

DealerAdvance, Inc.
Form 10QSB
August 17, 2007

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

FORM 10-QSB

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
for the quarterly period ended June 30, 2007.

OR

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

Commission file number: 333-54822

DealerAdvance, Inc.

(f/k/a Stronghold Technologies, Inc.)

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

Nevada
(State or other jurisdiction of incorporation or
organization)

20-5717448
(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 No

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: as of August 1, 2007, 70,748,106 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 No

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

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

**DealerAdvance, Inc. and Subsidiary
Condensed Consolidated Balance Sheet**

DealerAdvance, Inc. and Subsidiary, formerly Stronghold Technologies, Inc.

CONSOLIDATED BALANCE SHEET

June 30, 2007

	2007
ASSETS	
Current assets	
Cash	\$ 81,203.99
Accounts receivable	36,420.80
Inventories	0.00
Notes receivable, related party	39,467.89
Prepaid expenses	5,333.51
Total current assets	162,426.19
Property and equipment, net	4,939.12
Other assets	
Deferred charge, loan acquisition costs, net of amortization	(0.03)
Other	1,000.00
Total other assets	999.97
	\$ 168,365.28
LIABILITIES AND STOCKHOLDERS' DEFICIT	
Current liabilities	
Accounts payable	\$ 460,896.80
Interest payable, stockholders	1,559,004.29
Notes payable, stockholders, current portion	875,000.00
Callable secured convertible notes, current portion	3,640,060.52
Deferred revenue	29,557.00
Liquidated damages payable	2,622,159.44
Accrued expenses and other current liabilities	1,275,232.40
Total current liabilities	10,461,910.45
Long-term liabilities	
Notes payable, stockholders	205,764.76

Notes payable, stockholders, convertible debt, net of imputed interest of \$601,144	
Callable secured convertible notes, less current portion	3,879,453.82
Total long term liabilities	4,085,218.58

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; 2,444,444 shares authorized, issued and outstanding (aggregate liquidation preference \$2,200,000) and preferred stock, Series D, \$.01 par value; authorized 10,000 shares authorized, issued and outstanding (aggregate liquidation preference \$1,989,200)	545.00
Common stock, \$.0001 par value, authorized 8,500,000,000 shares, 48,207,393 issued and outstanding	5,444.58
Additional paid-in capital	10,856,137.87
Accumulated deficit	(25,240,891.20)
Total stockholders' deficit	(14,378,763.75)
	\$ 168,365.28

DealerAdvance, Inc. and Subsidiary
Condensed Consolidated Statements of Operations

DealerAdvance, Inc. and Subsidiary, formerly Stronghold Technologies, Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS

Three months ended June 30, 2007

	YTD 2007	2nd Qtr 2007	YTD 2006	2nd Qtr 2006
Sales	\$ 128,097	\$ 68,843	\$ 269,538	\$ 125,809
Cost of sales	22,889	3,691	30,996	15,193
Gross profit	105,207	65,151	238,542	110,616
Selling, general and administrative	1,038,002	529,816	1,219,299	513,678
Research and development	67,690	4,800	-	-
Loss from operations	(1,000,485)	(464,664)	(980,757)	(403,062)
Interest expense	447,612	229,735	461,394	278,044
Net loss from Operations and Extraordinary items	(1,447,983)	(694,285)	(1,442,151)	(681,106)
Dividends	-	-	-	-
Net loss applicable to common stockholders	\$ (2,078,553)	\$ (962,961)	\$ (1,993,667)	\$ (962,487)
Basic and diluted loss per common share	\$ (0.04)	\$ (0.02)	\$ (0.07)	\$ (0.03)
Weighted average number of common shares outstanding	50,643,371	51,200,259	29,284,322	29,317,195

See accompanying notes to condensed consolidated financial statements

DealerAdvance, Inc. and Subsidiary
Condensed Consolidated Statements of Cash Flows

