facilitate acquisitions and other company actions. The basic terms of the modification are: (i) waiver Section 2(e)(iii) of the Series A Certificate of Designation, which provides for anti-dilution protection if we shall issue securities which are convertible into shares of our common stock for an exercise price of less than \$1.50; (ii) waiver of any rights of Stanford to Default Warrants (as defined in the Series A Registration Rights Agreement) due to our failure to register our shares of common stock; and (iii) modification of the warrants previously issued to Stanford and its assigns to purchase 2,002,750 shares of our common stock to reduce the initial exercise price to \$0.25 per share and to extend the expiration date to August 1, 2008.

Pursuant to the Amended and Restated Series A Certificate of Designation and Series B Certificate of Designation, dated November 11, 2003, by and between our company and Stanford and a Written Notice, Consent, and Waiver Among The Holders Of Series A \$1.50 Convertible Preferred Stock, Series B \$.90 Convertible Preferred Stock and Warrants, our company and Stanford agreed to certain amendments and restatements including:

(a) the filing of an Amended and Restated Certificate of Designation for Series A \$1.50 Convertible Preferred Stock substantially in the form attached hereto ("Amended and Restated Series A Certificate of Designation") pursuant to which Stanford will (x) waive dilution adjustments for certain issuances of Common Stock and Common Stock equivalents, (y) reduce for an eighteen month period the Stated Value and Conversion Price (each as defined therein) to \$0.50 and to \$0.87 thereafter and (z) forego certain rights to approve acquisitions of fixed assets, capital stock or capital expenditures, credit facilities and sales of shares of our securities. The authorized shares of Series A Preferred Stock was reduced from 2,017,200 to 2,002,750 shares.

39

(b) the filing of an Amended and Restated Certificate of Designation Series B \$.90 Convertible Preferred Stock substantially in the form attached hereto pursuant to which Stanford will (x) waive dilution adjustments for certain issuances of Common Stock and Common Stock equivalents, (y) reduce for an eighteen month period the Stated Value and Conversion Price (each as defined therein) to \$0.50 and to \$0.87 thereafter and (z) forego certain rights to approve acquisitions of fixed assets, capital stock or capital expenditures, credit facilities and sales of shares of our securities.

In connection with the Series B Purchase Agreement, our company and Stanford also entered into a Registration Rights Agreement, dated April 30, 2003, in which we agreed to register the shares of our common stock issuable upon conversion of the Series B Preferred Stock, no later than November 15, 2003. Stanford has agreed to extend date of the filing requirements of the Registration Rights Agreement to March 14, 2004, which was subsequently extended.

(c) In consideration of the Notice and the granting of the Consents and Waivers, we reduced the exercise price of the Stanford Warrants from \$0.25 per share to \$.001. On November 11, 2003, Stanford exercised in full the Stanford Warrant purchasing 2,002,750 shares of common stock for the purchase price of \$2,002.75.

Pursuant to a Stockholders' Agreement which we entered into on May 16, 2002 with Stanford, Mr. Carey and his wife, if either Stanford or the Careys should ever want to sell any shares of our Series A Preferred Stock or common stock, the

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

other party has a right of first refusal regarding such sale and, if such non-selling party does not want to exercise its right of first refusal, we have the right to purchase such shares, and a right of co-sale under the same terms and for the same type of consideration. In the case of a material adverse event related to our company, the Careys agreed to vote their shares as directed by Stanford, including removing and replacing the members of the board with designees nominated by Stanford. Finally, Stanford has the right to nominate one member to our board of directors and the Carey's have agreed to vote for such nominee.

Stanford is an affiliate of Stanford Financial Group, which is the majority stockholder of TWS International, Inc. Luis Delahoz, one of our outside directors, is the president and chief executive officer of TWS International, Inc. and is Stanford's representative on our board of directors.

On July 31, 2000, the Predecessor Entity entered into a line of credit loan arrangement with our President, Christopher Carey, who is also president of Stronghold. Mr. Carey made available \$1,989,500, which the Predecessor Entity could borrow from time to time until August 1, 2001. Outstanding amounts accrued interest at the rate of interest per annum equal to the floating Base Rate, computed daily, for the actual number of days elapsed as if each full calendar year consisted of 360 days. Overdue amounts accrued interest at an annual rate of 2% greater than the base rate, which is 2% above the floating base rate announced from time to time by Citibank, N.A. Under the agreement, the first payment was due on August 1, 2001. On such date, the line of credit was extended for one more year, until August 1, 2002. On April 22, 2002, the Predecessor Entity issued 500,000 shares of its common stock (which converted into 1,093,750 shares of our common stock when we acquired the Predecessor Entity on May 16, 2002) in exchange for cancellation of \$1 million of outstanding debt under such line of credit. On May 16, 2002, the total amount outstanding under the line of credit was \$2.2 million. On such date, we issued 666,667 shares of our Common Stock to Mr. Carey in exchange for cancellation of \$1 million of the then outstanding amount. We will pay Mr. Carey the remaining \$1.2 million according to the terms of a non-negotiable promissory note, which was issued on May 16, 2002, and amended and restated in September 2002. The terms of the amended and restated note stipulate that the Company may not make principle payments to Mr. Carey until the retirement of the United Trust Bank loan. Until such time as the principal is paid, we will pay an interest only fee of 12% per year. Mr. Carey's promissory note is expressly subordinated in right of payment to the prior payment in full of all of our senior indebtedness.

On September 14, 2000, we issued 5,000,000 shares of our common stock to our former president, Pietro Bortolatti, in exchange for the transfer from Mr. Bortolatti of all of the outstanding shares of Terre di Toscana, Inc. to us. The assets of Terre di Toscana, Inc. included rights in several customer agreements. We valued the 5,000,000 shares issued to Mr. Bortolatti at par value, \$.0001 per share. As part of our merger with the Predecessor Entity and the exchange of shares for our truffle business, Mr. Bortolatti has surrendered or exchanged all of such shares.

In August 2002, one of our outside directors, Robert Cox, purchased 60,000 shares of our common stock at a purchase price of \$1.50 per share for aggregate proceeds to us of \$90,000. Such purchase was pursuant to a Subscription Agreement in which Mr. Cox made certain investment representations and warranties. The price paid by Mr. Cox had been negotiated by third parties in an arms-length transaction. The third parties who negotiated the transaction purchased a number of shares concurrently with Mr. Cox.

In January 2004, our outside director, Robert Cox, purchased an additional 147,059 shares and a warrant to purchase 73,529 shares at \$0.59/share. The price of \$0.59/share was based on 130% of the trailing five day closing price of our common stock on the effective purchase date of January 9, 2004.

Lenard Berger, our Chief Technology Officer and Vice President and James Cummiskey, our Vice President of Sales and Marketing, received 200,000 shares of common stock from the Predecessor Entity as founders of such entity, at a per share price of \$0.005. Such shares converted into 437,400 shares of our Common Stock.

On September 30, 2002, we entered into a loan agreement with CC Trust Fund to borrow an amount up to \$355,128. This bridge loan was for a period of twelve months, with all principal due and payable on September 30, 2003. The 12.5% interest on the outstanding principal is due each year. At the end of the loan period, the CC Trust Fund will be entitled to exercise 25,000 warrants at \$1.50 per share. As of March 31, 2003, \$355,128 was outstanding under the CC Trust Fund loan agreement. On September 30, 2003, the CC Trust Fund agreed to extend the term of their loan to December 30, 2003. On December 30, 2003, the CC Trust Fund agreed to extend the term of their loan to March 31, 2004. On March 30, 2004, the CC Trust Fund agreed to extend the term of their loan to March 31, 2005. As of December 31, 2003, \$355,128 was outstanding under the CC Trust Fund loan agreement. Christopher Carey Jr., Mr. Carey's son, is the beneficiary of the trust, and Mary Carey, Mr. Carey's wife, is the trustee of the trust.

