

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

STRONGHOLD TECHNOLOGIES INC
Form 10QSB/A
November 14, 2003

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB/A
(Amendment No. 1)

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934 for the quarterly
period ended September 30, 2003.

OR

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

Commission file number: 333-54822

STRONGHOLD TECHNOLOGIES, INC.

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

Nevada

22-376235

(State or other jurisdiction of
incorporation or organization)

(IRS Employer
Identification No.)

106 Allen Road,
Basking Ridge, NJ

07920

(Address of principal
executive offices)

(Zip Code)

Issuer's telephone number:

(908) 903-1195

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

N/A

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 June 30, 2003, 10,460,333
shares of the Registrant's Common Stock (par value, \$0.0001) were outstanding.

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

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

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-QSB/A ("Amendment") is being filed to amend the Registrant's Quarterly Report on Form 10-QSB for fiscal quarter ended September 30, 2003, as filed on November 13, 2003 (the "Original Report on Form 10-QSB"), by correcting several printer's typographical errors contained in the consolidated financial statements of Stronghold Technologies, Inc.

Specifically, this amendment corrects the following printer's typographical errors:

- (i) Footnotes referencing "See Notes to consolidated financial statements." were omitted from each of the Consolidated Balance Sheet, Consolidated Statements of Operations, and Consolidated Statements of Cash Flows,
- (ii) An erroneous line item from a prior printer job was included as line 3 in the Consolidated Statements of Cash Flows,
- (iii) The "\$" symbol was omitted in several places in the Consolidated Statements of Cash Flows and from the Table in Note 7 to the Notes to consolidated financial statements, and
- (iv) Two values in Note 6 to the Notes to consolidated financial statements were incorrectly rounded by \$1,000.

This Amendment does not reflect events occurring after the filing of the Original Report on Form 10-QSB, and does not modify or update the disclosures therein in any way other than as described above.

TABLE OF CONTENTS

| | Page |
|---|------|
| PART I - Financial Information | |
| ----- | |
| Item 1. Financial Statements..... | 1 |
| Consolidated Balance Sheet | |
| as of September 30, 2003 (unaudited)..... | 1 |
| Consolidated Statements of Operations For the Three | |
| Months Ended September 30, 2003 and 2002 and the Nine | |
| Months Ended September 30, 2003 and 2002 | |
| (unaudited)..... | 2 |
| Consolidated Statements of Cash Flows for the Nine | |
| Months Ended September 30, 2003 and 2002 | |
| (unaudited)..... | 3 |
| Notes to consolidated financial statements..... | 4 |
| Item 2. Management's Discussion and Analysis of Financial | |
| Condition and Results of Operations..... | 8 |

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

Item 3. Controls and Procedures.....30

PART II - Other Information

Item 1. Legal Proceedings.....31
Item 2. Changes in Securities and Use of Proceeds.....31
Item 3. Defaults Upon Senior Securities.....32
Item 4. Submission of Matters to a Vote of Security Holders.....32
Item 5. Other Information.....34
Item 6. Exhibits and Reports on Form 8-K.....35

PART I - Financial Information

Item 1. Financial Statements

Stronghold Technologies, Inc. and Subsidiary
Consolidated Balance Sheet
September 30, 2003 (Unaudited)

ASSETS

Current assets

Cash
Accounts receivable, less allowance for returns and doubtful accounts of \$170,172
Other receivables
Inventories
Prepaid expenses

Total current assets

Property and equipment, net

Other assets

Software development costs, net of amortization
Other

Total other assets

LIABILITIES AND STOCKHOLDERS' DEFICIT

Current liabilities

Accounts payable

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

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

Total current liabilities

Long-term liabilities

Notes payable, stockholders, less current portion
 Note payable, less current portion
 Obligations under capitalized leases, less current portion

Total long term liabilities

Commitments and contingencies

Stockholders' deficit

Preferred stock, Series A, \$.0001 par value; authorized 5,000,000 shares,
 2,002,750 issued and outstanding (aggregate liquidation preference of
 \$3,004,125) and preferred stock, Series B, \$.0001 par value; authorized
 2,444,444 shares, 2,444,444 issued and

outstanding
 Common stock, \$.0001 par value, authorized 50,000,000
 shares, 10,460,333 issued and outstanding
 Additional paid-in capital
 Stock subscription receivable
 Accumulated deficit

Total stockholders' deficit

See notes to consolidated financial statements.

-1-

Stronghold Technologies, Inc. and Subsidiary Consolidated Statements of Operations

| | Three months ended Sep 30, 2003 (Unaudited) ----- | Three months ended Sep 30, 2002 (Unaudited) ----- | Nine months ended Sep 30, 2003 (Unaudited) ----- |
|---------------|---|---|--|
| Sales | \$ 904,254 | 706,486 | 2,450,043 |
| Cost of sales | 336,611 ----- | 377,037 ----- | 937,499 ----- |

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

| | | | |
|---|----------------|----------------|----------------|
| Gross profit | 567,643 | 329,449 | 1,512,544 |
| Selling, general and administration | 1,401,070 | 1,313,249 | 3,703,924 |
| | ----- | ----- | ----- |
| Loss from operations | (833,427) | (983,800) | (2,191,380) |
| Interest expense | 223,196 | 45,327 | 421,062 |
| | ----- | ----- | ----- |
| | ----- | ----- | ----- |
| Net loss applicable to common stockholders | \$ (1,056,623) | \$ (1,029,127) | \$ (2,612,442) |
| | ===== | ===== | ===== |
| Basic and diluted loss per common share | \$ (0.10) | \$ (0.11) | \$ (0.26) |
| | ===== | ===== | ===== |
| Weighted average number of common shares outstanding | 10,460,333 | 9,787,834 | 10,206,182 |

See notes to consolidated financial statements.