DealerAdvance, Inc. and Subsidiary, formerly Stronghold Technologies, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Six months ended June 30, 2007	2007	2006
Cash flows from operating activities		
Net loss	(\$2,078,553)	(\$1,993,677)
Adjustments to reconcile net loss to net cash used in operating activities:		
Allowance for returns and doubtful accounts		20,000
Depreciation and amortization	10,513	218,015
Interest payable, stockholders	371,916	346,283
Liquidated damages payable	630,572	551,516
Changes in operating assets and liabilities:		
Accounts receivable	30,140	(13,425)
Inventories	-	9,050
Prepaid expenses	63,775	20,804
Accounts payable	79,645	(124,477)
Accrued expenses and other current liabilities	2,882	67,272
Deferred Revenue	(64,726)	(128,664)
Other Assets	(21,517)	35,422
Net cash used in operating activities	(975,352)	(991,881)
Adjustments to Common Stock investment	-	
Additional Paid-In-Capital investment	-	
Principal repayments of notes payable		(3,891)
Proceeds from issuance of common stock, net of financing costs		-
Proceeds from notes payable, convertible debt	950,000	1,030,000
Net cash provided by financing activities	950,000	1,026,109
Net increase / (decrease) in cash	(25,352)	34,228
Cash, beginning of period	106,556	67,060
Cash, end of period	\$ 81,204	\$ 101,288
Supplemental disclosure of cash flow information,		
Cash paid during the period for interest	-	33,995
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, 2007 is not necessarily indicative of the results that may be expected for the year ending December 31, 2007. These financial statements should be read in conjunction with the financial statements and the notes thereto included in the Company's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2006.

1. 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.

2. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In December 2004, the Financial Accounting Standards Board ("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.

In May 2005, the FASB SFAS No. 154, "Accounting Changes and Error Corrections, a Replacement of APB Opinion No. 20 and FASB Statement No. 3". This statement requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. It carries forward without change the previous guidance for reporting the correction of an error and a change in accounting estimate. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

3. STOCK-BASED COMPENSATION

In December 2004, the FASB issued SFAS No. 123(R), *Share-Based Payment*, which is a revision of SFAS No. 123, *Accounting for Stock-Based Compensation*. SFAS No. 123(R) requires all share-based payments to employees and directors, including grants of stock options, to be recognized in the financial statements based on their fair values. We adopted SFAS No. 123(R) on January 1, 2006, under the modified prospective method, in which the requirements of SFAS No. 123(R) are to be applied to new awards and to previously granted awards that are not fully vested on the effective date. The modified prospective method does not require restatement of previous years' financial statements.

4. 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 \$2,078,553 and has negative cash flows from operations of \$975,352 for the three months ended June 30, 2007, and has a working capital deficit of \$10,299,484 and a stockholders' deficit of \$14,378,763.75 as of June 30, 2007. These conditions raise substantial doubt about the Company's ability to continue as a going concern. During 2007, 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.

5. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consist of the following at June 30, 2007:

Accrued expenses and other current liabilities:

Sales Taxes Payable	\$	106,524.04
Sales Taxes Payable-Addison, TX		74.25
Accrued Paid-Time-Off (PTO) Pay		13,853.98
PR Taxes Payable		388,930.98
Accrued Employee Compensation		46,134.86
Accrued Commissions		109,785.65
Accrued Officer's Compensation		32,000.00
Other Accrued Expense		478,431.52
Accrued Interest Other		63,390.61
IRS Payment Plan		36,106.51
TOTAL	\$	1,275,232.40

Payroll Tax Payment Agreement with IRS

On April 30, 2004, the Company's predecessor, Stronghold Technologies, Inc., (the "Subsidiary") a New Jersey corporation and a wholly owned subsidiary of Dealer Advance, Inc., 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 Subsidiary is unable to fulfill this agreement, the IRS could take possession of the Subsidiary's assets. The Subsidiary defaulted on the agreement in September, 2006 with an unpaid balance of approximately \$285,000.

6. NOTES PAYABLE, STOCKHOLDERS

At June 30, 2007, notes payable, stockholders consists of the following:

Notes payable, stockholders:

Notes payable interest bearing interest at 8% and due in May 2007	\$	875,000
Non-interest bearing convertible notes payable, net of interest imputed at 15% per annum of \$601,144		85,315
		960,315
Less: current portion		(875,000)
Long-term portion	\$	85,315

The convertible notes mature on August 13, 2016 and are convertible at the option of the stockholder at the market price of the company's common stock on the day of the conversion.

7. COMMITMENTS AND CONTINGENCIES

Callable Secured Convertible Notes

Callable secured convertible notes bear interest at a rate ranging from 8% to 12% (weighted average 10.22%) and are due at various dates from April 2006 to December 15, 2009. The notes are secured by the company's assets	\$ 7,021,329
(Less) current portion	3,341,542
	\$ 3,679,787

The notes 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.