On September 30, 2002, we entered into a loan agreement with AC Trust Fund to borrow an amount up to \$375,404. This bridge loan is for a period of twelve months, with all principal due and payable on September 30, 2003. The 12.5% interest on the outstanding principal is due each year. At the end of the loan period, the AC Trust Fund will be entitled to exercise 25,000 warrants at \$1.50 per share. On September 30, 2002, the AC Trust Fund agreed to extend the term of their loan to December 30, 2003. On December 30, 2003, the AC Trust Fund agreed to extend the term of their loan to March 31, 2004. On March 30, 2004, the AC Trust Fund agreed to extend the term of their loan to March 31, 2005. As of December 31, 2003, \$375,404 was outstanding under the AC Trust Fund loan agreement. Amie Carey, Mr. Carey's daughter, is the beneficiary of the trust, and Mary Carey, Mr. Carey's wife, is the trustee of the trust.

In October 2002, in connection with a loan to our company in the amount of \$165,000, we issued a promissory note to Christopher J. Carey for \$165,000. Such promissory note was due on or before December 31, 2003. On March 30, 2004, Mr. Carey agreed to extend the term of his loan to March 31, 2005. Until such time as the principal is paid, interest on the note will accrue at the rate of 12.5% per year.

We believe that the terms of all of the above transactions are commercially reasonable and no less favorable to us than we could have obtained from an unaffiliated third party on an arm's length basis. Our policy requires that all related parties recuse themselves from negotiating and voting on behalf of our company in connection with related party transactions.

Item 13. EXHIBITS

Exhibit Number -----	Description -----
2.1(1)(4)	Merger Agreement and Plan of Merger, dated May 15, 2002, by and among TDT Development, Inc., Stronghold Technologies, Inc., TDT Stronghold Acquisition Corp., Terre Di Toscana, Inc., Terres Toscanes, Inc., certain stockholders of TDT Development, Inc. and Christopher J. Carey.

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

- 2.2(5) Stock Purchase Agreement, dated July 19, 2002, by and between TDT Development, Inc. and Mr. Pietro Bortolatti.
- 3.1(2) Articles of Incorporation, as amended on July 11, 2002.
- 3.2(3) By-Laws.
- 4.1(2) Certificate of Designations filed on May 16, 2002.

41

- 4.2(5) Specimen Certificate of Common Stock.
- 4.3(8) Promissory Note for \$300,000, dated March 18, 2003, made by Stronghold Technologies, Inc. in favor of Christopher J. Carey.
- 4.4(8) Promissory Note for \$100,000, dated March 18, 2003, made by Stronghold Technologies, Inc. in favor of Christopher J. Carey.
- 4.5(8) Form of Warrant with Christopher J. Carey.
- 4.6(10) Amended and Restated Certificate of Designation of Series A \$1.50 Convertible Preferred Stock of Stronghold Technologies, Inc.
- 4.7(10) Amended and Restated Certificate of Designation of Series B \$0.90 Convertible Preferred Stock of Stronghold Technologies, Inc.
- 4.8(11) Securities Purchase Agreement dated June 18, 2004 between the Company and New Millennium Capital Partners II, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and AJW Partners, LLC
- 4.9(11) Callable Secured Convertible Note in the name of New Millennium Capital Partners II, LLC dated June 18, 2004
- 4.10(11) Callable Secured Convertible Note in the name of AJW Qualified Partners, LLC dated June 18, 2004
- 4.11(11) Callable Secured Convertible Note in the name of AJW Offshore, Ltd. dated June 18, 2004
- 4.12(11) Callable Secured Convertible Note in the name of AJW Partners, LLC dated June 18, 2004
- 4.13(11) Stock Purchase Warrant in the name of New Millennium Capital Partners II, LLC dated June 18, 2004
- 4.14(11) Stock Purchase Warrant in the name of AJW Qualified Partners, LLC dated June 18, 2004
- 4.15(11) Stock Purchase Warrant in the name of AJW Offshore, Ltd. dated June 18, 2004
- 4.16(11) Stock Purchase Warrant in the name of AJW Partners, LLC dated June 18, 2004
- 4.17(11) Registration Rights Agreement dated June 18, 2004 between the Company and New Millennium Capital Partners II, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and AJW Partners, LLC
- 4.18(11) Security Agreement dated June 18, 2004 between the Company and

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

New Millennium Capital Partners II, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and AJW Partners, LLC

- 4.19(11) Intellectual Property Security Agreement dated June 18, 2004 between the Company and New Millennium Capital Partners II, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and AJW Partners, LLC
- 4.20 Callable Secured Convertible Note in the name of New Millennium Capital Partners II, LLC dated July 27, 2004 (16)
- 4.21 Callable Secured Convertible Note in the name of AJW Qualified Partners, LLC dated July 27, 2004 (16)
- 4.22 Callable Secured Convertible Note in the name of AJW Offshore, Ltd. dated July 27, 2004 (16)
- 4.23 Callable Secured Convertible Note in the name of AJW Partners, LLC dated July 27, 2004(16)
- 4.24 Stock Purchase Warrant in the name of New Millennium Capital Partners II, LLC dated July 27, 2004(16)

42

- 4.25 Stock Purchase Warrant in the name of AJW Qualified Partners, LLC dated July 27, 2004(16)
- 4.26 Stock Purchase Warrant in the name of AJW Offshore, Ltd. dated July 27, 2004(16)
- 4.27 Stock Purchase Warrant in the name of AJW Partners, LLC dated July 27, 2004(16)
- 4.28 Callable Secured Convertible Note in the name of New Millennium Capital (16) Partners II, LLC dated October 22, 2004
- 4.29 Callable Secured Convertible Note in the name of AJW Qualified Partners, LLC dated October 22, 2004 (16)
- 4.30 Callable Secured Convertible Note in the name of AJW Offshore, Ltd. dated October 22, 2004 (16)
- 4.31 Callable Secured Convertible Note in the name of AJW Partners, LLC dated October 22, 2004(16)
- 4.32 Stock Purchase Warrant in the name of New Millennium Capital Partners II, LLC dated October 22, 2004(16)
- 4.33 Stock Purchase Warrant in the name of AJW Qualified Partners, LLC dated October 22, 2004(16)
- 4.34 Stock Purchase Warrant in the name of AJW Offshore, Ltd. dated October 22, 2004(16)
- 4.35 Stock Purchase Warrant in the name of AJW Partners, LLC dated October 22, 2004(16)
- 4.36 Callable Secured Convertible Note in the name of New Millennium Capital Partners II, LLC dated March 18, 2005(16)

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

- 4.37 Callable Secured Convertible Note in the name of AJW Qualified Partners, LLC dated March 18, 2005 (16)
- 4.38 Callable Secured Convertible Note in the name of AJW Offshore, Ltd. dated March 18, 2005 (16)
- 4.39 Callable Secured Convertible Note in the name of AJW Partners, LLC dated March 18, 2005 (16)
- 4.40 Stock Purchase Warrant in the name of New Millennium Capital Partners II, LLC dated March 18, 2005(16)
- 4.41 Stock Purchase Warrant in the name of AJW Qualified Partners, LLC dated March 18, 2005(16)
- 4.42 Stock Purchase Warrant in the name of AJW Offshore, Ltd. dated March 18, 2005(16)
- 4.43 Stock Purchase Warrant in the name of AJW Partners, LLC dated March 18, 2005(16)
- 4.44 Amendment No. 2 to the Securities Purchase Agreement dated March 4, 2005 by and among the Company and New Millennium Capital Partners II, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and AJW Partners, LLC(16)
- 4.45 etter Agreement dated March 4, 2005 by and among the Company and New Millennium Capital Partners II, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and AJW Partners, LLC(16)
- 4.46 Amendment No. 1 to the Securities Purchase Agreement dated October 22, 2004 by and among the Company and New Millennium Capital Partners II, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and AJW Partners, LLC (16)

43

- 4.47 Securities Purchase Agreement dated March 31, 2005 by and among the Company and New Millennium Capital Partners II, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and AJW Partners, LLC (17)
- 4.48 Form of Callable Secured Convertible dated March 31, 2005 (17)
- 4.49 Form of Stock Purchase Warrant dated March 31, 2005(17)
- 4.50 Registration Rights Agreement dated March 31, 2005 by and among the Company and New Millennium Capital Partners II, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and AJW Partners, LLC (17)
- 4.51 Security Agreement dated March 31, 2005 by and among the Company and New Millennium Capital Partners II, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and AJW Partners, LLC (17)
- 4.52 Intellectual Property Security Agreement dated March 31, 2005 by and among the Company and New Millennium Capital Partners II, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and AJW Partners, LLC (17)