-2-

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

| | |
|---|----------------|
| Nine months ended September 30, | 2003 |
| | ----- |
| | (Unaudited) |
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Net loss | \$ (2,612,442) |
| Adjustments to reconcile net loss to net cash used in operating activities: | |
| Provision for returns and allowances | 63,000 |
| Depreciation and amortization | 106,216 |
| Non-cash interest expense for issuance of warrants | 71,250 |
| Changes in operating assets and liabilities: | |
| Accounts receivable | (425,082) |
| Other receivables | (18,548) |
| Inventories | 142,612 |
| Prepaid expenses | 7,165 |
| Accounts payable | (240,829) |
| Interest payable, stockholders | 168,249 |
| Accrued expenses and other current liabilities | 1,159,015 |
| Other assets | (43,047) |
| | ----- |
| NET CASH USED IN OPERATING ACTIVITIES | (1,622,441) |
| | ----- |
| CASH FLOWS FROM INVESTING ACTIVITIES, | |
| Payments for purchase of property and equipment | (10,859) |

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

| | |
|---|------------|
| Payments for software development costs | (500,008) |
| | ----- |
| NET CASH USED IN INVESTING ACTIVITIES | (510,867) |
| CASH FLOWS FROM FINANCING ACTIVITIES | |
| Proceeds from issuance of preferred stock, net of financing costs | 1,887,968 |
| Proceeds from issuance of common stock, net of financing costs | |
| Proceeds from notes payable, stockholders | 616,200 |
| Principal repayments of notes payable, stockholders | (127,089) |
| Principal repayments of note payable | (238,332) |
| Principal payments for obligations under capital leases | (15,594) |
| | ----- |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 2,123,153 |
| | ----- |
| NET INCREASE (DECREASE) IN CASH | (10,155) |
| CASH, BEGINNING OF PERIOD | 13,384 |
| | ----- |
| CASH, END OF PERIOD | \$ 3,229 |
| | ===== |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION, CASH PAID DURING THE PERIOD FOR INTEREST | \$ 164,120 |
| | ===== |

SUPPLEMENTARY SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES, During the nine months ended September 30, 2003 the Company issued 391,736 warrants in connection with debt

During the nine months ended September 30, 2003, the Company entered into an agreement to convert \$543,000 of notes payable to stockholders into 603,333 shares of common stock.

During the nine months ended September 30, 2003, obligations under capital leases aggregating \$68,392 were incurred when the Company entered into a lease for computer equipment.

See notes to consolidated financial statements.

-3-

1. BASIS OF PRESENTATION

The accompanying consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). These statements are unaudited and, in the opinion of management, include all adjustments (consisting of normal recurring adjustments and accruals) necessary to present fairly the results for the periods presented. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to applicable SEC rules and regulations. Operating results for the three-month and nine-month periods ended September 30, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003. These financial statements should be read in conjunction with the financial statements and the

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

notes thereto included in the Company's Annual Report of Form 10-KSB for the fiscal year ended December 31, 2002.

On December 26, 2002, the Company restated its consolidated financial statements for the first three quarters of the year ended December 31, 2002. The restatement resulted from revision of the Company's revenue recognition policy under Statements of Financial Accounting Standards ("SFAS") No. 48, "Recognizing Revenue with a Right of Return". The revenue restatement was included in the Company's December 31, 2002 year-end audited financial statements and included in the Company's December 31, 2002 10-KSB filing. The corresponding restated September 30, 2002 results were not separately filed in an amended Form 10-QSB. The comparative financial statements included herein, are compared to the corresponding restated September 30, 2002 financial statements.

2. INVENTORIES

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

3. LOSS PER COMMON SHARE

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

4. NEW ACCOUNTING PRONOUNCEMENTS

In April 2003, the Financial Accounting Standards Board ("FASB") issued SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities. SFAS

-4-

No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS No. 133. The Statement is generally effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003 and should be applied prospectively. The implementation of this standard is not expected to have a material impact on the company's financial position or results of operations.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. SFAS No. 150 requires certain freestanding financial instruments, such as mandatory redeemable preferred stock, to be measured at fair value and classified as liabilities. The provisions of SFAS No. 150 are effective for beginning July 1,

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

2003. The implementation of this standard is not expected to have a material impact on the company's financial position or results of operations.

5. 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.

Had compensation cost for these options been determined consistent with the fair value method provided by SFAS No. 123, the Company's net loss and net loss per common share would have been the following pro forma amounts for the three-month and nine-month periods ended September 30, 2003 and 2002.

-5-

| | Three months ended September 30, | | Nine mont Septemb |
|---|-------------------------------------|----------------|----------------------|
| | 2003 | 2002 | 2003 |
| Net loss applicable to common shareholders, as reported | \$ (1,056,623) | \$ (1,029,127) | \$ (2,612,442) |
| Deduct | | | |
| Total stock-based compensation expense determined under fair value method for all awards, net of related tax effect | 23,430 | 27,122 | 63,033 |
| Pro Forma | \$ (1,080,053) | \$ (1,056,239) | \$ (2,675,475) |
| Basic and diluted EPS | | | |
| As reported | \$ (0.10) | \$ (0.11) | \$ (0.26) |
| Pro forma | \$ (0.10) | \$ (0.11) | \$ (0.26) |
| September 30, 2003 and 2002 | | | |

The fair value of issued stock options is estimated on the date of grant using the Black-Scholes option-pricing model including the following assumptions: expected volatility of 0%, expected dividend yield rate of 0%, expected life of 10 years, and a risk-free interest rate of 4.91% and 4.68% for

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

September 30, 2003 and 2002, respectively.

