

STRONGHOLD TECHNOLOGIES INC  
Form 10QSB/A  
February 11, 2005

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

FORM 10-QSB/A

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934 for the quarterly  
period ended June 30, 2004.

OR

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT for the transition period  
from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number: 333-54822

STRONGHOLD TECHNOLOGIES, INC.

-----  
(Exact name of small business issuer as specified in its charter)

Nevada  
-----

22-3762832  
-----

(State or other jurisdiction of  
incorporation or organization)

(IRS Employer Identification No.)

106 Allen Road, Basking Ridge, NJ 07920  
-----

(Address of principal executive offices)

(908) 903-1195  
-----

(Issuer's telephone number)

N/A  
-----

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common  
equity, as of the latest practicable date: as of August 13, 2004, 13,438,277  
shares of the Registrant's common stock, (par value, \$0.0001), were outstanding.

Transitional Small Business Disclosure Format: (Check One): Yes  No

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10QSB/A

EXPLANATORY NOTE: STRONGHOLD TECHNOLOGIES, INC. IS AMENDING THE FORM 10-QSB FOR THE QUARTER ENDED JUNE 30, 2004 SOLELY FOR THE PURPOSE OF AMENDING ITEMS 1 AND 2 OF PART I.

TABLE OF CONTENTS

	Page
	----
PART I - Financial Information	
Item 1. Financial Statements.....	2
Consolidated Balance Sheet as of June 30, 2004 (unaudited).....	2
Consolidated Statements of Operations For the Three Months Ended June 30, 2004 and 2003 and the six months ended June 30, 2004 and 2003 (unaudited).....	3
Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2004 and 2003 (unaudited).....	4
Notes to Consolidated Financial Statements.....	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.....	11

-i-

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS  
CONSOLIDATED BALANCE SHEET

STRONGHOLD TECHNOLOGIES, INC. AND SUBSIDIARY  
JUNE 30, 2004 (UNAUDITED)

ASSETS

Current assets

Cash

Accounts receivable, less allowance for returns and  
doubtful accounts of \$210,318

Other receivables

Inventories

Prepaid expenses

Total current assets

Property and equipment, net

Other assets

\$

---

---

---

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10QSB/A

Software development costs, net of amortization  
Deferred charge, convertible debt loan acquisition costs, net of amortization  
Other

Total other assets

LIABILITIES AND STOCKHOLDERS' DEFICIT

Current liabilities

Accounts payable  
Accrued expenses and other current liabilities  
Interest payable, stockholders  
Notes payable, stockholders, current portion  
Notes payable, current portion  
Deferred revenue  
Obligations under capitalized leases, current portion

Total current liabilities

Long-term liabilities

Notes payable, stockholders, less current portion  
Note Payable, Convertible Debt of \$1,500,000 net of Debt Discount of \$1,500,000  
and Debt Discount Amortization of \$31,250  
Obligations under capitalized leases, less current  
portion  
Other long term accrued liabilities

Total long term liabilities

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) and preferred stock, Series B, \$.0001 par  
value; authorized 2,444,444 shares, 2,444,444 issued and outstanding  
(aggregate liquidation preference \$2,200,000)  
Common stock, \$.0001 par value, authorized 50,000,000  
shares, 13,438,277 issued and outstanding  
Additional paid-in capital  
Stock subscription receivable  
Accumulated deficit

Total stockholders' deficit

-2-

STRONGHOLD TECHNOLOGIES, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10QSB/A

	THREE MONTHS ENDED JUNE 30, 2004 (Unaudited)	THREE MONTHS ENDED JUNE 30, 2003 (Unaudited)	SIX MONTHS ENDED JUNE 30, 2004 (Unaudited)	SIX MONTHS ENDED JUNE 30, 2003 (Unaudited)
SALES	\$ 700,250	\$ 626,779	\$1,343,928	\$ 1,545,789
COST OF SALES	215,358	277,184	451,866	600,888
GROSS PROFIT	484,892	349,595	892,062	944,901
SELLING, GENERAL AND ADMINISTRATIVE	873,550	1,194,040	1,837,552	2,302,854
LOSS FROM OPERATIONS	(388,658)	(844,445)	(945,490)	(1,357,953)
INTEREST EXPENSE	98,609	90,220	125,506	197,866
NET LOSS APPLICABLE TO COMMON STOCKHOLDERS	\$ (487,267)	\$ (934,665)	\$ (1,070,996)	\$ (1,555,819)
BASIC AND DILUTED LOSS PER COMMON SHARE	\$ (0.04)	\$ (0.09)	\$ (0.08)	\$ (0.15)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	13,438,277	10,301,212	13,390,104	10,080,333