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

- 10.1(2) 2002 Stock Incentive Plan.
 - 10.2(2) Form of Incentive Stock Option Agreement to be issued under the 2002 Stock Incentive Plan.
 - 10.3(2) Form of Nonstatutory Stock Option Agreement to be issued under the 2002 Stock Incentive Plan.
 - 10.4(5) California 2002 Stock Incentive Plan.
 - 10.5(5) Form of Incentive Stock Option Agreement to be issued under the California 2002 Stock Incentive Plan.
 - 10.6(5) Form of Nonstatutory Stock Option Agreement to be issued under the California 2002 Stock Incentive Plan.
 - 10.7(2) Executive Employment Agreement by and between Stronghold Technologies, Inc. and Christopher J. Carey, dated May 15, 2002.
 - 10.8(2) Employment and Non-Competition Agreement by and between Stronghold Technologies, Inc. and Lenard Berger, dated August 1, 2000.
 - 10.9(2) Employment and Non-Competition Agreement by and between Stronghold Technologies, Inc. and Salvatore D'Ambra, dated July 10, 2000.
 - 10.10(2) Employment and Non-Competition Agreement by and between Stronghold Technologies, Inc. and James J. Cumiskey, dated August 14, 2000.
 - 10.11(2) Business Loan Agreement by and between Stronghold Technologies, Inc. and UnitedTrust Bank, dated June 30, 2002.
 - 10.12(2) Promissory Note issued by Stronghold Technologies, Inc. made payable to UnitedTrust Bank, Dated June 30, 2002.
 - 10.13(2) Commercial Security Agreement by and between Stronghold Technologies, Inc. and UnitedTrust Bank, dated June 30, 2002.
- 44
- 10.14(2) Promissory Note issued by Stronghold Technologies, Inc. made payable to Christopher J. Carey, dated May 16, 2002.
 - 10.15(4) Securities Purchase Agreement, dated May 15, 2002, by and among TDT Development, Inc., Stanford Venture Capital Holdings, Inc., Pietro Bortolatti, Stronghold Technologies, Inc. and Christopher J. Carey.
 - 10.16(4) Registration Rights Agreement, dated May 16, 2002, by and among TDT Development, Inc. and Stanford Venture Capital Holdings, Inc.
 - 10.17(4) Lock-Up Agreement, dated May 16, 2002, by and among TDT Development, Inc.
 - 10.18(4) Stockholders' Agreement, dated May 16, 2002, by and among TDT Development, Inc., Christopher J. Carey, Mary Carey and Stanford Venture Capital Holdings, Inc.

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

- 10.19(4) Form of Warrant to be issued pursuant to the Securities Purchase Agreement (Exhibit 10.11).
- 10.20(6) Loan Agreement by and among Stronghold Technologies, Inc., its subsidiary and UnitedTrust Bank, dated September 30, 2002.
- 10.21(6) Commercial Loan Note issued by Stronghold Technologies, Inc. and its subsidiary made payable to UnitedTrust Bank, dated September 30, 2002
- 10.22(6) Security Agreement by and between Stronghold Technologies, Inc. and UnitedTrust Bank, dated September 30, 2002.
- 10.23(6) Security Agreement by and between Stronghold's subsidiary and UnitedTrust Bank, dated September 30, 2002.
- 10.24(6) Subordination Agreement by and among Christopher J. Carey, Stronghold Technologies, Inc. and UnitedTrust Bank, dated September 30, 2002.
- 10.25(6) Subordination Agreement by and among Christopher J. Carey, Stronghold's subsidiary and UnitedTrust Bank, dated September 30, 2002.
- 10.26(6) Guaranty by Christopher J. Carey in favor UnitedTrust Bank, dated September 30, 2002.
- 10.27(6) Loan Agreement by and among Stronghold Technologies, Inc., its subsidiary and AC Trust Fund, dated September 30, 2002.
- 10.28(6) Loan Agreement by and among Stronghold Technologies, Inc., its subsidiary and CC Trust Fund, dated September 30, 2002.
- 10.29(6) Form of Subscription Agreement by and between Stronghold Technologies, Inc. and each of the parties listed on the schedule of purchasers attached thereto.
- 10.30(6) Promissory Note issued by Stronghold Technologies, Inc. made payable to Christopher J. Carey, dated September 30. 2002.

45

- 10.31(7) Securities Purchase Agreement, dated April 30, 2003, by and between Stronghold Technologies, Inc. and Stanford Venture Capital Holdings, Inc.
- 10.32(7) Registration Rights Agreement, dated April 30, 2003, by and between Stronghold Technologies, Inc. and Stanford Venture Capital Holdings, Inc.
- 10.33(7) Consulting Agreement, dated April 30, 2003, by and between Stronghold Technologies, Inc. and Stanford Venture Capital Holdings, Inc.
- 10.34(9) First Modification to Loan Agreement and Note among Stronghold Technologies, Inc., Christopher J. Carey and UnitedTrust Bank, dated July 31, 2003.
- 10.35(13) Lease Agreement entered between the Company and APA Properties

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

No. 2, LP

- 10.36(13) Sublease Agreement between Clark/Bardes Consulting, Inc. and the Company
- 10.37(14) Forbearance Agreement entered by and between the Company and PNC Bank
- 10.38(14) Amendment No. 1 to the Forbearance Agreement entered by and between the Company and PNC Bank
- 21(5) Subsidiaries of the Registrant.
- 31.1 Certification by the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification by the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification by the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification by the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(1) The exhibits and schedules to the Merger Agreement have been omitted from this filing pursuant to Item 601(b)(2) of Regulation S-K. The Company will furnish copies of any of the exhibits and schedules to the U.S. Securities and Exchange Commission upon request

(2) Incorporated herein by reference to the exhibits to Registrant's Quarterly Report on Form 10-QSB for the fiscal quarter ended June 30, 2002.

(3) Incorporated herein by reference to the exhibits to the Registrant's Registration Statement on Form SB-2 as filed with the Securities and Exchange Commission on February 1, 2001 (No. 333-54822).

(4) Incorporated herein by reference to the exhibits to the Registrant's Current Report on Form 8-K dated May 16, 2002.

(5) Incorporated herein by reference to the exhibits to the Registrant's Registration Statement on Form SB-2 as filed with the Securities and Exchange Commission on September 24, 2002.

46

(6) Incorporated herein by reference to the exhibits to Registrant's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2002.

(7) Incorporated by reference to Exhibit 99.3 to the Company's Form 8-K as filed with the Securities and Exchange Commission on May 8, 2003.)

(8) Incorporated by reference to the exhibits to Registrants Quarterly Report on Form 10-QSB for the quarterly period ended March 31, 2003.

(9) Incorporated by reference to the exhibits to Registrants Quarterly Report on

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

Form 10-QSB for the quarterly period ended June 30, 2003.

(10) Incorporated by reference to the exhibits to Registrants Form 10-KSB for the year ended December 31, 2003.

(11) Incorporated by reference to the exhibits to Registrants Form 8-K Current Report filed June 28, 2004.

(12) Incorporated by reference to the exhibits to Registrants Form SB-2 Registration Statement filed July 21, 2004.

(13) Incorporated by reference to the exhibits to Registrants Quarterly Report on Form 10-QSB for the quarterly period ended September 30, 2004.

(14) Incorporated by reference to the exhibits to Registrants Form SB-2 Registration Statement filed February 11, 2005.

(15) Incorporated by reference to the exhibits to Registrants Form 8-K Current Report filed June 28, 2004.

(16) Incorporated by reference to the exhibits to Registrants Form 8-K Current Report filed March 25, 2005.

(17) Incorporated by reference to the exhibits to Registrants Form 8-K Current Report filed April 11, 2005.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table presents the aggregate fees billed for professional services rendered by Rothstein, Kass & Company, P.C. in 2002 and 2003. Other than as set forth below, no professional services were rendered or fees billed by Rothstein, Kass & Company, P.C. during 2002 or 2003.

