STRONGHOLD TECHNOLOGIES INC
Form 10QSB
August 14, 2006

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

FORM 10-QSB

(Mark One)

x QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the quarterly period ended June 30, 2006.

OR

o 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.)

16801 Addison Road, Suite 310, Addison, TX 75001
(Address of principal executive offices)

(214) 866-0606
(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 x No o

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 11, 2006, 37,851,393 shares of the Registrant’s common stock, (par value, $0.0001), were outstanding.

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

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

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Stronghold Technologies, Inc. and Subsidiary
Condensed Consolidated Balance Sheet

June 30,		2006 (Unaudited)
ASSETS		
Current assets		
Cash	$	101,288
Accounts receivable, less allowance for returns and doubtful accounts of $80,000		36,862
Inventories		9,043
Prepaid expenses		6,234
Total current assets		153,427
Property and equipment, net		7,887
Other assets		
Software development costs, net of accumulated amortization of $1,085,181		294,056
Deferred charge, loan acquisition costs, net of amortization		23,512
Other		4,893
Total other assets		322,461
	$	483,775
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities		
Accounts payable	$	383,581
Interest payable, stockholders		1,385,598
Notes payable, stockholders, current portion		1,352,531
Deferred Revenue		230,295
Liquidated damages payable		1,454,735
Accrued expenses and other current liabilities		1,838,599
Total current liabilities		6,645,339
Long-term liabilities		
Notes payable, stockholders, less current portion		875,000
Note payable, convertible debt		5,529,465
Total long term liabilities		6,404,465
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)		445
Common stock, $.0001 par value, authorized 8,500,000,000 shares, 37,851,393 issued and outstanding		3,785
Additional paid-in capital		8,149,273
Accumulated deficit		(20,719,533)
Total stockholders' deficit		(12,566,030)

$	483,775

Stronghold Technologies, Inc. and Subsidiary
Condensed Consolidated Statements of Operations

	Three months ended June 30, 2006 (Unaudited)	Three months ended June 30, 2005 (Unaudited)	Six months ended June 30, 2006 (Unaudited)	Six months ended June 30, 2005 (Unaudited)
Sales	$ 125,809	$ 365,869	$ 269,538	627,521
Cost of sales	15,193	99,639	30,996	217,818
Gross profit	110,616	266,230	238,542	409,703
Selling, general and administration	513,678	569,085	1,219,299	1,369,370
Loss from operations	(403,062)	(302,855)	(989,738)	(959,667)
Interest expense	278,044	132,811	461,394	246,281
Liquidated damages	281,381	148,941	551,516	285,343
Net loss applicable to common stockholders	$ (962,487)	$ (584,607)	$ (1,993,677)	$ (1,491,291)
Basic and diluted loss per common share	$ (0.02)	$ (0.03)	$ (0.07)	(0.09)
Weighted average number of common shares outstanding	29,317,195	17,287,349	29,284,322	16,843,150

See accompanying notes to condensed consolidated financial statements

Stronghold Technologies, Inc. and Subsidiary
Condensed Consolidated Statements of Cash Flows

Six months ended June 30,	**2006** (Unaudited)	**2005** (Unaudited)
Cash flows from operating activities		
Net loss	$ (1,993,677)	$ (1,491,291)
Adjustments to reconcile net loss to		
net cash used in operating activities:		
Allowance for returns and doubtful accounts	20,000	(39,029)
Depreciation and amortization	218,015	276,348
Interest payable, stockholders	346,283	170,213
Liquidated damages payable	551,516	285,343
Changes in operating assets and liabilities:		
Accounts receivable	(13,425)	281,219
Inventories	9,050	(1,585)
Prepaid expenses	20,804	32,818
Accounts payable	(124,477)	(93,591)
Software development costs	-	(65,455)
Accrued expenses and other current liabilities	67,272	(145,453)
Deferred Revenue	(128,664)	(85,519)
Other Assets	35,422	(5,938)
Net cash used in operating activities	(991,881)	(881,920)
Cash flows from financing activities		
Proceeds from notes payable, stockholders	-	225,000
Principal repayments of notes payable, stockholders	-	(12,000)
Proceeds from notes payable, convertible debt	1,030,000	1,300,000
Principal repayments of notes payable	(3,891)	(606,667)
Principal payments for obligations under capital leases	-	(24,212)
Net cash provided by financing activities	1,026,109	882,121
Net increase in cash	34,228	201
Cash, beginning of period	67,060	500
Cash, end of period	$ 101,288	$ 701
Supplemental disclosure of cash flow information,		
Cash paid during the period for interest	$ 33,995	$ 67,368
Non cash financing activity		
Conversion of amounts due officer to common stock	$ 150,000	$ -

See accompanying notes to condensed consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 in the United States of America have been omitted pursuant to applicable SEC rules and regulations. Operating results for the three month period ended June 30, 2006 is not necessarily indicative of the results that may be expected for the year ending December 31, 2006. 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, 2005.

1. INVENTORIES

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

2. 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.

3. 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.

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.

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.

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 $1,993,677 and has negative cash flows from operations of $991,881 for the six months ended June 30, 2006, and has a working capital deficit of $6,491,912 and a stockholders’ deficit of $12,566,030 as of June 30, 2006. These conditions raise substantial doubt about the Company’s ability to continue as a going concern. During 2006, 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.

6. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consist of the following at June 30, 2006:

Accrued Expenses	
Sales tax	$ 106,153
Payroll taxes, including penalties and interest	579,436
Compensation	972,852
Commissions	115,530
Other accrued expenses	64,628
Total	$ 1,838,599

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 and penalties of totaling $1,233,101 under the terms of which the Company will pay a minimum of $35,000 each month, commencing June 28, 2004, until it has paid the withholding taxes due in full, to be completed in thirty-six month period by April 30, 2007. If the Company is unable to fulfill this agreement, the IRS could take possession of the Company's assets. As of June 30, 2006, the company has made all required payments to the IRS.