6. GOING CONCERN

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. Since the beginning of the fiscal year, the Company has incurred a net loss of approximately \$2,612,000 and has negative cash flow from operations of approximately \$1,622,000 for the nine-month period ended September 30, 2003, and has a working capital deficit of approximately \$2,286,000 and a stockholders' deficit of approximately \$3,048,000 as of September 30, 2003. These conditions raise substantial doubt about the Company's ability to continue as a going concern. During 2003 and 2004, management of the Company will rely on raising additional capital to fund its future operations. If the Company is unable to generate sufficient revenues or raise sufficient additional capital, there could be a material adverse effect on the consolidated financial position, results of operations and cash flows of the Company. The accompanying consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

-6-

7. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consist of the following at September 30, 2003:

| | |
|---------------------------|-------------|
| Sales tax | \$ 60,788 |
| Payroll taxes | 878,254 |
| Compensation | 85,343 |
| Commissions | 210,169 |
| Other accrued expenses | 150,104 |
| Deferred maintenance fees | 286,262 |
| | ----- |
| Total | \$1,670,920 |

8. COMMITMENTS AND CONTINGENCIES

Securities Purchase Agreement

The Company, and certain stockholders of the Company (together the "Parties"), entered into a Securities Purchase Agreement (the "Purchase Agreement") dated and executed on April 24, 2003, with Stanford Venture Capital Holdings, Inc. ("Stanford"). Pursuant to the Purchase Agreement, the Parties agreed to issue to Stanford a total of 2,444,444 shares of the Company's Series B \$0.90 Convertible Preferred Stock ("Series B Preferred Stock"). The issuance of the Series B Preferred Stock occurred on six separate closing dates beginning on April 24, 2003 and closing on September 15, 2003. In connection with the Purchase Agreement, the Company modified the previously issued five-year warrants assigned to Stanford to purchase 2,002,750 shares of the Company's common stock at an exercise price of \$1.50 for the first 1,001,375 shares and \$2.25 for the remaining shares, to reduce the exercise price to \$0.25 per share and extend the expiration date to August 1, 2008. In addition, the Company agreed to convert all outstanding loans and unreimbursed expenses to certain stockholders of the Company for 603,000 shares of the Company's common stock at

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

a price of \$0.90 per share. The value of the warrant modification was treated as additional costs associated with raising capital and was shown as a reduction of additional paid-in capital of approximately \$557,000 (computed using the Black-Scholes model with the following assumptions: expected volatility of 0%, expected dividend yield rate of 0%, expected life of 5 years, and a risk-free interest rate of 4.91% for September 30, 2003).

9. SUBSEQUENT EVENTS

Private Placement

In October 2003, the Company commenced offerings to accredited investors in private placements of up to \$5,000,000 of the Company's Common Stock. The proceeds of the private placements are to be used for general working capital. The shares offered in the private placement are to be priced at the 5 trading day trailing average closing price of the Common Stock on the OTCBB, less 20% ("Purchase Price"). For each share purchased in the private placements, purchasers will receive a warrant to purchase one half (0.5) share of common stock at 130% of the Purchase Price. A minimum of \$25,000 is required per investor.

-7-

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Overview

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

Our History

We were incorporated on September 8, 2000 in the State of Nevada, under the name TDT Development, Inc. On May 16, 2002, we acquired Stronghold Technologies, Inc., a New Jersey corporation, referred to herein as the "Predecessor Entity", pursuant to a merger of such 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. After the closing of the merger, Acquisition Sub, the survivor of the merger, changed its name to Stronghold Technologies, Inc. and remains our wholly owned subsidiary. On July 11, 2002, we changed our name from TDT Development, Inc. to Stronghold Technologies, Inc. Finally, 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., for 75,000 shares of our Common Stock held by Mr. Pietro Bortolatti, our former president. These subsidiaries conducted an import and distribution business specializing in truffle-based food products.

All references to "we," "us," "our," or similar terms used herein refer

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

to Stronghold Technologies, Inc., a Nevada corporation, formerly known as TDT Development, Inc. or its wholly-owned subsidiary, Stronghold Technologies, Inc. a New Jersey entity. All references to "Stronghold" used herein refer only to 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 principal executive offices are located at 106 Allen Road, Basking Ridge, NJ 07920. Our telephone number at that location is (908) 903-1195 and our Internet address is www.strongholdtech.com. Our reports, proxy statements and other documents filed electronically with the Securities and Exchange Commission ("SEC") are available at the website maintained by the SEC at <http://www.sec.gov>. We also make available free of charge on or through our Internet website, <http://www.strongholdtech.com>, our annual, quarterly and current reports, and, if applicable, amendments to those reports, filed or furnished pursuant to Section 13(a) of the Exchange Act, as soon as reasonably practicable after we electronically file

-8-

such reports with the SEC. Information on our website is not a part of this report. The information contained on our website is not incorporated by reference herein.

Summary of Discontinued Truffle Business Operations

From our inception on September 8, 2000, through July 19, 2002, we imported, marketed and distributed specialized truffle-based food products, including fresh truffles, truffle oils, truffle pates, truffle creams and truffle butter, through our former wholly owned subsidiaries, Terre di Toscana, Inc. and Terres Toscanes, Inc. Our target market included retailers such as restaurants, specialty food stores, delicatessens and supermarkets. We imported products directly from Italian producers and marketed our products in the specialty food industry. We marketed our products primarily in Florida, South Carolina, North Carolina and California, and also earned commissions on sales made in Belgium, Holland and Germany.

As a result of our receiving 75,000 shares of Common Stock from Mr. Bortolatti and the concurrent transfer of our interest in the truffle business to him, we are no longer involved in the truffle business. The sale of these subsidiaries was part of our effort to focus on the handheld wireless technology business.

Wireless Technology Business

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

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

Stronghold's DealerAdvance Sales Solution(tm), an enterprise software system leveraging wireless technologies, includes a Customer Relationship Management software application, referred to herein as CRM, and is intended to increase the revenues and reduce the operating expenses of automobile dealerships. Stronghold has completed the development of DealerAdvance Sales Solution(tm), which is a software suite designed to increase sales by capturing a greater percentage of unsold customer prospects and increasing customer "be-back" (return) and closure rates. We plan to introduce a full range of enterprise applications for auto dealerships, including the DealerAdvance Service Solution(tm) and the DealerAdvance Inventory Management Solution(tm), products designed to increase revenues and profitability by managing dealer service operations, customer information and vehicle inventory more effectively than they are currently managed. These products are similar to the handheld and wireless systems used in the auto rental industry. Consumers are now accustomed to a swift car return process wherein the attendant scans the car, brings up the rental terms, completes the sale and prints out a receipt, all without having to step over to a counter.

-9-

Description of Products

The DealerAdvance Sales Solution(tm) provides automobile dealerships the following advantages:

- o Ease of use associated with handheld mobile communications;
- o The handheld unit is both an input and display device;
- o The handheld unit is programmed to access competitive and proprietary industry information from a variety of sources;
- o The system provides the capability for immediate management involvement in the selling process;
- o Provides for effective monitoring of sales performance and follow-up by sales personnel; and
- o Enables integration with existing automotive dealer accounting and business systems.