	2003 -----	2004 -----
Audit Fees (1).....	\$39,000	\$64,300
Audit-Related Fees (2)	\$ 2,000	\$ 9,000
Tax Fees (3).....	\$16,000	\$12,700
Other Fees	\$ 2,000	\$2,000
TOTAL.....	\$59,000	\$88,000

(1) Audit fees consist of professional services rendered for the audit of the Company's annual financial statements and the reviews of the quarterly financial statements.

(2) Audit-related fees include fees related to assurance and related services. This category also includes fees for issuance of comfort letters, consents and assistance with and review of documents filed with the SEC.

(3) Tax fees consist of fees for services rendered to the Company for tax compliance, tax planning and advice.

All work performed by Rothstein, Kass & Company, P.C. as described above under the caption Audit Fees for the fiscal year ended March 31, 2003, has been

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

approved by the Audit Committee.

48

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized this 14th day of April, 2005.

STRONGHOLD TECHNOLOGIES, INC.

By: /s/ Christopher J. Carey

Christopher J. Carey, President and
Chief Executive Officer

49

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Christopher J. Carey his true and lawful attorneys-in-fact and agents, each with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this registration statement, and to file the same, with exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite or necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that each of said attorneys-in-fact and agents, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Signature -----	Title -----	Date ----
/s/ Christopher J. Carey ----- Christopher J. Carey	President and, Chief Executive Officer and Chairman of the Board of Directors	April 14, 2005
/s/ Karen Jackson ----- Karen Jackson	Controller (Principal Accounting Officer)	April 14, 2005
/s/ Robert J. Corliss ----- Robert J. Corliss	Director	April 14, 2005
/s/ William Lenahan	Director	April 14, 2005

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

William Lenahan

/s/ Luis Delahoz

Director

April 14, 2005

Luis Delahoz

50

EXHIBIT INDEX

51

STRONGHOLD TECHNOLOGIES, INC.
AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2004

STRONGHOLD TECHNOLOGIES, INC. AND SUBSIDIARY

CONTENTS

=====

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM	1
CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated Balance Sheet	2
Consolidated Statements of Operations	3
Consolidated Statements of Stockholders' Deficit	4
Consolidated Statements of Cash Flows	5-6
Notes to Consolidated Financial Statements	7-22

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
Stronghold Technologies, Inc.

We have audited the accompanying consolidated balance sheet of Stronghold Technologies, Inc. and Subsidiary as of December 31, 2004, and the related consolidated statements of operations, stockholders' deficit, and cash flows for each of the years in the two years period ended December 31, 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Stronghold Technologies, Inc. and Subsidiary as of December 31, 2004, and the results of their operations and their cash flows for each of the years in the two year period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2, the Company's ability to continue in the normal course of business is dependent upon the success of future operations. The Company has recurring losses, substantial working capital and stockholders' deficit and negative cash flows from operations. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans regarding these matters are also described in Note 2. These consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Roseland, New Jersey
March 31, 2005

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

=====	
December 31,	2004

ASSETS	
CURRENT ASSETS	
Cash	\$ 500
Accounts receivable, less allowance for returns and doubtful accounts of \$219,891	303,798
Inventories	44,704
Prepaid expenses	90,484

Total current assets	439,486

PROPERTY AND EQUIPMENT, NET	79,185

OTHER ASSETS	
Software development costs, net of amortization	867,786
Deferred charge, convertible debt loan acquisition costs, net of amortization	347,608
Other	137,645

Total other assets	1,353,039

	\$ 1,871,710
	=====
LIABILITIES AND STOCKHOLDERS' DEFICIT	
CURRENT LIABILITIES	
Accounts payable	\$ 619,179
Accrued expenses and other current liabilities	1,172,897
Interest payable, stockholders	472,779
Notes payable, stockholders, current portion	1,145,530
Note payable	606,667
Deferred revenue	593,408
Obligations under capitalized leases, current portion	25,807

Total current liabilities	4,636,267

LONG-TERM LIABILITIES	
Notes payable, stockholders, less current portion	1,129,600
Note payable, convertible debt of \$2,350,000 net of debt discount of \$2,350,000 and debt discount amortization of \$539,581	539,581
Obligations under capitalized leases, less current portion	8,783
Payroll taxes payable, long term	430,000

Total long-term liabilities	2,107,964

COMMITMENTS AND CONTINGENCIES	
STOCKHOLDERS' DEFICIT	
Preferred stock, Series A, \$.0001 par value; authorized 5,000,000 shares, 2,002,750 issued and outstanding (aggregate liquidation preference of \$3,004,125)	

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

201 Preferred stock, Series B, \$.0001 par value; authorized 2,444,444 shares, 2,444,444 issued and outstanding (aggregate liquidation preference \$2,200,000)	244
Common stock, \$.0001 par value, authorized 50,000,000 shares, 16,087,349 issued and outstanding	1,609
Additional paid-in capital	10,274,928
Stock subscription receivable	(3,000)
Accumulated deficit	(15,146,503)

Total stockholders' deficit	(4,872,521)

	\$ 1,871,710
	=====

See accompanying notes to consolidated financial statements.

2

STRONGHOLD TECHNOLOGIES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS

YEARS ENDED DECEMBER 31,	2004	2003

NET SALES	\$ 2,489,790	\$ 2,996,344
COST OF SALES	834,349	1,230,174
	-----	-----
GROSS PROFIT	1,655,441	1,766,170
SELLING, GENERAL AND ADMINISTRATION	3,878,045	5,512,042
	-----	-----
LOSS FROM OPERATIONS	(2,222,604)	(3,745,872)
INTEREST EXPENSE	867,010	512,135
	-----	-----
NET LOSS APPLICABLE TO COMMON STOCKHOLDERS	\$ (3,089,614)	\$ (4,258,007)
	=====	=====
BASIC AND DILUTED LOSS PER COMMON SHARE	\$ (0.22)	\$ (0.38)
	=====	=====
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	14,081,263	11,304,347
	=====	=====

See accompanying notes to consolidated financial statements.

3

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

STRONGHOLD TECHNOLOGIES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended December 31, 2004 and 2003

	Preferred Stock Series A Shares	Amount	Preferred Stock Series B Shares	Amount
Balances, January 1, 2003	2,002,750	\$ 201		\$ --
Issuance of preferred stock, net of costs			2,444,444	244
Warrants issued with debt				
Issuance of common stock				
Conversion of warrants to common stock				
Stock issued for services				
Conversion of stockholder loan to common stock				
Net loss				
Balances, December 31, 2003	2,002,750	201	2,444,444	244
Issuance of common stock				
Conversion of warrants to common stock				
Beneficial conversion feature on debt treated as equity				
Stock issued for services				
Net loss				
Balances, December 31, 2004	2,002,750	\$ 201	2,444,444	\$ 244
	=====	=====	=====	=====
	Additional	Stock	Accumulated	Total
	Paid-in	Subscription	Deficit	Stockholders'
	Capital	Receivable		Deficit
Balances, January 1, 2003	\$ 4,839,635	\$ (3,000)	\$ (7,798,882)	\$ (2,961,060)
Issuance of preferred stock, net of costs	1,897,649			1,897,893
Warrants issued with debt	95,000			95,000

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

Issuance of common stock	174,964			175,000
Conversion of warrants to common stock				201
Stock issued for services	161,579			161,625
Conversion of stockholder loan to common stock	542,940			543,000
Net loss			(4,258,007)	(4,258,007)
Balances, December 31, 2003	7,711,767	(3,000)	(12,056,889)	(4,346,348)
Issuance of common stock	49,984			50,000
Conversion of warrants to common stock	1,800			2,000
Beneficial conversion feature on debt treated as equity	2,350,000			2,350,000
Stock issued for services	161,377			161,441
Net loss			(3,089,614)	(3,089,614)
Balances, December 31, 2004	\$ 10,274,928	\$ (3,000)	\$ (15,146,503)	\$ (4,872,521)
	=====	=====	=====	=====

See accompanying notes to consolidated financial statements.