7. NOTES PAYABLE, STOCKHOLDERS

At June 30, 2006, notes payable, stockholders consists of the following:

Note payable bearing interest at 8% and due in March, 2007	$ 875,000
Note payable bearing interest at 12.5% and due August, 2006	992,531
Notes payable bearing interest at 8% and due August, 2006	360,000
	2,227,531
Less current portion	1,352,531
	875,000

8. COMMITMENTS AND CONTINGENCIES

Callable Secured Convertible Notes

February 2006

On February 6, 2006, to obtain funding for its ongoing operations, the Company entered into an 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) $180,000 in callable secured convertible notes (the "February 2006 Notes") and (ii) stock purchase warrants (the " February 2006 Warrants") to buy 180,000 shares of our common stock. 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 a conversion price, equal to the lower of (i) $0.05 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 Warrants are exercisable until five years from the date of issuance at a purchase price of $0.03 per share. In addition, the exercise price of the Warrants is adjusted in the event we issue common stock at a price below market.

In connection with the above financing, also on February 6, 2006, a director, officer and a stockholder converted $150,000 of deferred compensation into 21,428,571 shares of common stock of the Company (the “Settlement Shares”) and (ii) $781,369 deferred compensation into 10,000 shares of Series C Preferred Stock (the “Preferred Shares”). On May 18, 2006, the Investors reached a verbal agreement with Christopher Carey, the Company’s Chief Executive Officer, whereby both parties have agreed to reverse the February 6, 2006 transaction issuing 10,000 shares of Series C Preferred Stock. The effect of this reversal to the balance sheet as of March 31, 2006 is a $782,369 increase to accrued officer’s compensation and corresponding decrease to stockholder’s equity.

March 2006

On March 17, 2006, to obtain funding for its ongoing operations, the Company entered into a Securities Purchase Agreement (the "Agreement") with the Investors on March 17, 2006 for the sale of (i) $1,450,000 in callable secured convertible notes (the "March 2006 Notes") and (ii) stock purchase warrants (the "March 2006 Warrants") to buy 2,900,000 shares of our common stock.

On March 17, 2006, the Investors purchased $250,000 in March 2006 Notes and received March 2006 Warrants to purchase 250,000 shares of the Company's common stock. On April 12, 2006 the Investors purchased $200,000 in March 2006 Notes and received March 2006 Warrants to purchase 200,000 shares of the Company’s common stock. On May 12, 2006 the Investors purchased an additional $200,000 in March 2006 Notes and received March 2006 Warrants to purchase 200,000 shares of the Company’s common stock. On June 8, 2006 the Investors purchased an additional $200,000 in March 2006 Notes and received March 2006 Warrants to purchase 200,000 shares of the Company’s common stock. On July 12, 2006 the Investors purchased an additional $200,000 in March 2006 Notes and received March 2006 Warrants to purchase 200,000 shares of the Company’s common stock. In addition, provided that all of the conditions in the Securities Purchase Agreement are satisfied, on the final business day of each month through January 2007, the Company will issue to the Investors and the Investors will purchase $100,000 in March 2006 Notes and related March 2006 Warrants thereafter. The Company or a majority in interest of the Investors may terminate the obligation to issue additional March 2006 Notes and March 2006 Warrants upon 30 days notice.

The Notes bear interest at 8%, mature two years from the date of issuance, and are convertible into our common stock, at the Investors' option, at a conversion price, equal to the lower of (i) $0.05 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.

9. Restatement of financial statements

In connection with the preparation of the Annual Report on Form 10-KSB of the Company for the fiscal year ended December 31, 2005, the Company's management reviewed the Securities and Exchange Commission’s release on December 1, 2005 entitled “Current Accounting and Disclosure Issues in the Division of Corporation Finance” as Prepared by Accounting Staff Members in the Division of Corporation Finance, U.S. Securities and Exchange Commission Washington, D.C. The Company determined that an adjustment was necessary for the reporting of the Convertible Debenture Notes, Stand Alone Warrants and as a result of certain registration rights granted to the investors of these notes, potential Liquidated Damages that were not previously recorded.

Specifically, the Company deemed the Convertible Debt previously reported under EITF 98-5 and EITF 00-27 must now be reported within the guidelines of EITF 00-19 and therefore restatements of previously issued financial statements were necessary. In determining the amount of this restatement, the Company concluded that the fair value of the debt at all points in time was greater than the fair value of the Company in total. As a result, the Company determined that there is no value attributable to the Conversion Feature of this debt.

After reviewing the matter with its current and former independent registered public accounting firms, the Company has identified certain adjustments that necessitate the restatement of its financial statements for the second and third quarters of fiscal 2004, the interim periods of fiscal 2005, and for the fiscal year end 2004.

These adjustments reflect the following with respect to the Convertible Debt:

Convertible Debt: In accordance with EITF 00-19, since there is no explicit limit on the number of shares that are to be delivered upon exercise of the conversion feature, the Company is not able to assert that it will have sufficient authorized and unissued shares to settle the conversion option. As a result, the conversion feature should be accounted for as a derivative liability rather than permanent equity, with changes in fair value recorded in earnings each period and therefore the previous reporting in accordance with EITF’s 98-5 and 00-27 for the beneficial conversion feature and debt discount should be restated as such.

In recording the valuation of the Convertible Feature Liability within the restatement, the Company has now determined that the fair value of this liability is zero due to the carrying value of the convertible debt exceeding the fair value of the Company. The primary impact of adhering to EITF 00-19 is to eliminate the debt discount previously recorded as equity. Additionally, the Company had deemed the Convertible Debt to be in default and has written off the loan acquisition costs associated with convertible debt, previously recorded as a Deferred Charge asset.

The restatement adjustments to the Company's financial statements for the year ended December 31, 2004 are summarized as follows:

STRONGHOLD TECHNOLOGIES INC.
RESTATED STATEMENTS OF OPERATIONS
FOR THE YEAR ENDED December 31, 2004

	For the year ended 12/31/2004 As previously Reported	**Restatemenmt Adjustment 12/31/2004 Restatement Adjustment**	**For the Year 12/31/2004 As Restated**
Sales	2,489,790	-	2,489,790
Cost of sales	834,349	-	834,349
Gross profit	1,655,441	-	1,655,441
Selling, general and administrative	3,878,044	347,608	4,225,652
Loss from operations	(2,222,603)	(347,608)	(2,570,211)
Interest expense	867,010	(539,581)	327,429
Liquidated damages	-	131,733	131,733
New loss applicable to common stockholders	(3,089,613)	60,240	(3,029,373)
Basis and diluted loss per common share	(0.22)		(0.22)
Weighted average number of common shares outstanding	14,081,263		14,081,263

15. RESTATEMENT OF QUARTERLY DATA (UNAUDITED)

In connection with the preparation of the Annual Report on Form 10-KSB of the Company for the fiscal year ended December 31, 2005, the Company's management reviewed the Securities and Exchange Commission's release on December 1, 2005 entitled "Current Accounting and Disclosure Issues in the Division of Corporation Finance" as Prepared by Accounting Staff Members in the Division of Corporation Finance, U.S. Securities and Exchange Commission Washington, D.C. The Company determined that an adjustment was necessary for the reporting of the Convertible Debenture Notes, Stand Alone Warrants and as a result of certain registration rights granted to the investors of these notes, potential Liquidated Damages that were not previously recorded.