The DealerAdvance Sales Solution(tm) is a comprehensive CRM system, providing customer history and contact information, as well as a personal calendar and instructions on follow-up tasks directly to the handheld, creating a highly effective communications tool for business development.

The DealerAdvance Sales Solution(tm) offers the following unique features:

- o Enables a high capture rate on walk-in traffic;
- o Streamlines all sales and other follow-on processes;
- o Provides current and comprehensive information and data for new and used car inventory (on a real-time basis), all competing products, and customer history with dealership;
- o Provides performance data and analysis on each member of a sales team; and

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

- o Provides management with valuable and relevant transaction data on a real-time basis.

The DealerAdvance Sales Solution(tm) offers the following services:

- o Customer profiling;
- o Drivers license scanning;
- o Reverse phone look-up;

-10-

- o Electronic signature capture;
- o Dealer vehicle information and competitive product comparisons;
- o Vehicle inventory status;
- o Integrated purchase forms completion and printing;
- o Used car appraisal;
- o Management reports;
- o Customer relationship management system functions;
- o DMS integration capability; and
- o E-mail and Internet access.

Stronghold installed Version 1.0 of the DealerAdvance Sales Solution(tm) in six pilot dealerships during 2001. These dealerships were spread through New Jersey, California and Connecticut. Stronghold introduced Version 2.0 of DealerAdvance Sales Solution(tm) at all of its sites by the end of September 2001.

Stronghold introduced Version 3.0 of its software and installed another 3 dealership sites in the first quarter ended March 31, 2002, adding customers in New York. In the second quarter ended June 30, 2002, Stronghold installed another 7 sites, adding customers in Arizona, Southern California and South Carolina. In the third quarter ended September 30, 2002, Stronghold implemented another 10 sites, adding customers in Virginia, Florida, South Carolina and Central California, and introduced Version 3.1 of its software. In the fourth quarter ended December 31, 2002, Stronghold installed an additional 13 dealerships, adding customers in Texas, Indiana and Michigan.

Stronghold installed DealerAdvance Sales Solution(tm), in a total of 33 dealerships sites representing Toyota, Honda, Ford, Chevrolet, Nissan, Volkswagen, Buick, Pontiac, Cadillac, Chrysler, Dodge, Kia and Hyundai. In the first quarter of 2003 ended March 31, 2003, the Company installed in 11 dealerships. In the quarter ended June 30, 2003, the Company installed another 11 systems in 9 dealerships in California, Nevada, Indiana, Washington, Ohio, and Michigan. The impact of the war with Iraq on the overall economy early in the second quarter and efforts to strengthen our sales force during the first half of 2003 impacted revenue and the signing of new dealership customer contracts in the second quarter. We implemented our goal to expand our direct sales network and operational support personnel for coverage of 14 major cities

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

from nine at the end of 2002. Additionally, in the second quarter we realigned our sales force into geographic markets and hired several experienced industry veterans as regional business development managers.

Stronghold plans to utilize its direct sales force to market the DealerAdvance Sales Solution(tm) on a national basis. Stronghold has established a strong presence in most regions of

-11-

the United States, and is continuing to add business development and operations offices pursuant to an organized growth plan. Stronghold finished the quarter ended June 30, 2003 with personnel located in Northern New Jersey, San Francisco, Washington, DC, Atlanta, Los Angeles, Phoenix, Miami, Seattle, Cleveland, and Dallas.

At June 30, 2003, a total of 55 dealers were using the DealerAdvance Sales Solution(tm), of which approximately 40 had reached or exceeded the 60-day performance period generally associated with installation.

Product Developments

The Company has identified five major prospect groups within an auto dealership; walk in traffic, call in prospects, Internet based leads, the existing owner base of customers and service prospects. The current version of DealerAdvance Sales Solution(tm) provides auto dealerships with the ability to capture and manage prospective customers through a disciplined follow-up process to get them into the dealership to buy. The current application has achieved best in class status for managing walk in traffic, while being comparable in managing call in and Internet prospects, and mining the owner base.

The Stronghold development team is currently working on a Call Management application that will allow Stronghold customers to achieve best in class performance for all call-in prospects. The application will allow the dealership to automatically capture and track the majority of prospects that contact the dealership via phone. This new program is designed to allow the salesperson to retrieve information about the customer while they are on the phone and conduct a needs analysis following best practices for handling prospect phone calls. The system automatically generates management logs and reports that are designed to allow the dealer to determine which sales associates need phone skills training. The call management feature is scheduled for release in the first quarter of 2004.

The DealerAdvance Service Solution(tm) is designed to provide for improved customer service and reduced vehicle check in time and to allow dealer representatives to scan a particular vehicle identification number from the windshield or door. DealerAdvance Service Solution(tm) is also designed to provide for instant mobile access to client and vehicle history and to allow the dealer representatives to access warrantee and service period advice instantly. This product also is expected to include a premium-pricing application to increase revenue per repair order and an application to allow service marketing through the DealerAdvance(tm) CRM application.

The development plan also includes another application called DealerAdvance Inventory Management Solution(tm), which is intended to be a handheld wireless system for the management of new and used car inventory. When developed, the DealerAdvance Inventory Management Solution(tm) would provide a handheld device for the scanning of incoming and outgoing vehicles, immediately adjusting inventory on hand for sale. In addition, the system would provide for

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

the printing of used car stickers, the capture of Vehicle Identification Numbers for used car appraisal and estimates, and the loading of vehicle specifics to the dealer web site.

-12-

Research and Development

Since inception, we have spent approximately \$3,364,023 on research and development activities. While we have been successful in meeting planned goals in the development and introduction of DealerAdvance Sales Solution(tm), there can be no assurance that our research and development efforts will be successful with respect to additional products, or if successful, that we will be able to successfully commercially exploit such additional products.