On December 15, 2006 the Company entered into an agreement with a group of investors for the sale of \$900,000 of callable secured convertible notes and 5,000,000 common stock purchase warrants. As of June 30, 2007, the Company sold \$1,200,000 of the notes and issued 5,921,333 warrants.

In July, 2007 the company sold an additional \$150,000 of notes and issued 850,000 warrants.

8. RELATED PARTY TRANSACTIONS

Transactions with Officers and Directors of DealerAdvance, Inc.

The Company and/or the Company's director and Chief Executive Officer may be subject to fines, sanctions and/or penalties of an indeterminable nature as a result of violations of the Sarbanes Oxley Act of 2002 in connection with loans made to the Chief Executive Officer and director.

In 2006 the Company loaned its sole executive officer (at that time), Chief Executive Officer and director, and a company controlled by him, \$114,141. During this same period, \$68,000 of the loans were repaid. In January and February 2007, the Company loaned an additional \$24,050, and during this same period, \$18,500 of the loans were repaid. In June 2007 an additional \$20,250 of the loans were repaid. These loans violate Section 402 of the Sarbanes Oxley Act of 2002. As a result, despite the fact that the majority of such the loans were repaid, the company and/or the Company's Chief Executive Officer and director may be subject to fines, sanctions and/or penalties. At this time, we are unable to determine the amount of such fines, sanctions and/or penalties that may be incurred by our company and/or the officer.

9. SUBSEQUENT EVENTS

In connection with the callable secured convertible notes (see note 7 above), in July, 2007 the company sold an additional \$150,000 of notes and issued 850,000 warrants to purchase common stock.

10. DEPARTURE OF DIRECTORS OR PRINCIPAL OFFICERS; ELECTION OF DIRECTORS; APPOINTMENT OF PRINCIPAL OFFICERS

On May 29, 2007, Steven Humphries, Chief Executive Officer and Chief Financial Officer of the DealerAdvance, Inc. (the "Company"), resigned as Chief Financial Officer. Mr. Humphries will continue to serve as Chief Executive Officer of the Company.

In conjunction with Mr. Humphries' resignation, the Company announced the appointment of David Wange to serve as the Company's Chief Financial Officer. Mr. Wange's appointment is effective May 29, 2007.

Before joining the Company, Mr. Wange served seven years with American Express Financial Advisors as a Business Financial Advisor. Most recently, Mr. Wange has spent the past four years serving as an independent consultant advising companies on best practices for internal audit and Sarbanes Oxley Act compliance. Mr. Wange holds a Bachelors of Science in Economics from Texas A & M University, a Masters of Science in Accounting from the University of Texas, Dallas, a Masters of Arts in Biblical Studies from the Dallas Theological Seminary, and is a Certified Public Accountant in the State of Texas.

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 DealerAdvance, 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” or “subsidiary” 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 acquired by Stronghold Technologies, Inc., a Nevada corporation, on May 16, 2002, pursuant to a merger of the Predecessor Entity into our wholly-owned subsidiary, TDT Stronghold Acquisition Corp., referred to herein as “Acquisition Sub”. On October 2, 2006, Stronghold Technologies, Inc., a Nevada corporation, was merged with and into DealerAdvance, Inc., a Nevada corporation.

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. In October 2006, we changed our name to DealerAdvance, Inc.

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, In 2006 we ceased from continuing to conduct the Predecessor Entity's handheld wireless technology business and have developed a new web based platform called WebDA™ and currently offer the wireless technology created by the predecessor as an option.

Our Revenues Moving Forward

Beginning with the 4th Quarter of 2006 the Company's revenue model changed. Rather than being hardware driven, the Company became software driven. In April 2007 the Company released it's new web based platform WebDA™, moving the company from a server based platform operation, thus eliminating the high cost of maintaining inventory and installation costs. Our revenues are now 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 over a twelve month term will be booked as revenue at an average annual fee of \$20,500, inclusive of the down payment.

The Company currently has approximately 20 user contracts utilizing the Company's previous product (DealerAdvance™) at dealerships throughout the United States. Management believes that the majority of those contracts, of which all are to expire in the next 12 months, will be resigned to the new WebDA™ contracts 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 50 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 costs for software development and the support group, which advises and supports the installations of our Dealer Advance™ clients.