4

STRONGHOLD TECHNOLOGIES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31,	2004
=====	
CASH FLOWS FROM OPERATING ACTIVITIES	
Net loss	\$ (3,089,614)
Adjustments to reconcile net loss to net cash used in operating activities:	
Provision for returns and allowances	1,445
Depreciation and amortization	515,387
Amortization of convertible debt discount	539,581
Interest expense for issuance of warrants	
Stock issued for services	161,441
Increase (decrease) in cash attributable to changes in operating assets and liabilities:	
Accounts receivable	281,545
Inventories	127,042
Prepaid expenses	(78,843)
Other receivables	(3,804)

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

Other assets		2,910
Accounts payable		(62,144)
Accrued expenses and other current liabilities		(409,378)
Interest payable, stockholders		64,875
Deferred revenue		250,987

NET CASH USED IN OPERATING ACTIVITIES		(1,698,570)

CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for purchase of property and equipment		(3,737)
Payments for software development costs		(407,505)
Payments of security deposits		(47,132)

NET CASH USED IN INVESTING ACTIVITIES		(411,242)

CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of preferred stock, net of financing costs		
Proceeds from issuance of common stock, net of financing costs		52,000
Proceeds from notes payable, stockholders		920,000
Principal repayments of notes payable, stockholders		(21,775)
Proceeds from notes payable, convertible debt		2,350,000
Payments made for debt issuance cost relating to notes payable, convertible debt		(445,413)
Payments made for loan acquisition cost relating to notes payable, stockholders		(82,095)
Principal repayments of notes payable		(625,000)
Principal payments for obligations under capital leases		(45,566)

NET CASH PROVIDED BY FINANCING ACTIVITIES		2,102,151

NET DECREASE IN CASH		(7,661)
CASH, BEGINNING OF PERIOD		8,161

CASH, END OF PERIOD		\$ 500
		=====

See accompanying notes to consolidated financial statements.

5

STRONGHOLD TECHNOLOGIES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

YEARS ENDED DECEMBER 31,	2004	2003
-----	-----	-----
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION,		
cash paid during the period for interest	\$ 262,554	\$ 202,349

SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

During the year ended December 31, 2004, the Company reclassified \$430,000 of accrued expenses to payroll taxes payable, long term

During the year ended December 31, 2004, the Company recorded \$2,350,000 of debt discount relating to the beneficial conversion feature of the note payable, convertible debt. The full amount was recorded as additional paid-in capital and conversely as a contra-liability against the note payable, convertible debt.

During the year ended December 31, 2003, obligations under capital leases aggregating \$56,845 were incurred when the Company entered into various leases for computer equipment.

During the year ended December 31, 2003, the Company entered into an agreement to convert \$543,000 of notes payable, stockholders into 603,333 shares of common stock.

During the year ended December 31, 2003, the Company reclassified \$329,812 of notes payable, stockholder to accrued expenses.

See accompanying notes to consolidated financial statements.

6

STRONGHOLD TECHNOLOGIES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

=====

1. NATURE OF OPERATIONS

Stronghold Technologies, Inc. (the "Company") was incorporated in the state of New Jersey on August 1, 2000. The Company is engaged principally as a developer of wireless and internet-based systems for auto dealers in the United States.

2. GOING CONCERN

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company has incurred a net loss of approximately \$3,090,000 and has negative cash flows from operations of approximately \$1,699,000 for the year ended December 31, 2004, and has a working capital deficit of approximately \$4,197,000 and a stockholders' deficit of approximately \$4,873,000 as of December 31, 2004. These conditions raise substantial doubt about the Company's ability to continue as a going concern. During 2005, management of the Company will rely on raising additional capital to fund its future operations. If the Company is unable to generate sufficient revenues or raise sufficient additional capital, there could be a material adverse effect on the consolidated financial position, results of operations and cash flows of the Company. The accompanying consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Property and Equipment

Property and equipment is stated at cost less accumulated depreciation and amortization. The Company provides for depreciation and amortization as follows:

ASSET	ESTIMATED USEFUL LIFE	PRINCIPAL METHOD
Computer equipment	5 Years	Declining-balance
Computer software	3 Years	Declining-balance
Furniture and fixtures	7 Years	Declining-balance
Leasehold improvements	4 Years	Straight-line

7

STRONGHOLD TECHNOLOGIES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

=====

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

The Company carries its accounts receivable at cost less an allowance for doubtful accounts. On a periodic basis, the Company evaluates its accounts receivable and establishes an allowance for doubtful accounts, based on a history of past write-offs and collections and current credit conditions. Accounts are written off as uncollectable at the discretion of management.

Inventories

Inventories, which are comprised of hardware for resale, are stated at cost, on an average cost basis, which does not exceed market value.

Software Development Costs

Capitalized software development costs, including significant product enhancements, incurred subsequent to establishing technological feasibility in the process of software development and production, are capitalized according to Statement of Financial Accounting Standards (SFAS) No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed." Costs incurred prior to the establishment of technological feasibility are charged to research and development expenses. The capitalized software is amortized over a three year period using the straight-line method

Fair Value of Financial Instruments

Financial instruments held by the Company include cash, accounts receivable, notes payable and accounts payable. The book value of cash, accounts receivable and accounts payable are considered to be representative of fair value because of the short maturity of these instruments. The fair values of the notes payable approximate book values primarily because the contractual interest rates

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

approximate prevailing market rates.

8

STRONGHOLD TECHNOLOGIES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

=====

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of Long-Lived Assets

The Company periodically assesses the recoverability of the carrying amounts of long-lived assets, including intangible assets. A loss is recognized when expected undiscounted future cash flows are less than the carrying amount of the asset. The impairment loss is the difference by which the carrying amount of the asset exceeds its fair value.

Retirement Plan

The Company has a retirement plan under Section 401(k) of the Internal Revenue Code ("the Plan"), which covers all eligible employees. The Plan provides for voluntary deduction of the employee's salary, subject to Internal Revenue Code limitations. The Company can make a matching contribution to the Plan, which is at the discretion of the Company and is determined annually. There were no matching contributions for the years ended December 31, 2004 and 2003.

Income Taxes

The Company complies with SFAS No. 109, "Accounting for Income Taxes," which requires an asset and liability approach to financial accounting and reporting for income taxes. Deferred income tax assets and liabilities are computed for differences between the financial statement and tax bases of assets and liabilities that will result in future taxable or deductible amounts, based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

Stock-Based Compensation

In December 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure," which amended SFAS No. 123, "Accounting for Stock-Based Compensation." This Statement provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based compensation. It also amends the disclosure provisions to require more prominent disclosure about the effects on reported net loss of an entity's accounting policy decisions with respect to stock-based employee compensation. As permitted by the Statement, the Company does not plan to adopt the fair value recognition provisions of SFAS No. 123 at this time. However, the Company has adopted the disclosure provisions of the Statement.

The Company accounts for its stock-based employee compensation plans under Accounting Principles Board Opinion (APB) No. 25, under which no compensation cost has been recognized in the accompanying consolidated statements of operations, as all options granted under those plans had an exercise price equal to or in excess of the market value of the underlying common stock at the date

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

of grant (Note 10).

STRONGHOLD TECHNOLOGIES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

=====

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Had compensation cost for these options been determined consistent with the fair value method provided by SFAS No. 123, the Company's net loss and net loss per common share would have been the following pro forma amounts for the years ended December 31, 2004 and 2003.

	2004	2003
NET LOSS APPLICABLE TO COMMON SHAREHOLDERS, as reported	\$ (3,089,614)	\$ (4,258,007)
DEDUCT		
Total stock-based compensation expense determined under fair value method for all awards, net of related tax effect	47,793	55,857
	-----	-----
PRO FORMA	\$ (3,137,407)	\$ (4,313,864)
	=====	=====
BASIC AND DILUTED EPS		
As reported	\$ (0.22)	\$ (0.38)
Pro forma	\$ (0.22)	\$ (0.38)

The fair value of issued stock options is estimated on the date of grant using the Black-Scholes option-pricing model including the following assumptions: expected volatility of approximately 15%, expected dividend yield rate of 0%, expected life of 10 years, and a risk-free interest rate of 4.23% and 4.27% for the years ended December 31, 2004 and 2003, respectively.