Competition Related to Handheld Technology Business

The DealerAdvance Sales Solution(tm) is a wireless dealership sales productivity system that improves sales performance, reduces costs and creates operational efficiency. Currently, Stronghold does not believe that it has any direct competition in this specific sector. However, Stronghold expects emerging competitive players in the wireless handheld solutions market in the future. Stronghold does compete with the traditional CRM providers and the emerging new CRM providers in the retail automotive dealer software market. The leading CRM companies that Stronghold competes against are:

- o Automotive Directions, a division of ADP Dealer Services, and a provider of PC-based customer relationship management systems as well as marketing research and consulting services;
- o Higher Gear, a provider of client server based front-end sales and customer relationship management software which serves the retail automotive industry exclusively;
- o Autobase, a provider of PC based front-end software which serves the retail automotive industry exclusively;
- o Cowboy Corporation, recently acquired by Cobalt Corporation, and a provider of ASP sales prospect management systems and customer relationship management systems which services the retail automotive industry exclusively; and
- o Autotown, a provider of PC and web-based front-end sales systems, which services the retail automotive industry exclusively.

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

Marketing and Sales

Stronghold has defined a target market of approximately 12,000 dealerships that meet the base criteria for potential use of our system. More specifically, Stronghold has qualified a primary target market of 6,500 dealerships where the potential sale and use of the system is the greatest. The primary target market includes dealerships that sell a minimum of 75 new and used cars each month and do not have a CRM system currently installed.

Stronghold distributes its DealerAdvance Sales Solution(tm) through direct sales, which Stronghold believes is most effective when introducing an innovative new solution to the marketplace. Stronghold is continuing to grow its sales and marketing team within its geographic territory units.

Employees

Stronghold currently has a total of 44 full-time employees and 2 part-time employees, of which 26 are dedicated to marketing and sales and regional customer support. Stronghold has hired senior and experienced business development managers to provide regional market penetration. During the quarter ended March 31, 2003, Stronghold promoted two Business Development Managers to Regional Sales Managers and Vice Presidents, to manage the sales force in the Eastern and Western Regions of the United States. Each Regional Manager is responsible for recruiting, training and managing the Business Development Managers in their territories. Each Regional Manager finished the quarter ended June 30, 2003 with 3 sales associates.

During the quarter ended March 31, 2003, Stronghold promoted two existing Consultants to the role of Eastern and Western Regional Manager for Client Services, respectively, with the responsibility of managing Client Consultants in their territories. These Client Consultants are responsible for providing installation, training and ongoing support services to Stronghold's new and existing customers. The Regional Managers report to the National Client Services Manager who is headquartered in Sterling, Virginia.

Stronghold hired a Vice President of Marketing in the quarter ended March 31, 2003. The Vice President of Marketing works closely with the CEO and the Regional Vice Presidents of Sales to execute Stronghold's marketing strategy and to enhance market awareness of the DealerAdvance Sales Solution(tm). There are no collective bargaining arrangements among Stronghold employees. We believe Stronghold's relationship with its employees to be good.

Our Intellectual Property

We have been granted a trademark for DealerAdvance(tm) and have a patent application pending that seeks protection of a number of developments pertaining to the management of information flow for automotive dealer-based software. An additional application is currently being planned which will address certain proprietary features pertaining to systems components, related equipment and software modules.

Safe Harbor Statement

The statements contained in this Quarterly Report on Form 10-QSB/A that are not historical facts are forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 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 Securities and Exchange Commission could cause actual results to be materially different from those expressed in or implied by such statements. The forward-looking statements are made only as of the date of this filing and we undertake no obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances.

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

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

Risks Concerning Our Business

We have a history of net losses; we expect our net losses to continue as a result of planned increases in operating expenses; and we may never achieve profitability.

We have a history of operating losses in our wireless business and have incurred significant net losses in such business in each fiscal quarter since our inception. We had a net loss of \$1,056,670 for the quarter ended September 30, 2003. We had a net operating loss of \$833,473 for the quarter ended September 30, 2003 and a net operating loss of approximately \$6,085,785 for the period from May 17, 2002 through September 30, 2003 to offset future taxable income. Losses prior to May 17, 2002 were passed directly to the shareholders and, therefore, are not included in the loss carry-forward. We expect to continue to incur net losses and negative cash flows because we intend to increase operating expenses to develop the Stronghold brand through marketing, promotion and enhancement of our services. As a result of this expected increase in operating expenses, we will need to generate significant additional revenue to achieve profitability. Our ability to generate and sustain significant additional revenues or achieve profitability will depend upon the factors discussed elsewhere in this "Risk Factors" section, as well as numerous other factors outside of our control, including:

- o Development of competing products that are more effective or less costly than ours;
- o Our ability to develop and commercialize our own products and technologies; and
- o Our ability to achieve increased sales for our existing products and sales for any new products.

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

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

If We Are Unable To Obtain Sufficient Funds, And Incur A Cash Flow Deficit, Our Business Could Suffer

We believe that the funds that were raised through our recent debt and equity financings will only be sufficient for our needs for the immediate future, raising doubt about our ability to continue as a going concern. We anticipate that we will be required to raise additional capital after the third quarter of 2003 and over the next several years in order to operate according to our business plan. We may have difficulty obtaining additional funds as and if needed, and we may have to accept terms that would adversely affect our stockholders. For example, the terms of any future financings may impose restrictions on our right to declare dividends or on the manner in which we conduct our business. Also, lending institutions or private investors may impose restrictions on future decisions by us to make capital expenditures, acquisitions or asset sales.

We may not be able to locate additional funding sources at all or on acceptable terms. If we cannot raise funds on acceptable terms, if and when needed, we may not be able to develop or enhance our products, grow our business or respond to competitive pressures or unanticipated requirements, each of which could seriously harm our business.

Since inception, we have financed all of our operations through private equity and debt financings and commercial bank loans. Our future capital requirements depend on numerous factors, including:

- o The scope of our research and development;
- o Our ability to successfully commercialize our technology; and
- o Competing technological and market developments.