RESEARCH AND DEVELOPMENT

In April 2007, the company released its new web based product, WebDA1.0 with a few added enhancements and moved the product to the web, thus eliminating the high cost of equipment required by the current product. Moving forward, the company's primary focus is the development of quarterly releases enhancing the new web based product. In July 2007 the company will begin installing its first new clients on WebDA™. The new product will not feature the hand-held wireless technology offered with DealerAdvance™, however, should a dealer desire the benefit of the technology, it will be provided at an additional cost. Moving forward in subsequent quarters the company will provide new releases which will feature new product enhancements.

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 provide an individual to serve as the Vice President of Sales. 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 hired two Regional Sales Managers; an Eastern Manager serving dealers east of Texas and a California based Western Region Manager serving dealers Texas west. The Regional Managers are based in DealerAdvances's Texas and California offices, respectfully. Moving forward in the third quarter, facilitating the launch of WebDA the company will split the country into three regions (Eastern, Central and Western) and hire an additional Regional Manager. The primary focus of the sales team is to re-establish the Company's relationships with its remaining customers in an effort to move the customers from the previous product to the new web based product while also and developing new customers.

THREE MONTHS ENDED JUNE 30, 2007 AND THREE MONTHS ENDED JUNE 30, 2006.**New Client Contracts**

In May and June 2007 the company was successful in signing WebDA™ contracts with customers whose contracts had previously expired, representing \$305,400 in new business. This revenue will be billed out monthly over the next 12-36 months, which represents the terms of the contracts signed.

Revenue

For the quarter ended June 30, 2007, we had revenue of \$68,843 compared with revenue of \$125,809 for the quarter ended June 30, 2006 for a decrease of 45%. Revenue is generated from software license and system installation, maintenance support and service revenues. Revenues for the three months ended June 30, 2007 and June 30, 2006 are broken down as follows:

Revenues:	2007	2006	\$ Change	% Change
WebDA	\$ 13,250	\$ 0	\$ 13,250	
Software license and system installation	18,000	4,210	13,790	328%
Support & maintenance	93,287	117,599	(24,312)	-21%
Services	3,560	4,000	(440)	-11%
Total revenues	\$ 128,097	\$ 125,809	\$ 2,288	2%

New sales of WebDA were \$13,250 in the three months ended June 30, 2007. Software license and system installation revenue increased \$13,790 in the three months ended June 30, 2007 to \$18,000 as compared to \$4,210 in the three months ended June 30, 2006 for an increase of 328%. The primary reasons for the increase in revenue can be attributed to (1) renewals of contracts that reached their termination date and renewed or extended service, and (2) sales of the new WebDA™ product.

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 increased to 32.4% of revenue for the three months ended June 30, 2007 as compared to 11% of revenue for the three months ended June 30, 2006 for a net decrease of 21.4%. 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, 2007 and three months ended June 30, 2006. The decrease in Cost of Sales as a percentage of revenue of -6.72% is primarily attributed to a decrease in labor costs associated with reduced customer support due to improvements in the overall product, reduction of client software & licensing expenses, and use of subcontractors in product development.

	Q2 2007	Q2 2006	Q2 2007	Q2 2006	
	Dollars	Dollars	% of	% of	% Change
Revenues:			Revenues	Revenues	
Hardware components	(\$117)	\$ 0	-3%	0%	-3%
Client software & licensing	500	3,218	14%	21%	-8%
Distribution fees	0	951	0%	6%	-6%
Subcontractors	90	1,873	2%	12%	-10%
Misc. installation costs	0	0	0%	0%	0%
Installations/travel	0	0	0%	0%	0%
Repairs	0	0	0%	0%	0%
Shipping	(15)	180	0%	1%	-2%
Labor	3,233	8,971	88%	59%	29%
Inventory adjustment	0	0	0%	0%	0%
Total cost of sales	\$ 3,691	\$ 15,193			
Total cost of sales % of revenue	5.36%	12.08%			-6.72%

Gross Profits

We generated \$65,151 in gross profits from sales for the quarter ended June 30, 2007, which was a decrease of \$45,465 from the quarter ended June 30, 2006, when we generated \$110,616 in gross profits. Our gross profit margin percentage increased by 6.7% in the quarter ended June 30, 2007 to 94.6%. The decrease in gross profit is primarily attributable to the reduction of monthly recurring maintenance revenue due to the expiration of service and support contracts during the period June 30, 2006 to June 30, 2007.