-3-

STRONGHOLD TECHNOLOGIES, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS

SIX MONTHS ENDED JUNE 30, -----	2004 ---- (Unaudited)	2003 ---- (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (1,070,996)	\$ (1,555,819)
Adjustments to reconcile net loss to net cash used in operating activities:		
Provision for returns and allowances (recoveries)	(8,128)	41,259
Depreciation and amortization	176,253	60,108
Amortization of Convertible Debt Discount	31,250	
Non-cash interest expense for issuance of warrants		47,500
Changes in operating assets and liabilities:		
Accounts receivable	(20,300)	(172,312)
Inventories	71,585	173,176
Prepaid expenses	(145,860)	2,359
Other receivables	(8,487)	(67,048)
Accounts payable	(113,180)	(470,292)
Interest payable, stockholders	13,852	112,557
Accrued expenses and other current liabilities	(76,191)	565,454
Deferred revenue	110,034	80,894
Other Assets	(22,074)	(877)
NET CASH USED IN OPERATING ACTIVITIES	(1,062,242)	(1,183,041)

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10QSB/A

CASH FLOWS FROM INVESTING ACTIVITIES,		
Payments for purchase of property and equipment	(4,983)	(6,707)
Payments for software development costs	(278,465)	(328,063)
NET CASH USED IN INVESTING ACTIVITIES	(283,448)	(334,770)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of preferred stock, net of financing costs		1,242,968
Proceeds from issuance of common stock, net of financing costs	32,037	
Proceeds from notes payable, stockholders	899,500	606,200
Principal repayments of notes payable, stockholders	(56,519)	(92,089)
Proceeds from notes payable, convertible debt	1,500,000	
Payments made for debt issuance cost relating to notes payable, convertible debt	(245,000)	
Principal repayments of notes payable	(45,000)	(208,333)
Principal payments for obligations under capital leases	(20,945)	(9,736)
NET CASH PROVIDED BY FINANCING ACTIVITIES	2,064,073	1,539,010
NET INCREASE IN CASH	718,383	21,199
CASH, BEGINNING OF PERIOD	8,161	13,384
CASH, END OF PERIOD	\$ 726,544	\$ 34,583
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION,		
cash paid during the period for interest	\$ 46,333	\$ 114,859

-4-

DEFINITIONS

All references to "we," "us," "our," the "Company" or similar terms used herein refer to Stronghold Technologies, Inc., a Nevada corporation, formerly known as TDT Development, Inc. and its wholly-owned subsidiary, Stronghold Technologies, Inc., a New Jersey corporation. All references to "Stronghold" used herein refer to just our wholly-owned subsidiary, Stronghold Technologies, Inc., a New Jersey corporation. All references to the "Predecessor Entity" refer to the New Jersey corporation we acquired on May 16, 2002, Stronghold Technologies, Inc., which was merged with and into Stronghold.

-5-

STRONGHOLD TECHNOLOGIES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The accompanying consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). These statements are unaudited and, in the opinion of management, include all adjustments (consisting of normal recurring adjustments and accruals) necessary to present fairly the results for the periods presented. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted

## Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10QSB/A

in the United States of America have been omitted pursuant to applicable SEC rules and regulations. Operating results for the three-month and six-month periods ended June 30, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004. These financial statements should be read in conjunction with the financial statements and the notes thereto included in the Company's Annual Report of Form 10-KSB for the fiscal year ended December 31, 2003.

### 2. INVENTORIES

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

### 3. LOSS PER COMMON SHARE

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 earnings (loss) per share. Basic earnings (loss) per share excludes dilutions and is computed by dividing net loss applicable to common stockholders by the weighted average number of common shares outstanding for the year. Diluted earnings (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 diluted loss per common share..

### 4. STOCK-BASED COMPENSATION

In December 2002, 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 income (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.

-6-

The Company accounts for its stock-based employee compensation plans under Accounting Principles Board Opinion 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 of grant.

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 three-month and six-month periods ended June 30, 2004 and 2003.