Stock Issued for Services

Fair Value for determining stock issued for services is done in accordance with Emerging Issues Task Force (EITF) 96-18. The Company issued stock for services to Mirador Consulting Group and Capital Growth, which are engaged in public and investor relations, WJM Associates and Judith Firth for recruiting services, Michael Carey for insurance brokerage services and Stanford Venture Capital Holdings for consulting services. Fair Value was determined using the stock price the day that the commitment was reached as referred to in EITF 96-18. There were no potential future variability of the value since all terms were known at the date of the commitment.

STRONGHOLD TECHNOLOGIES, INC. AND SUBSIDIARY

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

=====

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

Revenue is recognized under the guidelines of SFAS No. 48 "Revenue Recognition When Right of Return Exists" and has a four step process that must be met prior to the recording of revenue. The steps consist of the following: signing of sales contract, installation of hardware, completion of the training period and a signed contract from the customer stating they accept the product for the sixty-day trial period. Payment is due upon the completion of the trial period. The sales revenue and cost of sales reported in the consolidated statements of operations is reduced to reflect estimated returns. Service revenue is recognized when earned.

All sales agreements with clients do not require significant production, modification, or customization of software, additionally all the functionality of the product is made available upon delivery, therefore the Company recognizes revenue in accordance with Paragraph 8 of Statement of Position (SOP) 97-2 when:

- 1) Persuasive evidence of an arrangement exists as evidenced by a signed contract,
- 2) Delivery has occurred, please note that Stronghold does not recognize revenue prior to delivery,
- 3) The price of Stronghold's system is fixed and determinable as evidence by the contract, and
- 4) Collectability is highly probable.

Deferred Revenue

Deferred revenue is recorded as a liability when the Company receives the three year maintenance contact in an a one-time advance payment. The Company then recognizes the revenue from the maintenance portion of the contract on a pro rata basis over 36 months as the service is delivered.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

11

STRONGHOLD TECHNOLOGIES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

=====

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loss Per Common Share

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

Loss per common share is based on the weighted average number of common shares outstanding. The Company complies with SFAS No. 128, "Earnings Per Share," which requires dual presentation of basic and diluted loss per share. Basic loss per share exclude dilutions and are computed by dividing net loss applicable to common stockholders by the weighted average number of common shares outstanding for the year. Diluted loss per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. Since the effect of the outstanding options and warrants are anti-dilutive, they have been excluded from the Company's computation of loss per common share.

Recently Issued Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123(R), "Accounting for Stock-based Compensation (Revised)." SFAS No. 123(R) supersedes APB No. 25 and its related implementation guidance. SFAS No. 123(R) establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. SFAS No. 123(R) focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS No. 123(R) requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service in exchange for the award the requisite service period (usually the vesting period). No compensation costs are recognized for equity instruments for which employees do not render the requisite service. The grant-date fair value of employee share options and similar instruments will be estimated using option-pricing models adjusted for the unique characteristics of those instruments (unless observable market prices for the same or similar instruments are available). If an equity award is modified after the grant-date, incremental compensation cost will be recognized in an amount equal to the excess of the fair value of the modified award over the fair value of the original award immediately before the modification. The Company has not completed its evaluation of SFAS No. 123(R) but expects the adoption of this new standard will have an impact on operating results due to the Company's use of options as employee incentives. This pronouncement becomes effective as of the beginning of the first interim or annual reporting period that begins after December 15, 2005.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs—an amendment of Accounting Research Bulletin (ARB) No. 43, Chapter 4". SFAS No. 151 has been issued to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage), which requires that those items be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal." In addition, this Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. Management of the Company does not believe the effects of SFAS No. 151 have a material effect on the consolidated financial statements, as the Company has not incurred any inventory costs that meet the definition of "so abnormal." This Statement is effective for inventory costs incurred during fiscal years beginning after June 15, 2005.

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

STRONGHOLD TECHNOLOGIES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

=====

4. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2004 consists of the following:

Computer equipment	\$ 191,460
Computer software	18,502
Furniture and fixtures	21,717
Computer equipment recorded under capital leases	113,491
Leasehold improvements	7,982

	353,152
Less accumulated depreciation and amortization, including \$28,709 relating to computer equipment recorded under capital leases	(273,967)

	\$ 79,185
	=====

5. SOFTWARE DEVELOPMENT COSTS

Software development costs consist of the following at December 31, 2004:

Carrying amount	\$ 1,313,782
Less accumulated amortization	445,996

	\$ 867,786
	=====

For the years ended December 31, 2004 and 2003, amortization of capitalized software development costs charged to operations was \$310,672 and \$135,324, respectively.

Estimated amortization expense for the three years subsequent to December 31, 2004 is approximately as follows:

YEARS ENDING DECEMBER 31,	
2005	\$ 438,000
2006	317,000
2007	113,000

13

STRONGHOLD TECHNOLOGIES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

=====

6. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consist of the following at December 31, 2004:

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

Payroll taxes (federal, state and local), including penalties and interest	\$ 559,217
Commissions	127,391
Compensation	150,988
Sales tax	95,742
Accrued officer's compensation	171,774
Other	67,785

	\$1,172,897
	=====

7. NOTES PAYABLE, STOCKHOLDERS

At December 31, 2004, notes payable, stockholders consists of the following:

Note payable, stockholder bearig interest at 8% per annum and due on March 17, 2007	\$ 875,000
Note payable, stockholder bearing interest at 12.5% per annum, are currently due on demand and are collateralized by the assets of the Company. Up to \$375,404 can be borrowed by the Company	375,403
Note payable, stockholder bearing interest at 12.5% per annum, are currently due on demand and are collateralized by the assets of the Company. Up to \$355,128 can be borrowed by the Company	355,127
Note payable, stockholder bearing interest at 12.5% is subordinated to the note payable of \$1,500,000 (Note 8) and is due after the terms of that note in 2006 (except for \$55,000 which is current).	309,600
Note payable, stockholder bearing interest at 8% per annum and due on June 30, 2004. Up to \$300,000 can be borrowed by the Company. (Note 12)	300,000
Note payable, stockholder bearing interest at 8% per annum and due on June 30, 2004. Up to \$100,000 can be borrowed by the Company. (Note 12)	60,000

	2,275,130
Less current portion	1,145,530

	\$1,129,600
	=====

Estimated principal payments for the years ending December 31, 2005, 2006 and 2007 are approximately \$1,145,500, \$255,000 and \$875,000, respectively.

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

8. NOTE PAYABLE

At June 30, 2002, the Company converted its outstanding line of credit into a note payable of \$1,500,000. The note bears interest at a variable rate equal to the prime rate (5.25% at December 31, 2004), and is due in variable monthly installments plus interest to PNC (formerly known as "United Trust Bank"), commencing in February 2003 through January 1, 2006. The principal payments are due monthly in the following amounts; \$15,000 a month plus accrued interest from January 15, 2004 through December 15, 2004, \$20,000 a month plus accrued interest from January 15, 2005 through December 15, 2005, and a balloon payment for the balance due on all outstanding principal and accrued interest on January 1, 2006. The note is collateralized by substantially all the assets of the Company and is guaranteed by the majority stockholder of the Company. The note payable, stockholder, of \$254,600 is subordinated to this note. Interest expense on the note payable for the year ended December 31, 2004 was approximately \$87,000. As of December 31, 2004 this note payable was in default of its covenants and as a result, is classified as current. The note payable balance at December 31, 2004 is \$606,667.

(Note 13)

9. STOCK SUBSCRIPTION RECEIVABLE

The stock subscription receivable represents 1,312,500 shares of the Company's common stock due from two key employees and one stockholder.