Specifically, the Company deemed the Convertible Debt previously reported under EITF 98-5 and EITF 00-27 must now be reported within the guidelines of EITF 00-19 and therefore restatements of previously issued financial statements were necessary. In determining the amount of this restatement, the Company concluded that the fair value of the debt at all points in time was greater than the fair value of the Company in total. As a result the Company determined that there is no value attributable to the Conversion Feature of this debt.

After reviewing the matter with its current and former independent registered public accounting firms, the Company has identified certain adjustments that necessitate the restatement of its financial statements for the second and third quarters of fiscal 2004, the interim periods of fiscal 2005, and for the fiscal year end 2004.

These adjustments reflect the following with respect to the Convertible Debt:

Convertible Debt: In accordance with EITF 00-19, since there is no explicit limit on the number of shares that are to be delivered upon exercise of the conversion feature, the Company is not able to assert that it will have sufficient authorized and unissued shares to settle the conversion option. As a result, the conversion feature should be accounted for as a derivative liability rather than permanent equity, with changes in fair value recorded in earnings each period and therefore the previous reporting in accordance with EITF's 98-5 and 00-27 for the beneficial conversion feature and debt discount should be restated as such.

In recording the valuation of the Convertible Feature Liability within the restatement, the Company has now determined that the fair value of this liability is zero due to the carrying value of the convertible debt exceeding the fair value of the Company. The primary impact of adhering to EITF 00-19 is to eliminate the debt discount previously recorded as equity. Additionally, the Company had deemed the Convertible Debt to be in default and has written off the loan acquisition costs associated with convertible debt, previously recorded as a Deferred Charge asset.

The following tables show the effects of the restatement on the Company's quarterly results of operations for the first and second quarters 2004 and the first, second and third quarters 2005. In the tables that follow, the columns labeled "Restatement Adjustments" represent adjustments for fair value of the conversion feature and liquidated damages associated with the Registration Rights Agreement.

STRONGHOLD TECHNOLOGIES INC.
RESTATED STATEMENT OF OPERATIONS
FOR THE QUARTER ENDED JUNE 30, 2004

	As previously Reported For the Qtr Ended 6/30/2004	**Restatement Adjustment For the Qtr Ended 6/30/2004**	**As Restated For the Qtr Ended 6/30/2004**
Sales	700,250		700,250
Cost of sales	215,358		215,538
Gross profit	484,892		484,712
Selling, general and administrative	873,550	137,512	1,011,062
Loss from operations	(388,658)	(137,512)	(526,170)
Interest expense	98,609	(31,250)	67,359
Net loss applicable to common stockholders	(487,267)	(106,262)	(593,529)
Basis and diluted loss per common share	(0.04)	(0.01)	(0.04)
Weighted average number of common shares outstanding	13,438,277		13,438,277

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	Reported For the Qtr Ended 9/30/2004	Adjustment For the Qtr Ended 9/30/2004	As Restated For the Qtr Ended 9/30/2004
Sales	475,969		475,969
Cost of sales	175,863		175,863
Gross profit	300,106		300,106
Selling, general and administrative	947,301	(85,838)	861,463
Loss from operations	(647,195)	85,838	(561,357)
Interest expense	349,988	(229,166)	120,822
Liquidated damages	-	14,007	14,007
Net loss applicable to common stockholders	(297,207)	300,997	(696,186)
Basis and diluted loss per common share	(0.02)	0.02	(0.05)
Weighted average number of common shares outstanding	14,024,528		14,024,528

STRONGHOLD TECHNOLOGIES INC.
RESTATED STATEMENT OF OPERATIONS
FOR THE QUARTER ENDED MARCH 31, 2005

	As previously Reported For the Qtr Ended 3/31/2005	**Restatement Adjustment For the Qtr Ended 3/31/2005**	**As Restated For the Qtr Ended 3/31/2005**
Sales	261,652		261,652
Cost of sales	118,179		118,179
Gross profit	143,473		143,473
Selling, general and administrative	800,285		800,285
Loss from operations	(656,812)		(656,812)
Interest expense	416,098	(302,628)	113,470
Liquidated damages	-	136,402	136,402
Net loss applicable to common stockholders	(1,072,910)	166,226	(906,684)
Basis and diluted loss per common share	(0.07)	0.01	(0.06)
Weighted average number of common shares outstanding	16,394,016		16,394,016

STRONGHOLD TECHNOLOGIES INC.
RESTATED STATEMENT OF OPERATIONS
FOR THE QUARTER ENDED JUNE 30, 2005

	As previously Reported For the Qtr Ended 6/30/2005	**Restatement Adjustment For the Qtr Ended 6/30/2005**	**As Restated For the Qtr Ended 6/30/2005**
Sales	365,869		365,869
Cost of sales	99,639		99,639
Gross profit	266,230		266,230
Selling, general and administrative	569,085		569,085
Loss from operations	(302,855)		(302,855)
Interest expense	576,557	(443,746)	132,811
Liquidated damages	-	148,941	148,941
Net loss applicable to common stockholders	(879,412)	294,805	(584,607)
Basis and diluted loss per common share	(0.05)	0.02	(0.03)
Weighted average number of common shares outstanding	17,287,349		17,287,349

STRONGHOLD TECHNOLOGIES INC.
RESTATED STATEMENT OF OPERATIONS
FOR THE QUARTER ENDED SEPTEMBER 30, 2005

	As previously Reported For the Qtr Ended 9/30/2005	**Restatement Adjustment For the Qtr Ended 9/30/2005**	**As Restated For the Qtr Ended 9/30/2005**
Sales	189,782		189,782
Cost of sales	68,381		68,381
Gross profit	121,401		121,401
Selling, general and administrative	537,916		537,916
Loss from operations	(416,515)		(416,515)
Interest expense	639,773	(494,007)	145,766
Liquidated damages	-	217,375	217,375
Net loss applicable to common stockholders	(1,056,288)	276,632	(779,656)
Basis and diluted loss per common share	(0.06)	0.02	(0.05)
Weighted average number of common shares outstanding	17,287,349		17,287,349

10. SUBSEQUENT EVENTS

On March 17, 2006, to obtain funding for its ongoing operations, the Company entered into a Securities Purchase Agreement (the "Agreement") with the Investors on March 17, 2006 for the sale of (i) $1,450,000 in callable secured convertible notes (the "March 2006 Notes") and (ii) stock purchase warrants (the "March 2006 Warrants") to buy 2,900,000 shares of our common stock.