We Have A Limited Operating History

We were formed in September 2000 to import and market truffle oil products. As of May 16, 2002, our focus shifted to development and marketing of handheld wireless technology for the automotive dealer software market. We entered this business through the acquisition of an entity with only 22 months of operating history. We must, therefore, be considered to be subject to all of the risks inherent in the establishment of a new business enterprise. Our limited operating history makes it difficult to evaluate our financial performance and prospects. We cannot provide assurance at this time that we will operate profitably or that we will have adequate working capital to meet our obligations as they become due. Because of our limited financial history, we believe that period-to-period comparisons of our results of operations will not be meaningful in the short term and should not be relied upon as indicators of future performance.

-16-

If We Fail to Gain Market Acceptance of our Products, our Business and Results of Operations Would be Harmed

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

We are still in the verification and validation stages of our DealerAdvance(tm) suite of products. Our first pilot system for DealerAdvance Sales Solution(tm) was installed in April 2001 and our sixth and final pilot system was installed in September 2001. We implemented a total of 33 additional sites in 2002, 11 sites in the quarter ended March 31, 2003, 9 sites in the quarter ended June 30, 2003 and 12 sites for the quarter ended September 2003. The impact of the war with Iraq on the overall economy early in the second quarter and efforts to strengthen our sales force during the first half of 2003 impacted revenue and the signing of new dealership customer contracts in the second quarter. We implemented our goal to expand our direct sales network and operational support personnel for coverage of 14 major cities from nine at the end of 2002. Additionally, in the second quarter we divided our sales force into geographic markets and hired several experienced industry veterans as regional business development managers.

We expect to introduce our DealerAdvance Service Solution(tm) and DealerAdvance Inventory Management Solution(tm) sometime over the next two years. These solutions are still in the development stages and are not yet at the point where they are ready to be installed in test sites. While we have received positive feedback and market acceptance of DealerAdvance Sales Solution(tm) by the test sites, fifty systems is a small number and results in such sites may not be indicative of the overall market acceptance and success of

DealerAdvance Sales Solutions(tm) or our entire DealerAdvance(tm) suite of products. We may experience design, marketing, and other difficulties that could delay or prevent our development, introduction, or marketing of these and other new products and enhancements. In addition, the costs of developing and marketing our products may far outweigh the revenue stream generated by such products. Finally, our prospects for success will depend on our ability to successfully sell our products to key automobile dealerships that may be inhibited from doing business with us because of their commitment to their own technologies and products, or because of our relatively small size and lack of sales and production history.

The nature of our handheld product and technology requires us to market almost exclusively to automobile dealerships. Should any particular dealership or conglomerate of dealerships favor other providers of similar services or not utilize our services to the extent anticipated, our business may be adversely affected. The economy may also have an impact on the market acceptance of our products. Big-ticket consumer purchases are sensitive to broad economic trends. Therefore, our business could suffer if our customers, automobile dealerships, are affected by the continuing poor economic conditions. For example, if dealer sales are trending downward, capital expenditures, like those associated with our DealerAdvance(tm) suite of products, may be delayed or abandoned.

If We Fail to Properly Manage Our Growth, Our Business and Results of Operations Would be Harmed

We have begun expanding our operations in anticipation of an aggressive rollout of our DealerAdvance(tm) product suite. We have strategically hired additional sales representatives in the past twelve months, expanding into Virginia, Southern California, Florida, Ohio and Texas.

-17-

Additionally, we must continue to develop and expand our systems and operations as the number of automobile dealerships installing our products and requiring our ongoing services increases. The pace of our anticipated expansion, together with the level of expertise and technological sophistication required to provide

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

implementation and support services, demands an unusual amount of focus on the operational needs of our future customers for quality and reliability, as well as timely delivery and post-installation and post-consultation field and remote support. This development and expansion has placed a strain on our managerial, operational and financial resources, and is expected to continue to do so.

We may be unable to develop and expand our systems and operations for one or more of the following reasons:

- o We may not be able to locate or hire at reasonable compensation rates qualified and experienced sales staff and other employees necessary to expand our capacity on a timely basis;
- o We may not be able to obtain the hardware necessary to meet the demand by automobile dealership of our products, in a timely manner;
- o We may not be able to expand our customer service, billing and other related support systems;
- o We may not be able to integrate new management and employees into our overall operations;
- o We may not be able to establish improved financial and accounting systems; and
- o We may not be able to successfully integrate our internal operations with the operations of our product manufacturers, distributors and suppliers to product and market commercially viable products.

If we cannot manage our growth effectively, our business and operating results will suffer. Additionally, any failure on our part to develop and maintain our wireless technology products during a period of rapid growth could significantly adversely affect our reputation and brand name which could reduce demand for our services and adversely affect our business, financial condition and operating results.

We Depend On Attracting And Retaining Key Personnel

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

Our subsidiary, Stronghold, has an employment agreement in place with its President and Chief Executive Officer, Christopher J. Carey, which provides for vesting of options exercisable

-18-

for shares of our Common Stock based on continued employment and on the achievement of performance objectives defined by the board of directors. Stronghold does not have similar retention provisions in employment agreements with its other key personnel. If we are unable to hire and retain personnel in key positions, our business could be significantly and adversely affected unless qualified replacements can be found.

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

Our success is dependent on the vision, technological knowledge, business relationships and abilities of Mr. Carey. Any reduction of Mr. Carey's role in the handheld technology business would have a material adverse effect on us. Mr. Carey's employment agreement expires on December 31, 2004.

Risks Concerning Our Handheld Technology

An Interruption in the Supply of Products and Services that We Obtain From Third Parties Could Cause a Decline in Sales of Our Products and Services.

We are dependent upon certain providers of software, including Microsoft Corporation and their Pocket PC software, to provide the operating system for our applications. If there are significant changes to this software, or if this software ceases to be available or supported, we will experience a disruption to our product and to our development effort.