10. STOCK OPTION PLANS

The Company has adopted three stock option plans ("Plans") providing for incentive stock options ("ISOs") and non-qualified stock options ("NQSOs"). The Company has reserved 2,358,541 shares of common stock for issuance upon the exercise of stock options granted under the Plans. The exercise price of an ISO or NQSO will not be less than 100% of the fair market value of the Company's common stock at the date of the grant. The exercise price of an ISO granted to an employee owning greater than 10% of the Company's common stock will not be less than 110% of the fair market value of the Company's common stock at the date of the grant. The Plans further provide that the maximum period in which stock options may be exercised will be determined by the board of directors, except that they may not be exercisable after ten years from the date of grant. All of the stock option plans vest over a three year period with each year earning 1/3 of total options granted as long as the employee is in employment with the Company upon the anniversary date.

STRONGHOLD TECHNOLOGIES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

=====

10. STOCK OPTION PLANS (CONTINUED)

The status of the Company's restated stock options per the Plans are summarized below:

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

	PLAN OPTIONS	RESTATED PER SHARE EXERCISE PRICE	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at January 1, 2003	1,364,847	\$0.10-\$2.25	\$0.50
Granted in the year ended December 31, 2003	1,426,600	\$0.45-\$0.88	\$0.59
Terminated in the year ended December 31, 2003	(882,138)	\$0.10-\$2.25	\$0.82

OUTSTANDING AT December 31, 2003	1,909,309	\$0.10-\$2.25	\$0.86
Granted in the year ended December 31, 2004	113,000	\$0.11-\$0.85	\$0.26
Terminated in the year ended December 31, 2004	(796,901)	\$0.15-\$2.00	\$0.72

OUTSTANDING AT December 31, 2004	1,225,408	\$0.10-\$2.25	\$0.85
=====			

The exercise price ranges for options outstanding and exercisable at December 31, 2004 were:

Exercise Price Range	NUMBER OF SHARES OUTSTANDING AS OF DECEMBER 31, 2004	NUMBER OF SHARES EXERCISABLE AT DECEMBER 31, 2004	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE
-----	-----	-----	-----	-----
\$.10 through \$.50	400,878	361,703	\$0.29	8 Years
\$.51 through \$1.00	800,263	159,235	\$0.65	9 Years
\$1.01 through \$1.50	16,850	16,850	\$1.50	9 Years
\$1.51 through \$2.25	7,417	6,416	\$1.60	9 Years
	-----	-----		
	1,225,408	544,204		
	=====	=====		

STRONGHOLD TECHNOLOGIES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

=====

11. INCOME TAXES

Until May 15, 2002, the Company operated as an "S" corporation and, as a result, the earnings and losses were included in the personal income tax returns of the respective stockholders. From May 16, 2002 through December 31, 2002, the Company operated as a "C" corporation and had net operating losses of approximately \$3,273,000. At December 31, 2004, the Company had net operating losses of approximately \$10,620,000 that will expire between 2009 and 2024.

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

The components of the Company's deferred tax asset at December 31, 2004 is approximately as follows: The components of the Company's income tax benefit consists of the following:

Net operating loss carryforwards	\$ 4,286,000
Allowance for doubtful accounts	89,000
Interest payable, stockholder	192,000
Accrued compensation	173,000
Deferred maintenance fees	241,000

	4,981,000
Less valuation allowance	(4,981,000)

Net deferred income tax asset	\$ --
	=====

The components of the Company's income tax benefit consists of the following:

	2004	2003
DEFERRED		
Federal	\$ 1,132,000	\$ 1,738,000
State	197,000	302,000
	-----	-----
	1,329,000	2,040,000
Change in valuation allowance	(1,329,000)	(2,040,000)
	-----	-----
	\$ --	\$ --
	=====	=====

A reconciliation of the statutory federal income tax rate and the effective tax rate follows:

	2004	2003
Federal statutory rate	34%	34%
State income taxes, net of federal effect	7	7
S-Corporation earnings passes to shareholders and other		
Change in valuation allowance and other	(41)	(41)
	-----	-----
Effective income tax rate	0%	0%
	=====	=====

17

STRONGHOLD TECHNOLOGIES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

=====

12. COMMITMENTS AND CONTINGENCIES

Securities Purchase Agreements

The Company and certain stockholders of the Company (together the "Parties"), entered into a Securities Purchase Agreement (the "Series A Purchase Agreement")

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

dated and executed on May 15, 2002, with Stanford Venture Capital Holdings, Inc. ("Stanford"). Pursuant to the Series A Purchase Agreement, the Parties agreed to issue to Stanford a total of 2,002,750 shares of the Company's Series A \$1.50 Convertible Preferred Stock ("Series A \$1.50 Preferred Stock"), plus five-year warrants purchasing 2,002,750 shares of the Company's common stock at an exercise price of \$1.50 for the first 1,001,375 shares and \$2.25 for the remaining shares. The value of the warrants was treated as a dividend for approximately \$295,000 (computed using the Black-Scholes model with the following assumptions: expected volatility of 0%, expected dividend yield rate of 0%, expected life of 5 years, and a risk-free interest rate of 4.03% for December 31, 2002) on May 15, 2002, the date of issuance. Pursuant to the Series A Purchase Agreement, the issuance of the Series A Preferred Stock and Warrants took place on four separate closing dates beginning on May 16, 2002 and closing on July 19, 2002.

The Parties entered into an additional Securities Purchase Agreement (the "Series B Purchase Agreement") dated and executed on April 30, 2003 with Stanford. Pursuant to the Series B Purchase Agreement, the Parties agreed to issue to Stanford a total of 2,444,444 shares of the Company's Series B \$.90 Convertible Preferred Stock ("Series B Preferred Stock"). Pursuant to the Series B Purchase Agreement, the issuance of the Series B Preferred Stock took place on six separate closing dates beginning on April 30, 2003 and closing on September 15, 2003. In connection with the issuance of the Series B Preferred Stock, the Series B Purchase Agreement also required the Company to lower the exercise price of the 2,002,750 warrants that were issued with the Series A Purchase Agreement. The conversion price for these warrants was reduced to \$0.25 from the original conversion prices of \$1.50 and \$2.25, and was accounted for as a cost of issuance of the Series B Purchase Agreement.

In connection with both the Series A and Series B Purchase Agreements, certain stockholders of the Company entered into a Lock-Up Agreement in which the Parties agreed not to sell, assign, transfer, pledge, mortgage, encumber or otherwise dispose of their shares of the Company's capital stock for a period of two years, with certain exceptions, as defined in the Lock-Up Agreement.

In accordance with SFAS No. 129 Paragraph 4, the Company is providing the following summary of the pertinent rights and privileges of these outstanding securities:

Each Series A \$1.50 preferred share and each Series B convertible \$.90 Preferred share is convertible into common shares at a predefined "conversion rate" (described below). There are two ways to convert this Preferred stock:

Optional conversion: The holder may at any time convert the preferred shares at the stated "conversion rate" rate into Common stock

Automatic conversion: The shares can be converted by: A) at the date of a vote by at least two-thirds of the outstanding Preferred shares to convert or, B) upon the closing of a qualified public offering where the stock is offered to the public at a price equal to or exceeding \$3.00 which generates net proceeds to the company equal to or exceeding \$15,000,000.

"Conversion rate" - each share of the Series A preferred stock and Series B preferred stock is convertible into the number of shares of the common stock as shall be calculated by dividing the stated value by \$1.50 and \$.90, respectively.

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Warrants

On June 16, 2004, in consideration of and as an inducement to Stanford for the Company to enter into the issuance of the 12% Callable Secured Convertible Notes (the "NIR Notes") referenced below, Stanford has been issued a warrant (the "Stanford Warrants") to purchase an additional 2,000,000 shares of Common Stock, expiring in five years, at an exercise price of \$.0001 in exchange for i) agreeing to a waiver of existing registration rights that included a lock up period for one year after the effective date of a registration statement prohibiting the registration and sale of Stanford's securities and ii) agreeing as holder of Stronghold's Series A \$1.50 Convertible Preferred Stock ("Series A Stock") and Series B \$.90 Convertible Preferred Stock ("Series B Stock"), to waive any dilution protection which would otherwise accrue to the Series A Stock and the Series B Stock pursuant to the respective certificates of designation filed with the Secretary of State of the State of Nevada, as amended, as a result of the conversion of the NIR Notes or exercise of the Stanford Warrants into the Company's common stock. This issuance of the Stanford Warrants has been accounted for as an adjustment of capital for the waiving of the dilution protection for the Series A and Series B preferred stock. The Stanford Warrants were valued at approximately \$360,000 using the Black-Scholes option pricing model including the following assumptions: exercise price of \$.0001, expected volatility of 2.06%, expected dividend yield rate of 0%, expected life of 5 years, and a risk free interest rate of 4.73%.