On March 17, 2006, the Investors purchased $250,000 in March 2006 Notes and received March 2006 Warrants to purchase 250,000 shares of the Company's common stock. On April 12, 2006 the Investors purchased $200,000 in March 2006 Notes and received March 2006 Warrants to purchase 200,000 shares of the Company’s common stock. On May 12, 2006 the Investors purchased an additional $200,000 in March 2006 Notes and received March 2006 Warrants to purchase 200,000 shares of the Company’s common stock. On June 8, 2006 the Investors purchased an additional $200,000 in March 2006 Notes and received March 2006 Warrants to purchase 200,000 shares of the Company’s common stock. On July 12, 2006 the Investors purchased an additional $200,000 in March 2006 Notes and received March 2006 Warrants to purchase 200,000 shares of the Company’s common stock. On August 14, 2006 the Investors purchased an additional $150,000 in March 2006 Notes. In addition, provided that all of the conditions in the

Securities Purchase Agreement are satisfied, on the final business day of each month through January 2007, the Company will issue to the Investors and the Investors will purchase $100,000 in March 2006 Notes and related March 2006 Warrants thereafter. The Company or a majority in interest of the Investors may terminate the obligation to issue additional March 2006 Notes and March 2006 Warrants upon 30 days notice.

The Notes bear interest at 8%, mature two years from the date of issuance, and are convertible into our common stock, at the Investors' option, at a conversion price, equal to the lower of (i) $0.05 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.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS AND RESULTS OF OPERATIONS

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.

Our History

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 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.

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 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. 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.

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. However, under the new technology development plan, the Company will move away from its emphasis on the wireless technology and focus on a web-based desktop application.

Our Revenues Moving Forward

Beginning with the 4th Quarter of 2006 the Company's revenue model will change. Rather than being hardware driven, the Company will become software driven and will move its DealerAdvance product from a server based platform to a web based application, thus eliminating the high cost of maintaining inventory and installation costs. Our revenues, moving forward will be primarily generated from a one-time up-front payment and monthly recurring fees covering software licenses. Our license agreements will be provided in twelve, twenty-four and thirty-six month terms. A $2,500 down payment and a monthly fee of $1,500 (12 months) will be booked as revenue at an average annual fee of $20,500, inclusive of the down payment.

The Company currently has approximately 50 user contracts at dealerships throughout the United States. Management believes that the majority of those contracts, of which all are to expire in the next 12 to 18 months, will be renewed at the above-mentioned rates however it cannot provide any guarantee regarding these renewals.

Additionally, many of the Company's client customer base are part of dealer groups comprised of three or more dealerships. Up until now the Company has not been successful in leveraging its relationships with these dealers enabling the Company to place the DealerAdvance product into those additional group stores. Management now believes that because of the its new web based product and its newly developed client relationships, there is an opportunity to add an additional 20 to 25 client contracts over the next 12 to 18 months through these groups.

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.

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

In June the Company hired Rajneesh Sharma as its Chief Information Officer. His first action as CIO was the closing of the Company's Virginia technical support operations office and the termination of its employees based in that office. This resulted in substantial operational savings for the Company. As a result of the closure, in June the Company began operating its technical support services from the new Texas based corporate offices. Mr. Sharma's primary focus moving forward is the development of the new web-based version of DealerAdvance™ (Web DA). Mr. Sharma is in the process of hiring a Texas based development team that will transfer existing application from a server-based product to a fully functional web-based application. The Company plans to launch the new product ("Web DA") in October of 2006. The initial release of WebDA will take the existing DealerAdvance™ software with a few added enhancements and move the product to the web, thus eliminating the high cost of equipment required by the current product. The new product will not feature the hand-held wireless technology utilized previously by the Company, however, should a dealer desire the benefit of the technology, it will be provided at an additional cost to the dealer. In the first month of each quarter moving forward, a new release will be provided to dealers of WebDA, beginning with 1.0.

SALES DEVELOPMENT

In March 2006, the Company entered into a consulting agreement with Humphries Marketing Group (HMG), a Texas based automotive exclusive advertising agency. As per that agreement Steven Humphries, the CEO of HMG, is to serve as President of the Company, and is to also provide an individual to serve as the Vice President of Sales of the Company. In July, 2006 Mr. Humphries appointed David Scaturro (HMG's Chief Operating Officer) as the Vice President of Sales.

As part of Mr. Humphries operating sales strategy, the Company has split the country into two regions (East and West). The Company and hired two Regional Sales Managers; Suzanne Hambruch (Eastern Region), serving dealers east of Texas and Melissa Markus (Western Region), serving dealers Texas west. The Regional Managers are based in Stronghold's Texas and California offices, respectfully. The primary focus of the new sales team is to re-establish the Company's relationships with its remaining customers and develop new contacts in preparation of the launch of the new "Web DA". In the 4th Quarter of 2006, the Company will add additional two sales executives to service and sell the Web DA product.

THREE MONTHS ENDED JUNE 30, 2006 AND THREE MONTHS ENDED JUNE 30, 2005.

Revenue

For the quarter ended June 30, 2006, we had revenue of $125,809 compared with revenue of $365,869 for the quarter ended June 30, 2005. Revenue is generated from software license and system installation, maintenance support and service revenues. Revenues for the three months ended June 30, 2006 are broken down as follows:

		2006		2005		$ Change	% Change
Software License & System Installation	$	4,210	$	169,988	$	(165,778)	-98%
Support & Maintenance	$	117,599	$	182,282	$	(64,683)	-35%
Services	$	4,000	$	13,599	$	(9,599)	-71%
Total Revenue	$	125,809	$	365,869	$	(240,060)	-66%

Software license and system installation revenue decreased $165,778 in the three months ended June 30, 2006 to $4,210 as compared to $169,988 in the three months ended June 30, 2005 for a decrease of 98%. The primary reasons for the decrease in revenue can be attributed to the following:

- The inability of the Company to sell its antiquated product in the highly competitive automotive CRM marketplace.
- Repeated concerns in the marketplace about the Company's ability to continue as a going concern.