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

Competition in the Wireless Technology Industry Is Intense and Technology Is Changing Rapidly

Many wireless technology and software companies are engaged in research and development activities relating to our range of products. The market for handheld wireless technology is intensely competitive, rapidly changing and undergoing consolidation. We may be unable to compete successfully against our current and future competitors, which may result in price reductions, reduced margins and the inability to achieve market acceptance for our products. Our competitors in the field are companies that include major international car dealership service companies, specialized technology companies, and, potentially, our joint venture and strategic alliance partners. Such companies include: ADP Dealer Services, Reynolds and Reynolds Company, Automotive Directions, Higher Gear, Autobase, Third Coast Media, Cowboy Corporation and Autotown, among others. Many of these competitors have substantially greater financial, marketing, sales, distribution and technical resources than we and have more experience in research and development, sales, service, manufacturing and marketing. We

-19-

anticipate increased competition in the future as new companies enter the market and new technologies become available. Our technology may be rendered obsolete or uneconomical by technological advances or entirely different approaches developed by one or more of our competitors.

We May Not Have Adequately Protected Our Intellectual Property Rights

Our success depends on our ability to sell products and services for which we may not have intellectual property rights. We currently do not have

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

patents on any of our intellectual property. We have filed for a patent, which protects a number of developments pertaining to the management of information flow for automotive dealer-based software. An additional patent application is currently being prepared which will address certain proprietary features pertaining to our systems components, related equipment and software modules. We cannot assure you we will be successful in protecting our intellectual property through patent law.

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

We May be Sued by Third Parties for Infringement of Their Proprietary Rights and We May Incur Defense Costs and Possibly Royalty Obligations or Lose the Right to Use Technology Important to Our Business

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

Risks Concerning Our Capital Structure

Our Management and Other Affiliates Have Significant Control of Our Common Stock and Could Control Our Actions in a Manner That Conflicts with Our Interests and the Interests of Other Stockholders.

As of September 30, 2003, our executive officers and directors had 47.1% of the voting power of the Company on a fully diluted basis. As a result, these stockholders, acting together, will be able to exercise considerable influence over matters requiring approval by our stockholders, including the election of directors, and may not always act in the best interests of unaffiliated stockholders. Such a concentration of ownership may have the effect of delaying or preventing a change in control, including transactions in which our stockholders might otherwise receive a premium for their shares over then current market prices.

-20-

We Are Controlled by Our President, Which May Result in Our Other Shareholders Having No Control in Our Direction or Affairs

As of September 30, 2003, our President and Chief executive Officer had approximately 46.7% of the voting power of the Company on a fully diluted basis. As a result, he has the ability to control us and direct our affairs and business, including the approval of significant corporate transactions. This concentration of ownership may have the effect of delaying, deferring or preventing a change in control and may make some transactions more difficult or impossible without his support. Any of these events could decrease the market price of our Common Stock.

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

Stockholders May Suffer Dilution as a Result of Shares Eligible for Future Issuance

As of September 30, 2003, we had 10,460,333 shares of our Common Stock issued and outstanding. In addition, we had the potential to issue 2,105,875 shares of our Common Stock upon the exercise of all outstanding options, and 6,449,944 shares of our Common Stock upon the exercise of certain warrants outstanding and upon the conversion of certain shares of our Series A and Series B Preferred Stock. Consequently, sales of substantial amounts of our Common Stock in the public market, or the perception that such sales could occur, may adversely affect the market price of our Common Stock.

Volatility of Trading Market May Affect Your Investment

The market price for our securities is highly volatile. The following factors have a significant impact on the market price of our securities: our financial results; introduction of new products into the marketplace; various factors affecting the automobile industry and the wireless industry generally, including extreme volatility and extended steep declines in equity market values of other wireless-related publicly traded companies; sharp declines in private equity valuations of wireless-related privately-held companies; the price and volume volatility affecting small and emerging growth companies in general, which are not necessarily related to the operating performance of such companies.

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

We have never paid or declared any cash dividends on our Common Stock or other securities and intend to retain any future earnings to finance the development and expansion of our business. We do not anticipate paying any cash dividends on our Common Stock in the foreseeable future. Unless we pay dividends, our stockholders will not be able to receive a return on their shares unless they sell them.

Our Common Stock Is Considered A Penny Stock And May Be Difficult To Sell

Investing in our stock involves a particular risk that does not exist with many other companies - our stock is a penny stock. The Securities and Exchange Commission has adopted regulations, which generally define penny stock to be an equity security that has a market price of less than \$5.00 per share or an exercise price of less than \$5.00 per share, subject to specific exemptions. Presently, the market price of our Common Stock is less than \$5.00 per share.

-21-

Therefore, the SEC "penny stock" rules govern the trading in our Common Stock. These rules require, among other things, that any broker engaging in a transaction in our securities provide its customers with the following:

- o A risk disclosure document;
- o Disclosure of market quotations, if any;
- o Disclosure of the compensation of the broker and its salespersons in the transaction; and

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

- o Monthly account statements showing the market values of our securities held in the customer's accounts.

The broker must provide the bid and offer quotations and compensation information before effecting the transaction. This information must be contained on the customer's confirmation. Generally, brokers may be less willing to effect transactions in penny stocks due to these additional delivery requirements. This may make it more difficult for investors to dispose of our Common Stock. In addition, the broker prepares the information provided to the broker's customer. Because we do not prepare the information, we cannot assure you that such information is accurate, complete or current.

Liquidity And Capital Resources

Overview

As of September 30, 2003, our cash balance was \$3,229. We had a net loss of \$1,056,670 for the fiscal quarter ended September 30, 2003. We had a net operating loss of \$833,473 for the fiscal quarter ended September 30, 2003 and a net operating loss of approximately \$6,058,785 for the period from May 17, 2002 through September 30, 2003 to offset future taxable income. Losses prior to May 17, 2002 were passed directly to our 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 quarters. Our accounts receivable at September 30, 2003 was \$1,554,533 (less allowances for doubtful accounts of \$170,172), as compared to \$1,201,063 for the quarter ended September 30, 2002. The increase in accounts receivable represents amounts owed to Stronghold for new installations and maintenance, service, training services, software customization and additional systems components.

Financing Needs

To date, we have not generated revenues in excess of operating expenses. We have not been profitable since our inception, we will incur additional operating losses in the future, and we may require additional financing to continue the development and subsequent commercialization of our technology.

We expect our capital requirements to increase significantly over the next several years as we continue to develop and test the DealerAdvance(tm) suite of products and as we increase marketing and administration infrastructure and embark on developing in-house business

-22-

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 to promote our products and the cost and timing of the expansion of our marketing efforts.