Three months ended  
June 30,  
-----

Six months ended  
June 30,  
-----

Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10QSB/A

	2004 ----	2003 ----	2004 ----	2003 ----
NET LOSS APPLICABLE TO COMMON STOCKHOLDERS, as reported .....	\$ (487,267)	\$ (934,665)	\$ (1,070,996)	\$ (1,555,819)
DEDUCT				
Total stock-based compensation expense determined under fair value method for all awards, net of related tax effect .....	10,882	20,572	23,701	39,603
PRO FORMA NET LOSS .....	\$ (498,149)	\$ (955,237)	\$ (1,094,697)	\$ (1,595,422)
BASIC AND DILUTED EPS				
As reported .....	\$ (0.04)	\$ (0.09)	\$ (0.08)	\$ (0.15)
Pro forma .....	\$ (0.04)	\$ (0.09)	\$ (0.08)	\$ (0.16)

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 2.06%, expected dividend yield rate of 0%, expected life of 10 years, and a risk-free interest rate of 4.73% and 3.33% for June 30, 2004 and 2003, respectively.

5. GOING CONCERN

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. Since the beginning of the fiscal year, the Company has incurred a net loss of approximately \$1,071,000 and has negative cash flows from operations of approximately \$1,062,000 for the six months ended June 30, 2004, and has a working capital deficit of approximately \$2,753,000 and a stockholders' deficit of approximately \$3,888,000 as of June 30, 2004. These conditions raise substantial doubt about the Company's ability to continue as a going concern. During 2004, 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.

-7-

6. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consist of the following at June 30, 2004:

Sales tax	\$ 83,670
Payroll taxes	456,359
401(k) withholding	9,925
Compensation	402,767
Commissions	165,673
Other accrued expenses	212,690
 Total	 \$1,331,084
	=====

## Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10QSB/A

### Payroll Tax Payment Agreement with IRS

On April 30, 2004, the Company entered into an installment agreement with the United States Internal Revenue Service ("IRS") to pay overdue payroll taxes, under the terms of which the Company will pay \$35,000 each month, commencing June 28, 2004, until it has paid the withholding taxes due in full. The Company has posted the portion of the payroll taxes to be paid in the monthly periods of 13 through 29 of the payment plan to the "Other long term accrued liabilities" section of the balance sheet.

### 7. NOTES PAYABLE, STOCKHOLDERS

On March 15, 2004, the Company entered into a note payable with one of its stockholders for approximately \$900,000. The note bears interest at 8% per annum and is due on March 15, 2007. The balance of this note is located in the long-term portion of notes payable, stockholders.

### 8. COMMITMENTS AND CONTINGENCIES

#### 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 \$0.0001, 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% for June 30, 2004

-8-

#### Callable Secured Convertible Notes

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").

On June 18, 2004, the Investors purchased \$1,500,000 in Notes and received Warrants to purchase 1,500,000 shares of the Company's common stock. In addition, provided that all of the conditions in the Securities Purchase Agreement are satisfied, the Investors are obligated to provide the Company with



## Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10QSB/A

additional funds as follows:

- o \$500,000 will be funded within five business days of filing a registration statement registering shares of the Company's common stock underlying the Notes and the Warrants; and
- o \$1,000,000 will be funded within five business days of the effectiveness of the registration statement.

The Note payable, convertible debt, is recorded at \$1,500,000 net of debt discount of \$1,500,000 and amortization of \$31,250. This Note payable, Convertible Debt is 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" paragraph 19. The Debt Discount is reported at 100% of the net proceeds of the Convertible Debt Financing in accordance with EITF 98-5 that specifies that the beneficial conversion expense may not exceed the net proceeds. Additionally, the interest expense and debt discount and corresponding amortization are recorded in accordance EITF 00-27 paragraph 19 that states that convertible instruments that have a stated redemption date require a discount resulting from recording a beneficial conversion option to be accreted from the date of issuance to the stated redemption date of the convertible instrument, regardless of when the earliest conversion date occurs.

-9-

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) 50% 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 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 2.06%, expected dividend yield rate of 0%, expected life of 5 years, and a risk free interest rate of 4.73% for June 30, 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.