Although we cannot provide guarantees, we do believe that our revenues will increase dramatically in the upcoming months due to the new "Web DA" product release.

Cost of Sales

Cost of sales on a percentage basis decreased to 10.57% of revenue for the three months ended June 30, 2006 as compared to 38.09% of revenue for the three months ended June 30, 2005 for a net decrease of 27.52%. The table below shows the Cost of Sales and percentage by category and the comparison in dollars and percentage for the three months ended June 30, 2006 and three months ended June 30, 2005. The decrease in Cost of Sales as a percentage of revenue of 27.52% is primarily attributed to the decline in new installations.

Cost of Sales	Q2 2006 Dollars	Q2 2005 Dollars	Q2 2006 % of Revenue	Q2 2005 % of Revenue	% Change
Hardware Components	$ -	$ 26,322.56	0.00%	10.06%	-10.06%
Client Software & Licensing	3,218	$ 15,745.70	2.24%	6.02%	-3.78%
Distribution Fees	951	$ 950.88	0.66%	-	0.66%
Subcontractors	1,873	$ 14,581.02	1.30%	5.57%	-4.27%
Misc Installation Costs	-	$ 723.28	0.00%	0.28%	-0.28%
Installations/Travel	-	$ 7,750.00	0.00%	2.96%	-2.96%
Repairs	-	$ 0.00	0.00%	0.00%	0.00%
Shipping	180	$ 3,946.10	0.13%	1.51%	-1.38%
Labor	8,971	$ 29,645.31	6.24%	11.33%	-5.09%
Total Cost of Sales	**$ 15,193**	**$ 99,665**			
Total Cost of Sales % of Revenue	**10.57%**	**38.09%**			**-27.52%**

Gross Profits

We generated $110,616 in gross profits from sales for the quarter ended June 30, 2006, which was a decrease of $84,446 from the quarter ended June 30, 2005, when we generated $266,230 in gross profits. Our gross profit margin percentage increased by 15% in the quarter ended June 30, 2006 to 88%. The increase in gross profit is primarily attributable to the reduction in new installations for the period while maintaining monthly recurring maintenance revenue.

Selling, General and Administrative Expenses

Total Selling, General and Administrative expenses in the quarter ended June 30, 2006 were $513,678, a decrease of 9.74% or $55,407 from the quarter ended June 30, 2005 of $569,085. The reduction in expense is primarily attributable to the reduction of staff from 7 in June 30, 2005 to 5 in the quarter ended June 30, 2006. The reduction in staffing resulted in a reduction of payroll expenses of $49,677 which was the largest portion of the $84,446 reduction. Other significant expense reductions within selling, general and administrative expenses for the quarter ended June 30, 2006 and June 30, 2005 include $21,000 for accounting costs and $18,209 for commissions.

Our interest and penalty expense increased from $132,811 in the quarter ended June 30, 2005 to $278,044 in the quarter ended June 30, 2006..This increase of $145,233 is primarily due to interest expense attributed to the Convertible Notes. Liquidated damages associated with the Convertible Notes increased from $148,941 in the quarter ended June 30, 2005 to $281,381 in the quarter ended June 30, 2006. The $132,440 increase is due to an additional $1.2 million in Convertible Notes issued and subject to liquidated damages during the period June 30, 2005 through June 30, 2006.

Operating Loss

The Company's operating losses increased by $100,207 in comparing the quarter ended June 30, 2006 to the quarter ended June 30, 2005, which were $403,062 and $302,855 respectively. This increase in losses is primarily attributed to a $240,060 decrease in revenue in the quarter ended June 30, 2006.

Net Loss

We had a net loss of $962,487 for the quarter ended June 30, 2006 compared to $584,607 for the quarter ended June 30, 2005, resulting in an increase in net losses of $377,880. This increase of net losses of 64.64% is primarily attributable to an additional $132,440 in liquidated damages and $145,233 associated with the Convertible Notes, offset by a reduction in operating losses of $100,207.

Our loss per share was $.02 with a weighted average of 29,317,195 shares outstanding in the quarter ended June 30, 2006 as compared to $0.03 loss per share in the quarter ended June 30, 2005 with a weighted average of 17,287,349 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.

Liquidity and Capital Resources

Overview

As of June 30, 2006, our cash balance was $101,288. We had a net loss of $962,487 for the quarter ended June 30, 2006. We had a net operating loss of approximately $14,000,000 for the period from May 17, 2002 through June 30, 2006 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 June 30, 2006 was $116,862, less allowance for returns of $80,000, and $242,470 as of the quarter ended June 30, 2005, less allowance for returns of $180,862. The reason for the decrease in accounts receivable, less doubtful accounts was due to the decrease in revenues. Accounts receivable balances represent amounts owed to us for maintenance, service, software customization and additional systems components.

As of June 30, 2006, the Company had the following financing arrangements:

Debt Liability Summary Table

Current Debt Liabilities		
IRS payment plan	$	264,739
VA payment plan		83,275
Interest payable, stockholders		1,385,598
Notes payable, stockholders, current portion		1,352,531
Total current debt liabilities	$	3,086,143
Long-term debt liabilities		
Notes payable, stockholders, less current portion	$	875,000
Note payable, convertible debt		5,529,465
Total long-term debt liabilities	$	6,404,465

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

Location	Date	Term	Remaining		on Lease
VA	11/4/2005	36 mos	28	$	81,764

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 $960,000 and have negative cash flows from operations of approximately $1,138,000 for the three months ended June 30, 2006, and have a working capital deficit of approximately $6,162,000 and a stockholders' deficit of approximately $12,566,000 as of June 30, 2006. These conditions raise substantial doubt about our ability to continue as a going concern. During 2006, our management will rely on 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 entered into a fourth Securities Purchase Agreement with the Investors on March 17, 2006 for the sale of (i) $1,450,000 in callable secured convertible notes (the "March 2006 Notes") and (ii) stock purchase warrants (the "March 2006 Warrants") to buy 2,900,000 shares of our common stock.