Selling, General and Administrative Expenses

Total Selling, General and Administrative expenses in the quarter ended June 30, 2007 were \$529,816, an increase of 3.1% or \$16,138 from the quarter ended June 30, 2006 of \$513,678. The slight increase in expense is attributable to conversion of sales activities from the server based product to the web-based product and the decreases in these former activities with the subsequent increase in the latter activities.

Our research and development expense increased from nil in the quarter ended June 30, 2006 to \$4,800 in the quarter ended June 30, 2007. This increase is directly attributable to the development of our new WebDA™ product.

Our interest and penalty expense decreased from \$278,044 in the quarter ended June 30, 2006 to \$229,735 in the quarter ended June 30, 2007. This decrease of \$48,309 is primarily due to interest expense attributed to the Convertible Notes. Liquidated damages associated with the Convertible Notes increased from \$281,381 in the quarter ended June 30, 2006 to \$630,570 in the quarter ended June 30, 2007. The \$349,189 increase is due to an additional \$2 million in Convertible Notes issued and subject to liquidated damages during the period June 30, 2006 through June 30, 2007.

During the quarter ended June 30, 2007, the Company contracted with two independent firms for financial consulting services which accounted for approximately \$49,000 of the quarterly Selling, General and Administration Expenses. Both of these firms have advised the Company regarding investment relations and other management and marketing techniques ostensibly to increase business revenues.

Operating Loss

The Company's operating losses increased by \$61,602 in comparing the quarter ended June 30, 2007 to the quarter ended June 30, 2006, which were \$464,664 and \$403,062, respectively.

Net Loss

We had a net loss of \$694,285 for the quarter ended June 30, 2007 compared to \$681,106 for the quarter ended June 30, 2006, resulting in an increase in net losses of \$13,179. This increase in net losses of 1.9% is primarily attributable to an increase in liquidated damages associated with the Convertible Notes. In comparing the quarter ended June 30, 2006 to the quarter ended June 30, 2007, liquidated damages were \$281,381 and \$268,675, respectively. Interest expense, primarily associated with the Convertible Notes, decreased by \$48,309 from \$278,044 to \$229,735 for the period ended June 30, 2006 to June 30, 2007.

Our loss per share was \$0.02 with a weighted average of 51,200,259 shares outstanding in the quarter ended June 30, 2007 as compared to \$0.02 loss per share in the quarter ended June 30, 2006 with a weighted average of 29,317,195 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, 2007, our cash balance was \$81,204. We had a net loss of \$962,961 for the quarter ended June 30, 2007. We had a net operating loss of approximately \$19,000,000 for the period from May 17, 2002 through June 30, 2007 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, 2007 was \$36,421, and \$36,862 as of the quarter ended June 30, 2006 less allowance for returns of \$80,000. The reason for the decrease in accounts receivable of \$441 as of June 30, 2007 to June 30, 2006 was due to a relative difference in revenues. Accounts receivable balances represent amounts owed to us for maintenance and support and new sales of the WebDA product.

As of June 30, 2007, the Company had the following financing arrangements:

Debt liability summary table:

Current Debt liabilities

Interest payable, stockholders	\$	1,559,004
Notes payable, stockholder, current position		875
Callable secured convertible notes, current portion		3,640,061
Total debt current liabilities	\$	5,199,940

Long-term debt liabilities

Notes payable, stockholders, convertible debt, net of deferred interest of \$601,144	\$	205,765
Callable secured convertible notes		3,879,454
Total long-term debt liabilities	\$	4,085,219

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 \$2,100,000 and have negative cash flows from operations of approximately \$976,000 for the three months ended June 30, 2007, and have a working capital deficit of approximately \$10,300,000 and a stockholders' deficit of approximately \$14,379,000 as of June 30, 2007. These conditions raise substantial doubt about our ability to continue as a going concern. During 2007, 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 fifth Securities Purchase Agreement with the Investors on December 17, 2006 for the sale of (i) \$900,000 in callable secured convertible notes (the "December 2006 Notes") and (ii) stock purchase warrants (the "December 2006 Warrants") to buy 5,000,000 shares of our common stock.

We expect that the funds raised in connection with the May 2007 Securities Purchase Agreement will provide the necessary cash to support operations through the end of end of November, 2007. Since we have not closed on further financing commitments and may need to raise additional funds by the end of the 4th quarter 2007, this condition raises doubt about our ability to continue as a going concern. In the event that the company is unable to build its sales volume, collect current receivables or raise additional funds, we may be unable to continue operations. Additionally, in the event that the Investors invoke their right to terminate additional purchases with 30 days notice during the financing period of the \$900,000 detailed above, the Company could find itself without cash to support operations and unable to perform regular business.