### 9. RESTATEMENT OF CERTAIN TRANSACTIONS AS OF JUNE 30, 2004

For the period ended September 30, 2004 the Company has taken the position of

## Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10QSB/A

capitalizing the approximately \$334,000 of debt issuance cost, relating to the Callable Secured Convertible Notes described in footnote 8, as a deferred charge. As a result, the Company has also recorded the beneficial conversion feature in the full amount of the outstanding note of \$2,000,000. Both items will be amortized over the life of the loan of 3 years which is in accordance with EITF 00-27. The effects of this restatement for the three and nine month periods ended September 30, 2004 are listed below:

	Three months ended June 30, 2004	Six months ended June 30, 2004
Net Loss	(\$36,354.00)	(\$36,354.00)
Basic and diluted loss per common share	(\$0.003)	(\$0.003)

-10-

Effect of the restatement for balance sheet at June 30, 2004:

RESTATEMENT SUMMARY	Original Reported Balance -----	Restated Balance -----
<b>ASSETS</b>		
OTHER ASSETS		
Deferred charge, convertible debt loan acquisition costs, net of amortization	\$           --	\$   239,896
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
LONG-TERM LIABILITIES		
Note Payable, Convertible Debt	1,255,000	31,250
STOCKHOLDERS' DEFICIT		
Additional paid-in capital	7,740,816	9,240,816
Accumulated Deficit	(13,091,531)	(13,127,885)
Total		-

### 10. SUBSEQUENT EVENTS

#### Callable Secured Convertible Notes

On July 21, 2004, the Company filed the required SB-2 registration statement registering shares of the Company's common stock issuable in connection with the sale of (i) \$3,000,000 in callable convertible secured notes (the "NIR Notes") and (ii) stock purchase warrants to buy 3,000,000 shares of the Company's common stock (the "Warrants"). The Company received \$500,000 from the investors in connection with this filing.

#### Forebearance Agreement with PNC Bank

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 the Company and Christopher J.

## Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10QSB/A

Carey, in his capacity as guarantor, to collect the sums outstanding under the Loan Agreement, dated as of September 30, 2002 (\$1,186,667 at June 30, 2004).

On July 15, 2004, the Company entered into a fully executed forbearance agreement with PNC Bank, N.A. The Company made an initial principal payment of \$420,000 with the execution of the forbearance. Additionally, the Company is required to make four consecutive monthly installments of \$50,000 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 will cause the suit to be reinstated and PNC Bank will resume collection of the sum under the suit.

-11-

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

#### OVERVIEW

The following discussion should be read in conjunction with our financial statements and the accompanying notes appearing subsequently under the caption "Financial Statements", along with other financial and operating information included elsewhere in this quarterly report. Certain statements under this caption "Management's Discussion and Analysis and Results of Operation" constitute "forward-looking statements" under the Private Securities Litigation Reform Act of 1995.

The statements contained in this Quarterly Report on Form 10-QSB 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 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.

#### EXECUTIVE OVERVIEW

We are a Customer Relationship Management ("CRM") solutions provider for the retail automotive industry. Stronghold's DealerAdvance(TM) Sales Solution is designed to streamline dealership sales operations using software that integrates existing technology systems.

Stronghold's strategic focus since our entry into the automotive retail market in May 2002 has been:

## Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10QSB/A

- o Applying wireless technology, leveraging the Internet, providing software and process improvement methods to improve buying and servicing satisfaction at retail automobile dealerships.
- o Establishment and growth of our customer base.

-12-

- o Geographic diversification to penetrate large national markets.
- o Development of user friendly CRM applications.
- o Development of a best-of-breed seamless software solution that replaces multiple applications that typically are not designed to work together as seamlessly as DealerAdvance(TM).

Stronghold's current initiatives include the following:

- o Leveraging existing clients to generate new and recurring revenues through the introduction of new products and services.
- o Developing and refining products through internal research and development, strategic partnerships and acquisitions that target synergistic applications surrounding the dealership accounting systems (DMS - Dealer Management System). The goal of these efforts is to become a single source solution provider to automobile dealerships.
- o Stronghold's new products and concepts (or product candidates) include: in-coming call management; advertising effectiveness reporting; Internet lead management; services marketing; online credit reporting; and compliance with Do Not Call regulations.
- o Making Strategic Acquisitions

### 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". As consideration for the merger, we issued 7,000,000 shares of our common stock, par value \$0.0001 per share, to the stockholders of the Predecessor Entity in exchange for all of the issued and outstanding shares of the Predecessor Entity. The stockholders of the Predecessor Entity continue to hold these shares of our common stock. 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.