On March 17, 2006, the Investors purchased $250,000 in March 2006 Notes and received March 2006 Warrants to purchase 250,000 shares of the Company's common stock. On April 12, 2006 the Investors purchased $200,000 in March 2006 Notes and received March 2006 Warrants to purchase 200,000 shares of the Company's common stock. On May 12, 2006 the Investors purchased an additional $200,000 in March 2006 Notes and received March 2006 Warrants to purchase 200,000 shares of the Company's common stock. On June 8, 2006 the Investors purchased an additional $200,000 in March 2006 Notes and received March 2006 Warrants to purchase 200,000 shares of the Company's common stock. On July 12, 2006, the Investors purchased an additional $200,000 in March 2006 Notes and received March 2006 Warrants to purchase 200,000 shares of the Company's common stock. On August 14, 2006 the Investors purchased an additional $150,000 in March 2006 Notes. In addition, provided that all of the conditions in the Securities Purchase Agreement are satisfied, on the final business day of each month commencing in June 2006 and ending in January 2007, the Company will issue to the Investors and the Investors will purchase $100,000 in Notes and related Warrants thereafter. The Company or a majority in interest of the Investors may terminate the obligation to issue additional Notes and Warrants upon 30 days notice.

The March 2006 Notes bear interest at 8%, mature two years from the date of issuance, and are convertible into our common stock, at the Investors' option, at a conversion price, equal to the lower of (i) $0.05 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. As of August 10, 2006, the average of the three lowest intraday trading prices for our common stock during the preceding 20 trading days as reported on the Over-The-Counter Bulletin Board was $.01 and, therefore, the conversion price for the secured convertible notes was $.0025. Based on this conversion price, the Notes in the amount of $1,200,000 issued as of August 10, 2006 were convertible into 480,000,000 shares of our common stock.

We may prepay the March 2006 Notes in the event that no event of default exists, there are a sufficient number of shares available for conversion of the callable secured convertible notes and the market price is at or below $.08 per share. The full principal amount of the March 2006 Notes is due upon default under the terms of Notes. In addition, we have granted the Investors a security interest in substantially all of our assets and intellectual property as well as registration rights.

The March 2006 Warrants are exercisable until five years from the date of issuance at a purchase price of $0.05 per share. In addition, the exercise price of the March 2006 Warrants is adjusted in the event we issue common stock at a price below market.

The Investors have contractually agreed to restrict their ability to convert the March 2006 Notes and exercise the March 2006 Warrants and receive shares of our common stock such that the number of shares of the Company common stock held by them and their affiliates after such conversion or exercise does not exceed 4.99% of the Company’s then issued and outstanding shares of common stock.

The March 2006 Notes are a debt obligation arising other than in the ordinary course of business which constitute a direct financial obligation of the Company. In addition, the Company is also obligated on $4,680,000 in face amount of callable secured convertible notes issued to the Investors pursuant to other Securities Purchase Agreements entered with the Investors.

The notes and warrants were offered and sold to the Investors in a private placement transaction made in reliance upon exemptions from registration pursuant to Section 4(2) under the Securities Act of 1933 and Rule 506 promulgated thereunder. Each of the Investors is an accredited investor as defined in Rule 501 of Regulation D promulgated under the Securities Act of 1933.

We expect that the funds raised in connection with the March 17, 2006 Securities Purchase Agreement, will provide the necessary cash to support operations through until the end of the fiscal year 2006. Since we do not have further financing commitments and may need to raise additional funds after the fourth quarter of 2006, this condition raises doubt about our ability to continue as a going concern.

Financings

The Company has entered into the following financing transactions:

Loans from Christopher J. Carey, an Executive Officer, Director and Shareholder of the 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 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 PNC 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 June 30, 2006, $359,600 was outstanding under the promissory note issued to Mr. Carey. On August 10, 2006, Mr. Carey agreed to extend the term of his loan to August 31, 2006.

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, 2005, the CC Trust Fund agreed to extend the term of their loan to November 1, 2005. On April 11, 2006, the AC Trust Fund agreed to extend the term of their loan to May 31, 2006. On August 10, 2006, the CC Trust Fund agreed to extend the term of their loan to August 31, 2006. As of June 30, 2006, $355,128 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, 2005, the AC Trust Fund agreed to extend the term of their loan to November 1, 2005. On April 11, 2006 the AC Trust Fund agreed to extend the term of their loan to May 31, 2006. On August 10, 2006, the AC Trust Fund agreed to extend the term of their loan to August 31, 2006. As of June 30, 2006, $375,404 was outstanding under the AC Trust Fund loan agreement.

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, $360,000 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 11, 2006, Christopher J. Carey agreed to extend the term of the loan to May 31, 2006. On August 10, 2006, Mr. Carey agreed to extend the term of the loan to August 31, 2006.

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 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 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 Bank, of which the principal balance was $1,291,666 at the time of closing of the modification. Pursuant to the modification agreement, 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.

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 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.

On November 12, 2004, the 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 with the final principal payment being made on or before January 31, 2005.

The company failed to make the final principal payment on or before January 31, 2005 and was subsequently put into default under the note. On March 31, 2005 the Company made the final scheduled payment and was released from all potential claims by PNC Bank.

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 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:

- Conversion price $1.50;
- 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 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.

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. 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. As of March 31, 2005 the accrued interest on the loan was $74,411. On March 7, 2005, the Company and Stanford agreed to settle the accrued interest through March 31, 2005 of $74,411 for 826,788 shares of restricted common stock. The price per share on March 7, 2005 was $.09/share.

Additionally, on March 7, 2005, the Company issued Stanford 373,212 shares as consideration for their consent to amending the agreement the Company entered into on June 18, 2004 with respect to the Callable Secured Convertible Notes Issuance (see the appropriate section below), 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.

Private Placements with Accredited Private Investors

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.

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.