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

Financings

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 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.

On August 14, 2006, Mr. Carey entered into a Settlement Agreement with the Company pursuant to which Mr. Carey waived all rights to the following:

- accrued salary in the amount of \$781,369;
- a bridge loan in the amount of \$262,000;
- a bridge loan in the amount of \$360,000;
- auto allowance payable in the amount of \$25,600; and
- accrued interest in the amount of \$370,299.

In consideration of this waiver, the Company has agreed to pay Mr. Carey \$8,000 a month over a period of 15 months, issue Mr. Carey a convertible note in the amount of \$661,369 (the "Carey Note") and issue Mr. Carey 5,117 shares of Series D Convertible Preferred Stock with an aggregate stated value of \$1,017,899. The Carey Note matures on August 13, 2016, bears no interest and is convertible at the option of Mr. Carey at the market price of the Company's common stock. The shares of Series D Preferred Stock are convertible by dividing the stated value by the closing bid price on the day immediately prior to conversion.

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 August 14, 2006, the CC Trust Fund (the "CC Fund") entered into a Settlement Agreement with the Company pursuant to which the CC Fund waived all rights to a loan made to the Company in the amount of \$473,594 including interest. In consideration of this waiver, the Company has agreed issue the CC Trust Fund 2,381 shares of Series D Convertible Preferred Stock with an aggregate stated value of \$473,594. The shares of Series D Preferred Stock are convertible by dividing the stated value by the closing bid price on the day immediately prior to conversion.

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 August 14 2006, the AC Trust Fund (the "AC Fund") entered into a Settlement Agreement with the Company pursuant to which the AC Fund waived all rights to a loan made to the Company in the amount of \$497,691 including interest. In consideration of this waiver, the Company has agreed issue the AC Fund 2,502 shares of Series D Convertible Preferred Stock with an aggregate stated value of \$497,691. The shares of Series D Preferred Stock are convertible by dividing the stated value by the closing bid price on the day immediately prior to conversion.

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.

The current liability Notes payable to stockholders, current portion for \$875,000, represents the above Stanford financings, which were due in May 2007, but are currently in default. Determination and settlement of this issue between Sanford and the Company have not been made as of the date of this filing.

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 the Investors for the sale of callable convertible secured notes and stock purchase warrants.

To date, the Investors purchased \$7,531,575 in notes, and received warrants to purchase an aggregate of 15,727,273 shares of the companies stock, in twenty-two different tranches dated June 18, 2004 for \$1,500,000, 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 September 13, 2006 for \$150,000, on December 17, 2006 for \$250,000, on January 11, 2007 for \$150,000, on February 12, 2007 for \$150,000, on March 15, 2007 for \$150,000, on April 13, 2007 for \$150,000, May 11, 2007 for \$50,000, May 30, 2007 for \$150,000, on June 20, 2007 for \$150,000 and on July 25, 2007 for \$150,000. On December 20, 2005, the Investors converted \$1,297 of the convertible notes into 172,873 shares of common stock. During the year ended December 31, 2006 the investors converted \$5,027 of convertible notes into 4,698,600 shares of common stock. During the three months ended June 30, 2007 the investors converted \$1,481.20 of convertible notes into 6,235,800 shares of common stock.

The Notes bear interest at a rate ranging from 8% to 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.

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:

Consolidation of Subsidiary Entities Policy

Currently, our Consolidated Financial Statements includes Stronghold Technologies, Inc. a New Jersey corporation and a wholly owned subsidiary of Dealer Advance, Inc., which subsidiary is maintained on a completely segregated basis from the Company, Dealer Advance, Inc. The Company filed for Chapter 7 bankruptcy of this subsidiary on January 25, 2007. The Chapter 7 bankruptcy has yet to be resolved or closed as of the date of this filing, but it is anticipated to be concluded soon. The estimated remaining Stronghold Technologies assets available to liquidate in order to offset liabilities segregated and owed by the subsidiary entity and subject to the bankruptcy that are a part of the consolidated financial statements do not represent a material amount.