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](http://www.strongholdtech.com). Our Annual Report on Form 10-KSB, Quarterly Reports on Form 10-QSB, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) of the Securities

## Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10QSB/A

Exchange Act of 1934 are available on our website ([www.strongholdtech.com](http://www.strongholdtech.com) under the "For Investors-SEC Filings" caption) as soon as reasonably practicable after we electronically file such reports with the Securities and Exchange Commission ("SEC"). Our annual, quarterly and current reports, and, if applicable, amendments to those reports, filed or furnished pursuant to Section 13(a) of the Exchange Act are also available at the website maintained by the SEC at <http://www.sec.gov>. The information contained on our website is not incorporated by reference herein.

-13-

### 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 REVENUES

Stronghold's revenues are primarily received from system installation, software licenses and system maintenance. The approximate average selling package price of the system and installation also 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:

- o Software License Revenues: This represents the software license portion of the Dealer Advance Service Solution purchased by customers of the Company. The software and intellectual property of Dealer Advance has been developed and is owned by the Company.
- 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).
- 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. In the three year operating history of the Company, approximately 50% of all the Company's 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 our 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.

-14-

### GENERAL AND ADMINISTRATIVE OPERATING EXPENSES:

## Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10QSB/A

The general operating expenses of the Company are primarily comprised of:

- o Marketing and Selling;
- o General and Administrative;
- 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.

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.

THREE MONTHS ENDED JUNE 30, 2004 AND THREE MONTHS ENDED JUNE 30, 2003.

### REVENUE

For the quarter ended June 30, 2004, we had revenue of \$700,250 compared with revenue of \$626,779 for the quarter ended June 30, 2003. This modest increase in revenue of \$73,471 or 11.72 % is primarily attributed to steps we made to address the Company's limited funding. The Company's decision to conserve capital and reduce head count through the first quarter and into the second quarter of 2004 limited our ability to generate significant revenue growth for the quarter ended June 30, 2004 as compared to the quarter ended June 30, 2003.

Revenue is comprised of one-time charges to the dealerships for hardware (including server, wireless infrastructure, desktop PCs, printers, interior/exterior access points/antennas and handheld devices), software licensing fees and installation/training services. Other sources of revenue include monthly support and maintenance contracts (required with purchase of DealerAdvance(TM)) and fee-based business development consulting and sales training services. Depending upon the dealership arrangement, the support and maintenance contracts are either billed monthly and recorded as revenue monthly, or are paid up front and recorded to unearned maintenance fees at the present value of the 36-month revenue stream and amortized monthly to revenue.

-15-

### GROSS PROFITS

We generated \$484,892 in gross profits from sales for the quarter ended June 30, 2004, which was an increase of \$135,297 from the quarter ended June 30, 2003, when we generated \$349,595 in gross profits. Our gross profit margin percentage increased from 55.8% in the quarter ended June 30, 2003 to 69.2% in the quarter ended June 30, 2004 for an improvement of 13.5%. This significant improvement in gross profit margin is primarily attributable to the following increases in efficiency:

- o a decrease in client data acquisition costs achieved through implementation of an interface developed by the Company and

## Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10QSB/A

- o a reduction in the number of staff members required to service the client base.

These improvements in efficiency present the Company with the opportunity to consider alternative pricing and delivery methods in the future targeted to increasing the adoption rate of our product.

### GENERAL AND ADMINISTRATIVE EXPENSES

Total Selling and General and Administrative expenses in the quarter ended June 30, 2004 were \$873,550 a decrease of 26.84% or \$320,490 from the quarter ended June 30, 2003 of \$1,194,040. The significant reduction in expense is primarily attributable to efficiencies gained through the reduction of staff from 41 in June 30, 2003 to 23 in the quarter ended June 30, 2004. Total operating expenses for the quarter ended June 30, 2004 and June 30, 2003 were comprised primarily of general and administrative expenses (which includes research and development expenses, consulting and professional costs, recruiting fees, office rent and investor relations expenses), professional salaries, benefits, stock compensation and bad debt write-off expense.

Our interest and penalty expense increased from \$90,220 in the quarter ended June 30, 2003 to \$98,609 in the quarter ended June 30, 2004. This increase of \$8,389 was primarily based on the net of forgiveness of interest on stockholder loans for the quarter which reduced the interest expense and an increase due to the beneficial conversion feature.

### NET LOSS

We had a net loss of \$487,267 for the quarter ended June 30, 2004 compared to \$934,665 for the quarter ended June 30, 2003, a decrease in net losses of \$447,398. This significant reduction of net losses of 47.87% despite the modest increase of revenue reflects the effects of our reduction in overhead and improvement of gross profit percentage.