Warrants

On June 16, 2004, in connection with the issuance of the 12% callable secured convertible notes (the "AJW Notes")the Company issued to Stanford a warrant (the "Stanford Warrants") to purchase 2,000,000 shares of Common Stock, expiring in five years, at an exercise price of $.0001,in consideration 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 issuances required by the Series A Stock and the Series B Stock as a result of the conversion of the AJW 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%

Callable Secured Convertible Notes

To obtain funding for its ongoing operations, the Company entered into various Securities Purchase Agreements with with the Investors for the sale of callable convertible secured notes and stock purchase warrants

To date, the Investors purchased $5,330,000 in notes, and received warrants to purchase an aggregate of 4,930,000 shares of the companies stock, in thirteen different traunches dated June 18, 2004 for $1,000,000, July 21, 2004 for $500,000, October 22, 2004 for $350,000, March 18, 2005 for $650,000, March 31, 2005 for $350,000, May 4, 2005 for $300,000, July 18, 2005 for $282,500, August 30, 2005 for $100,000, October 6, 2005 for $210,000, November 9, 2005 for $150,000, December 31, 2005 for $107,480, February 6, 2006 for $180,000, March 17, 2006 for $250,000, April 12, 2006 for $200,000, on May 12, 2006 for $200,000, on June 8, 2006 for $200,000, on July 12, 2006 for $200,000 and on August 14, 2006 for $150,000. On Dec 20, 2005, the Investors converted $1,297 of the convertible notes into 172,873 shares of common stock. In May, 2006 the investors converted $813 of the convertible notes into 162,600 shares of common stock.

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 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.

Restatement of financial statements

In connection with the preparation of the Annual Report on Form 10-KSB of the Company for the fiscal year ended December 31, 2005, the Company's management reviewed the Securities and Exchange Commission’s release on Dec. 1, 2005 entitled “Current Accounting and Disclosure Issues in the Division of Corporation Finance” as Prepared by Accounting Staff Members in the Division of Corporation Finance, U.S. Securities and Exchange Commission Washington, D.C., may impact the reporting of the Convertible Debenture Notes, Stand Alone Warrants and as a result of certain registration rights granted to the investors of these notes, potential Liquidated Damages that were not previously recorded.

Specifically, the Company deemed the Convertible Debt previously reported under EITF 98-5 and EITF 00-27 must now be reported within the guidelines of EITF 00-19 and therefore restatements of previously issued financial statements must be done. In preparing the detail for this restatement, the Company concluded that the fair value of the debt at all points in time was greater than the fair value of the Company in total. This conclusion is the basis that there is no value attributable to the Conversion Feature of this debt.

After reviewing the matter with its current and former independent registered public accounting firms, the Company has identified certain adjustments that necessitate the restatement of its financial statements for the second and third quarters of fiscal 2004, the interim periods of fiscal 2005, and for the fiscal years 2004.

These adjustments reflect the following with respect to the Convertible Debt and Stand Alone Warrants:

Convertible Debt: In accordance with EITF 00-19, since there is no explicit limit on the number of shares that are to be delivered upon exercise of the conversion feature, SGHT is not able to assert that it will have sufficient authorized and unissued shares to settle the conversion option. As a result, the conversion feature should be accounted for as a derivative liability, with changes in fair value recorded in earnings each period and therefore the previous reporting in accordance with EITF’s 98-5 and 00-27 for the beneficial conversion feature and debt discount should be restated as such.

In recording the valuation of the Convertible Feature Liability within the restatement, the Company has determined that the fair value of this liability is zero due to the carrying value of the convertible debt exceeding the fair value of the Company. The primary impact of adhering to EITF 00-19 is to eliminate the portion of the debt previously recorded as equity. Additionally, the Company has written off the loan acquisition costs associated with convertible debt, previously recorded as a Deferred Charge asset.

Stand Alone Warrants: The Company determined that the Stand Alone Warrants include a provision in the Registration Rights Agreement for “partial relief for the damages to the Investors by reason of any such delay in or reduction of their ability to sell the Registrable Securities”. As a result, this relief for the investors should be accounted for as a liability and the previous reporting should be restated as such.

The restatement adjustments to the Company's financial statements for the years ended December 31, 2004 and 2003, respectively, are summarized in Note 5 of the enclosed audited financial statements herein:

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 March, 18 2005, the Investors purchased an additional $650,000 in Notes and received additional 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 3,000,0000 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.

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 Recoginition Policy

Under the new revenue model, the Company will book revenue upon contract consummation, as an initial payment is due upon execution of the Agreement. The contract terms are for twelve, twenty-four and thirty-six month terms at an average monthly fee of $1,500. Additional fees may be charged to clients and collected by the company for training and wireless technology.

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.

ITEM 3. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. This evaluation was done under the supervision and with the participation of our sole executive officer that acts as both the principal executive officer and principal financial officer. Based on their evaluation of our disclosure controls and procedures (as defined in the Exchange Act Rule 13a-15e), our principal executive officer/principal financial officer has concluded that during the period covered by this report, such disclosure controls and procedures were not effective to detect the inappropriate application of US GAAP rules as more fully described below. This was due to deficiencies that existed in the design or operation of our internal control over financial reporting that adversely affected our disclosure controls and that may be considered to be “material weaknesses.” The Public Company Accounting Oversight Board has defined a material weakness as a “significant deficiency or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.”

We identified deficiencies in our internal controls and disclosure controls related to the treatment of our convertible debt and the related liquidated damages.

As a result of the identification of the misapplication of US GAAP rules, our principal executive officer/principal financial officer has concluded that, as of June 30, 2006, our internal control over financial reporting was not effective.

Remediation of Material Weaknesses

We have formulated a program to remedy the material weaknesses identified above.

We expect to (i) engage additional accounting personnel and (ii) increase our auditor's review work quarterly, as well as, increase the areas reviewed and discussed with the audit committee and auditors beforehand, on any changes in accounting principles or revenue or expense recognition.

We plan to complete our remediation program during the second and third quarters of fiscal 2006. The material weaknesses will not be considered remediated until the applicable remedial controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively.

Changes in Internal Control Over Financial Reporting

Except as set forth above, there have been no changes in our internal control over financial reporting that occurred during the three months ended June 30, 2006 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Other Information

ITEM 1. 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 for the following, 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:

The Company is engaged in arbitration proceedings with Lenard Berger (the "Claimant"), a former officer, with regard to a claim for damages for the Company's failure to remove a restrictive legend from 437,500 shares of common stock of the Company, additional unpaid salary accrued during his term of employment and pre-judgment interest on all amounts owing to the Claimant. On May 18, 2006, Mr. Berger was awarded the sum of $214,361.52.