Revenue Recognition 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. During 2006 we fully amortized and expensed the balance of capitalized software development cost. The determination for amortizing the balance was made in recognition of the Company's decision to stop marketing the DealerAdvance™ software which had reached the end to its life cycle and commence marketing of the new WebDA™

ITEM 3. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, our chief executive officer and chief financial officer conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")). Based upon this evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act are recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms.

In addition, no change in our internal control over financial reporting occurred during the fiscal quarter ended June 30, 2007 that has materially affected, or is 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 against the Company's predecessor, Stronghold Technologies, Inc. a New Jersey corporation and a wholly owned subsidiary of Dealer Advance, Inc. 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. As of June 30, 2007, a total of \$27,030 has been paid against the claim.

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.

All Legal Proceedings noted under this Item 1 were made against the Company's predecessor, Stronghold Technologies, Inc. a New Jersey corporation and a wholly owned subsidiary of Dealer Advance, Inc. On January 25, 2007, Stronghold Technologies, Inc. filed a voluntary petition for relief under Chapter 7 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Northern District of Texas, Case No. 07-30322-sgj7. In connection with the filing, the Subsidiary has ceased all business activity and operations. The Subsidiary determined that it does not have sufficient resources to continue its operations. The court has appointed a bankruptcy trustee who will be responsible for the liquidation of the business through the bankruptcy case.

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

To obtain funding for its ongoing operations, we entered into a Securities Purchase Agreement (the "Agreement") with New Millennium Capital Partners II, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and AJW Partners, LLC (collectively, the "Investors") on December 15, 2006 for the sale of (i) \$900,000 in callable secured convertible notes (the "Notes") and (ii) stock purchase warrants (the "Warrants") to buy 5,000,000 shares of our common stock.

The following closings have occurred under the Agreement:

- On December 15, 2006, the Investors purchased \$250,000 in December 2006 Notes and received December 2006 Warrants to purchase 1,388,500 shares of the Company's common stock
- On January 16, 2007 the Investors purchased \$150,000 in December 2006 Notes and received December 2006 Warrants to purchase 850,000 shares of the Company's common stock
- On February 12, 2007 the Investors purchased \$150,000 in December 2006 Notes and received December 2006 Warrants to purchase 850,000 shares of the Company's common stock
- On March 15, 2007 the Investors purchased \$150,000 in December 2006 Notes and received December 2006 Warrants to purchase 850,000 shares of the Company's common stock

- On April 13, 2007 the Investors purchased \$150,000 in December 2006 Notes and received December 2006 Warrants to purchase 850,000 shares of the Company's common stock
- On May 11, 2007 the Investors purchased \$50,000 in December 2006 Notes and received December 2006 Warrants to purchase 283,333 shares of the Company's common stock

To obtain funding for its ongoing operations, we entered into a Securities Purchase Agreement (the "Agreement") with the investors on May 25, 2006 for the sale of (i) \$900,000 in callable secured convertible notes (the "Notes") and (ii) stock purchase warrants (the "Warrants") to buy 5,000,000 shares of our common stock.

The following closings have occurred under the Agreement:

- On May 30, 2007 the Investors purchased \$150,000 in May 2007 Notes and received December 2006 Warrants to purchase 850,000 shares of the Company's common stock
- On June 20, 2007 the Investors purchased \$150,000 in May 2007 Notes and received December 2006 Warrants to purchase 850,000 shares of the Company's common stock
- On July 25, 2007 the Investors purchased \$150,000 in May 2007 Notes and received December 2006 Warrants to purchase 850,000 shares of the Company's common stock

The securities mentioned above were issued in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933. No commissions were paid for the issuance of such securities. All of the above issuances of our securities qualified for exemption under Section 4(2) of the Securities Act of 1933 since the issuance of such securities by us did not involve a public offering. The above listed parties were sophisticated investors and had access to information normally provided in a prospectus regarding us. The offering was not a "public offering" as defined in Section 4(2) due to the insubstantial number of persons involved in the deal, size of the offering, manner of the offering and number of securities offered. We did not undertake an offering in which we sold a high number of securities to a high number of investors. In addition, the above listed parties had the necessary investment intent as required by Section 4(2) since they agreed to and received share certificates bearing a legend stating that such shares are restricted pursuant to Rule 144 of the 1933 Securities Act. These restrictions ensure that these shares and the shares underlying the warrants would not be immediately redistributed into the market and therefore not be part of a "public offering." Based on an analysis of the above factors, we have met the requirements to qualify for exemption under Section 4(2) of the Securities Act of 1933 for the above transaction.

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.

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