Our loss per share also reduced to \$.04 loss per share with a weighted average of 13,438,277 shares outstanding in the quarter ended June 30, 2004 as compared to \$.09 loss per share in the quarter ended June 30, 2003 with a weighted average of 10,301,212 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, has sole discretion to pay dividends based on our financial condition, results of operations, capital requirements, contractual obligations and other relevant factors.

-16-

### LIQUIDITY AND CAPITAL RESOURCES

#### OVERVIEW

As of June 30, 2004, our cash balance was \$726,544. We had a net loss of \$487,267 for the quarter ended June 30, 2004. We had a net operating loss of approximately \$8,476,490 for the period from May 17, 2002 through June 30, 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

## Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10QSB/A

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 June 30, 2004 was \$825,534 (less allowances for doubtful accounts of \$210,318), and \$1,519,788 (less allowances for doubtful accounts of \$196,284) for the quarter ended June 30, 2003. Accounts receivable balances represent amounts owed to Stronghold for new installations and maintenance, service, training services, software customization and additional systems components.

### 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 \$1,070,996 and have negative cash flows from operations of approximately \$1,183,041 for the six months ended June 30, 2004, and have a working capital deficit of approximately \$2,753,000 and a stockholders' deficit of approximately \$3,888,280 as of June 30, 2004. These conditions raise substantial doubt about our ability to continue as a going concern. During 2004, 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.

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.

-17-

### FINANCINGS

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 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 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 June 30, 2002. On June 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



## Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10QSB/A

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 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. However, if the Company is unable to reach a forbearance agreement with the Bank, we may be required to pay off the amounts outstanding under the loan, and if we are unable to pay off the amounts outstanding, the Bank could seize the assets of the Company pledged as security for the Loan. If either of these actions occur, we may be unable to continue our operations.

-18-

Because we are 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 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 May 15, 2002, we entered into a Securities Purchase Agreement with

## Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10QSB/A

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.

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.

-19-

During August and September 2002, we entered into 9 subscription 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.

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 December 31, 2002, \$970,749 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. 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

## Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10QSB/A

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. 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 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. 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 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 December 31, 2003, 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, 2003, \$380,000 was outstanding under this bridge loan agreement.

-20-

In October 2003, the Company commenced offerings to accredited investors in private placements of up to \$3,000,000 of the Company's common stock. In the period of October 2003 through January 9, 2004 the Company 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.

On March 3, 2004 and March 15, 2004 we received loans in the amount of \$437,500 each from Stanford. The final terms of the investment are to be determined but the Company expects 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.

On June 16, 2004, to obtain funding for its ongoing operations, the Company entered into a Securities Purchase Agreement (the "Securities Purchase

## Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10QSB/A

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"). On June 18, 2004, the Investors purchased \$1,500,000 in Notes and received Warrants to purchase 1,500,000 shares of the Company's common stock. In addition, provided that all of the conditions in the Securities Purchase Agreement are satisfied, the Investors are obligated to provide the Company with additional funds as follows:

- o \$500,000 was funded within five business days of filing a registration statement registering shares of the Company's common stock underlying the Notes and the Warrants; and
- o \$1,000,000 will be funded 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) 50% 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 \$.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.

-21-

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.

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.

To enable us to fund our research and development and commercialization efforts, during the next several months, we may enter into additional debt and/or equity transactions with individual investors.

### 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.

## Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10QSB/A

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.

-22-

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 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.

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

## Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10QSB/A

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

### 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 accounting changes in accordance with revenue recognition guidelines released by the SEC.

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.

-23-

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 quarter ended June 30, 2004, we capitalized \$134,326 of development costs in developing enhanced functionality of our DealerAdvance(TM) products.

-24-

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

(a) Exhibits.

See Exhibit Index.

### SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities

## Edgar Filing: STRONGHOLD TECHNOLOGIES INC - Form 10QSB/A

Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized this 10th day of February, 2005.

STRONGHOLD TECHNOLOGIES, INC.

BY: /s/ Christopher J. Carey

-----  
Name: Christopher J. Carey,  
Title: President and Chief Executive Officer  
(principal executive officer)

BY: /s/ Robert M. Nawy

-----  
Name: Robert M. Nawy  
Title: (principal financial officer)

BY: /s/ Karen S. Jackson

-----  
Name: Karen S. Jackson  
Title: Controller (principal accounting  
officer)

Dated: As of February 10, 2005

-25-

### ITEM 6. EXHIBIT INDEX

- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. 1350.
- 32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. 1350.

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

-26-