During the course of doing business the Company made certain guarantees to prospective clients as an inducement to contract for services. These guarantees, although limited, provided that the Company would pay off client third party equipment leases after the first 12 months of service if the client was not satisfied with the product. As of June 30, 2006, two judgments have been entered against the Company for failure to honor such guarantees to Wilson-Cornelius Ford and Great Lakes Ford - Muskegon. Two additional guarantees have been called by Graff Chevrolet and Zumwalt Ford. Graff has filed a suit against the Company in Texas and Zumwalt has made a demand to the Company.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

February 2006 Financing

To obtain funding for its ongoing operations, the Company entered into a Securities Purchase Agreement (the "February 2006 Agreement") with the Investors on February 6, 2006 for the sale of (i) $180,000 in callable secured convertible notes (the "February 2006 Notes") and (ii) stock purchase warrants (the "February 2006 Warrants") to buy 180,000 shares of our common stock.

On February 6, 2006, the Investors purchased $180,000 in February 2006 Notes and received February 2006 Warrants to purchase 180,000 shares of the Company's common stock.

The February 2006 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 a conversion price, equal to the lower of (i) $0.05 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.

We may prepay the February 2006 Notes in the event that no event of default exists, there are a sufficient number of shares available for conversion of the callable secured convertible notes and the market price is at or below $.08 per share. The full principal amount of the February 2006 Notes is due upon default under the terms of February 2006 Notes. In addition, we have granted the Investors a security interest in substantially all of our assets and intellectual property as well as registration rights.

The February 2006 Warrants are exercisable until five years from the date of issuance at a purchase price of $0.03 per share. In addition, the exercise price of the February 2006 Warrants is adjusted in the event we issue common stock at a price below market.

The Investors have contractually agreed to restrict their ability to convert the February 2006 Notes and exercise the February 2006 Warrants and receive shares of our common stock such that the number of shares of the Company common stock held by them and their affiliates after such conversion or exercise does not exceed 4.99% of the Company’s then issued and outstanding shares of common stock. The sale of the February 2006 Notes was completed on February 6, 2006.

March 2006 Financing

To obtain funding for its ongoing operations the Company entered into a Securities Purchase Agreement (the “March 2006 Agreement”) with the Investors on March 17, 2006 for the sale of (i) $1,450,000 in callable secured convertible notes (the “March 2006 Notes”) and (ii) stock purchase warrants (the “March 2006 Warrants”) to buy 2,900,000 shares of our common stock.

On March 17, 2006, the Investors purchased $250,000 in March 2006 Notes and received March 2006 Warrants to purchase 250,000 shares of the Company's common stock. On April 12, 2006 the Investors purchased $200,000 in March 2006 Notes and received March 2006 Warrants to purchase 200,000 shares of the Company’s common stock. On May 12, 2006 the Investors purchased an additional $200,000 in March 2006 Notes and received March 2006 Warrants to purchase 200,000 shares of the Company’s common stock. On June 8, 2006 the Investors purchased an additional $200,000 in March 2006 Notes and received March 2006 Warrants to purchase 200,000 shares of the Company’s common stock. On July 12, 2006, the Investors purchased an additional $200,000 in March 2006 Notes and received March 2006 Warrants to purchase 200,000 shares of the Company’s common stock. On August 14, 2006 the Investors purchased an additional $150,000 in March 2006 Notes. In addition, provided that all of the conditions in the Securities Purchase Agreement are satisfied, on the final business day of each month commencing in June 2006 and ending in January 2007, the Company will issue to the Investors and the Investors will purchase $100,000 in Notes and related Warrants thereafter. The Company or a majority in interest of the Investors may terminate the obligation to issue additional Notes and Warrants upon 30 days notice.

The March 2006 Notes bear interest at 8%, mature two years from the date of issuance, and are convertible into our common stock, at the Investors' option, at a conversion price, equal to the lower of (i) $0.05 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.

We may prepay the March 2006 Notes in the event that no event of default exists, there are a sufficient number of shares available for conversion of the callable secured convertible notes and the market price is at or below $.08 per share. The full principal amount of the Notes is due upon default under the terms of March 2006 Notes. In addition, we have granted the Investors a security interest in substantially all of our assets and intellectual property as well as registration rights.

The March 2006 Warrants are exercisable until five years from the date of issuance at a purchase price of $0.05 per share. In addition, the exercise price of the March 2006 Warrants is adjusted in the event we issue common stock at a price below market.

The Investors have contractually agreed to restrict their ability to convert the March 2006 Notes and exercise the March 2006 Warrants and receive shares of our common stock such that the number of shares of the Company common stock held by them and their affiliates after such conversion or exercise does not exceed 4.99% of the Company’s then issued and outstanding shares of common stock.

The Notes and Warrants were offered and sold to the Investors in a private placement transaction made in reliance upon exemptions from registration pursuant to Section 4(2) under the Securities Act of 1933 and Rule 506 promulgated thereunder. Each of the Investors is an accredited investor as defined in Rule 501 of Regulation D promulgated under the Securities Act of 1933.

Carey Settlement

On February 6, 2006, the Company and Christopher Carey, the Company's Chief Executive Officer, entered into an Agreement of Settlement (the "Agreement") pursuant to which Mr. Carey waived all rights to his accrued salary in the amount of $931,369 and in consideration for the issuance of 21,428,571 shares of common stock and 10,000 shares of Series C Preferred Stock (the "Series C Stock").

The Series C Stock has a stated value of $78.14 per share (the "Stated Value"). Each share of Series C Stock is convertible into shares of common stock determined by dividing the Stated Value of such share by the closing bid price on the day immediately before such conversion. The Series C Stock is convertible at the option of the holder and will be automatically converted into common stock upon receipt of financing (the "Financing") from the Investors. Upon receipt of financing from the Investors, the number of shares of Series C Stock multiplied by the Stated Value equal to the gross proceeds of the Financing shall be automatically converted into shares of common stock of the Company. On March 17, 2006, the Company received financing from the Investors in the amount of $250,000. Accordingly, Mr. Carey converted 3,199 Series C Stock into 12,500,000 shares of common stock. On May 18, 2006 the Investor reached a verbal agreement with Christopher Carey, the Company’s Chief Executive Officer, whereby both parties have agreed to reverse the February 6, 2006 transaction issuing 10,000 shares of Series C Preferred Stock. The effect of this reversal to the balance sheet as of March 31, 2006 is a $782,369 increase to accrued officer’s compensation and corresponding decrease to stockholder’s equity.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

31.1 Certification of Chief Executive and Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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

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 August, 2006.

STRONGHOLD TECHNOLOGIES, INC.

BY: /s/ Steven E. Humphries

Name: Steven E. Humphries,
Title: President (principal executive officer and principal financial officer)

BY: /s/ Karen S. Jackson

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

Dated: As of August 14, 2006