Notes Payable, Convertible Debt

To obtain funding for its ongoing operations, Stronghold Technologies, Inc. (the "Company") entered into a Securities Purchase Agreement (the "Securities Purchase Agreement") with New Millennium Capital Partners II, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and AJW Partners, LLC (collectively, the "Investors") on June 18, 2004 for the sale of (i) \$3,000,000 in callable convertible secured notes (the "Notes") and (ii) stock purchase warrants to buy 3,000,000 shares of the Company's common stock (the "Warrants").

The Investors purchased \$2,350,000 in Notes, and received Warrants to purchase an aggregate of 2,350,000 shares of the companies stock, in three different tranches dated June 18, 2004 for \$1,500,000, July 21, 2004 for \$500,000 and October 22, 2004 for \$350,000.

The Notes bear interest at 12%, mature two years from the date of issuance, and are convertible into our common stock, at the Investors' option, at the lower of (i) \$0.70 or (ii) 25% of the average of the three lowest intraday trading prices for the Company's common stock during the 20 trading days before, but not including, the conversion date. The Company may prepay the Notes in the event that no event of default exists, there are a sufficient number of shares available for conversion of the Notes and the market price is at or below \$0.57 per share. The full principal amount of the Notes is due upon default under the terms of Notes. In addition, the Company has granted the investors a security interest in substantially all of its assets and intellectual property as well as registration rights.

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

STRONGHOLD TECHNOLOGIES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

=====

12. COMMITMENTS AND CONTINGENCIES (CONTINUED)

The Note Payable, Convertible Debt is recorded at \$2,350,000 and the Note payable, convertible debt, debt discount of \$1,810,000 are reported in accordance with Emerging Issues Task Force "EITF" 98-5 "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios" and EITF 00-27 "Application of Issue No. 98-5 to Certain Convertible Instruments". The Debt Discount is reported at 100% of the net proceeds of the Convertible Debt Financing in accordance with paragraph 6 of EITF 98-5 that specifies that the beneficial conversion expense may not exceed the net proceeds. Additionally, the debt discount is net of amortization charged to interest expense of approximately \$540,000 recorded for the year ended December 31, 2004.

The Warrants are exercisable until five years from the date of issuance at a purchase price of \$0.57 per share. In addition, the exercise price of the Warrants is adjusted in the event the Company issues common stock at a price below market. Since the Company does not intend to issue common stock at below market price the warrants were valued at \$NIL using the Black-Scholes option pricing model including the following assumptions: exercise price of \$0.57, expected volatility of approximately 15%, expected dividend yield rate of 0%, expected life of 5 years, and a risk free interest rate of 4.23% for December 31, 2004.

The Investors have contractually agreed to restrict their ability to convert the Notes and exercise the Warrants and receive shares of the Company's common stock such that the number of shares of the Company's common stock held by them and their affiliates after such conversion or exercise does not exceed 4.99% of the then issued and outstanding shares of the Company's common stock.

All shares of the Company's common stock associated with this private placement are restricted securities in accordance with Rule 144 as promulgated under the of the Securities Act of 1933.

On April 30, 2004, the Company entered into an installment agreement with the IRS to pay withholding taxes due in the amount of approximately \$1,233,000, which include interest and penalties. Under the terms of this agreement, the Company will pay \$35,000 each month, Commencing June 28, 2004, until the total balance is paid in full. If the Company is unable to fulfill this agreement, the IRS could take possession of the Company's assets. As of December 31, 2004, the Company has made all required payments to the IRS. The outstanding balance of approximately \$745,000 is currently recorded in Payroll taxes payable, long term for \$430,000 and in accrued expenses and other current liabilities for approximately \$315,000.

STRONGHOLD TECHNOLOGIES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

=====

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

12. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Leases

The Company rents facilities under leases in New Jersey, Virginia and California. The Company is obligated under these leases through January 2008. In addition to the base rent, one lease provides for the Company to pay a proportionate share of operating costs and other expenses. Future aggregate minimum annual rent payments under these leases are approximately as follows:

YEAR ENDING DECEMBER 31,		
2005	\$	115,000
2006		90,000
2007		81,000
2008		14,000

	\$	300,000
		=====

Rent expense was approximately \$107,000 and \$87,000 for the years ended December 31, 2004 and 2003, respectively.

Obligations Under Capital Leases

At December 31, 2004, the Company has computer equipment recorded under capital leases expiring at various dates through 2006. The assets and liabilities under capital leases are recorded at the lower of the present values of the minimum lease payments or the fair values of the assets. The assets are included in property and equipment and are depreciated over their estimated useful lives.

As of December 31, 2004, minimum future lease payments are approximately as follows:

YEARS ENDING DECEMBER 31,		
2005	\$	38,000
2006		10,000

Total minimum lease payments		48,000
Less amounts representing interest		13,410

Present value of net minimum lease payments		34,590
Less current portion		25,807

Long-term portion	\$	8,783
		=====

STRONGHOLD TECHNOLOGIES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

=====

13. SUBSEQUENT EVENTS

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10KSB

Callable Secured Convertible Notes

On March, 18 2005, the Investors purchased \$650,000 in Notes and received Warrants to purchase 650,000 shares of our common stock, completing the sale of (i) \$3,000,000 in callable secured convertible notes (the "Notes") and (ii) stock purchase warrants (the "Warrants") to buy 3,000,000 shares of our common stock that was agreed upon on June 18, 2004.

The agreement entered into on June 18, 2004 was amended on March 4, 2005, changing the conversion price of the convertible notes to the lower of (i) \$0.70 or (ii) 25% of the average of the three lowest intraday trading prices for our common stock during the 20 trading days before, but not including, the conversion date. The original agreement had the conversion price as the lower of (i) \$0.70 or (ii) 50% of the average of the three lowest intraday trading prices for our common stock during the 20 trading days before, but not including, the conversion date.

New Callable Secured Convertible Notes Issuance

On March 31, 2005, in order to obtain funding for its ongoing operations, the Company entered into a new Securities Purchase Agreement (the "New Securities Purchase Agreement") with New Millennium Capital Partners II, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and AJW Partners, LLC (collectively, the "Investors") for the sale of (i) \$650,00 in callable convertible secured notes (the "Notes") and (ii) stock purchase warrants to buy 650,000 shares of the Company's common stock (the "Warrants"). On March 31, 2005 the Investors purchased \$350,000 in Notes, and received Warrants to purchase an aggregate of 350,000 shares of the companies stock. The remaining \$300,000 of convertible secured notes will be purchased within five business days of the effectiveness of the registration statement.

The Notes bear interest at 12%, mature two years from the date of issuance, and are convertible into our common stock, at the Investors' option, at the lower of (i) \$0.70 or (ii) 25% of the average of the three lowest intraday trading prices for the Company's common stock during the 20 trading days before, but not including, the conversion date. The Company may prepay the Notes in the event that no event of default exists, there are a sufficient number of shares available for conversion of the Notes and the market price is at or below \$0.03 per share, the market price at the time of the closing. The full principal amount of the Notes is due upon default under the terms of Notes. In addition, the Company has granted the investors a security interest in substantially all of its assets and intellectual property as well as registration rights.

The Investors have contractually agreed to restrict their ability to convert the Notes and exercise the Warrants and receive shares of the Company's common stock such that the number of shares of the Company's common stock held by them and their affiliates after such conversion or exercise does not exceed 4.99% of the then issued and outstanding shares of the Company's common stock.

PNC Bank Note Payoff

On March 31, 2005, the Company paid off and satisfied the note due to PNC bank in the principal amount of \$606,667. All accrued interest in the amount of \$16,830 was all paid off.