Financings

On July 31, 2000, the Predecessor Entity entered into a line of credit with our President and Chief Executive Officer, Christopher Carey, who is also the President and Chief Executive Officer of Stronghold. In accordance with the terms of the line of credit, Mr. Carey 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

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

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

On November 1, 2001, the Predecessor Entity entered into a line of credit with UnitedTrust Bank pursuant to which the Predecessor Entity borrowed \$1.5 million. The line of credit was due to expire by its terms, and all outstanding amounts were due to be paid, on June 30, 2002. On June 30, 2002, our line of credit with UnitedTrust Bank expired and a three-month extension was granted. On September 30, 2002, we converted our outstanding line of credit with UnitedTrust Bank into a \$1,500,000 promissory note.

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 debt under the line of credit.

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 (May 16, 2002, July 3, 2002, July 11, 2002, and July 19, 2002), at which we issued an aggregate of 2,002,750 shares of our Series A Preferred Stock and warrants for 2,002,750 shares of our Common Stock to Stanford.

On May 16, 2002, the total amount outstanding under the 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.

-23-

On June 30, 2002, our line of credit with UnitedTrust Bank expired and a three-month extension was granted. On September 30, 2002, we converted our outstanding line of credit with UnitedTrust Bank into a \$1,500,000 promissory note, pursuant to which Stronghold agreed to pay UnitedTrust Bank all amounts outstanding under the line of credit. 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 monthly, which is the highest New York City prime rate as is published in The Wall Street Journal. The initial prime rate that applied to the promissory note was 4.750%.

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.

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

On September 30, 2002, we renegotiated the \$1,200,000 promissory note with Mr. Carey as required by the promissory note with UnitedTrust Bank. According to the new terms of the loan, Mr. Carey extended the repayment of the principle amount until December 1, 2005. Until such time as the principle 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 Stronghold'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 principle payments or distribution of assets. As of December 31, 2002, \$970,749 was outstanding under the promissory note issued to Mr. Carey.

On September 30, 2002, we entered into a loan agreement with CC Trust Fund to borrow an amount up to \$355,128. This bridge loan was for a period of twelve months, with all principle due and payable on September 30, 2003. 12.5% interest on the outstanding principle 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. As of March 31, 2003, \$355,128 was outstanding under the CC Trust Fund loan agreement. Christopher Carey Jr., Mr. Carey's son, is the beneficiary of the trust, and Mary Carey, Mr. Carey's wife, is the trustee of the trust.

On September 30, 2002 we entered into a loan agreement with AC Trust Fund to borrow an amount up to \$375,404. This bridge loan is for a period of twelve months, with all principle due and payable on September 30, 2003. 12.5% interest on the outstanding principle 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. As of March 31, 2003, \$375,404 was outstanding under the AC Trust Fund loan agreement. Amie Carey, Mr. Carey's daughter, is the beneficiary of the trust, and Mary Carey, Mr. Carey's wife, is the trustee of the trust.

In October 2002, in exchange for a loan from Mr. Carey in an equal amount, we issued a promissory note to Christopher J. Carey for the amount of \$165,000. Such promissory note is due on or before December 31, 2003. Until such time as the principle is paid, interest on the note will accrue at the rate of 12.5% per year.

On March 18, 2003 we entered into a bridge loan agreement with our President, 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.

-24-

We also issued to Mr. Carey 391,754 warrants exercisable for Common Stock for 10 years at a price of \$.97 per share.

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 assigned to Stanford to purchase 2,002,750 shares of our Common Stock at an exercise price of \$1.50 for the first 1,001,375 shares and \$2.25 for the remaining shares: (i) to reduce the exercise price to \$0.25 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 \$0.90 per share.

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

On August 7, 2003, we entered into a modification of the loan agreement with UnitedTrust Bank, of which the principal balance was \$1,291,666 at the time of closing of the modification. In the modification agreement, UnitedTrust Bank has 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.

The purpose of this modification of the loan agreement with UnitedTrust Bank is to provide for (i) better cash flow permitted by the reduced payments and (ii) subordination that will provide flexibility by giving us the option to seek a new revolving line of credit to provide working capital. The new line of credit has not yet been negotiated and we can not be certain of its placement. In exchange for this reduced cash flow and subordination, Christopher J. Carey, has provided substitute collateral in the form of a second mortgage on certain real property owned by him.

On September 30, 2003, the CC Trust Fund agreed to extend the term of its loan to December 30, 2003. As of September 30, 2003, \$355,128 was outstanding under the CC Trust Fund loan agreement. Christopher Carey Jr., Mr. Carey's son, is the beneficiary of the trust, and Mary Carey, Mr. Carey's wife, is the trustee of the trust.

On September 30, 2002, the AC Trust Fund agreed to extend the term of its loan to December 30, 2003. As of September 30, 2003, \$375,404 was outstanding. As of March 31, 2003, \$375,404 was outstanding under the AC Trust Fund loan agreement. Amie Carey, Mr. Carey's daughter, is the beneficiary of the trust, and Mary Carey, Mr. Carey's wife, is the trustee of the trust.

-25-

Results of Operations

Operations through May 16, 2002 were comprised solely of our truffle business, which was conducted through our wholly owned subsidiaries, Terre di Toscana, Inc. and Terres Toscanes, Inc. Operations from May 16, 2002 through June 30, 2002 were comprised of our truffle business (which was divested on July 19, 2002, as described in the section entitled, "Summary of Discontinued Truffle Business Operations") and our handheld wireless technology business. Our results of operations as described below reflect the treatment of the truffle business as discontinued operations and, therefore, figures from those periods reflect operations of our handheld wireless technology business only, other than with respect to other expenses. We believe that a comparison of our truffle business to our handheld wireless technology business is not a relevant analysis for purposes of this periodic filing. As a result, we believe that period-to-period comparisons of our results of operations will not be meaningful and should not be relied upon as indicators of future performance. Therefore, results of operations for the fiscal years ended 2001 and 2002 reflect operations of our handheld wireless technology business only.

We entered the handheld wireless technology business through the acquisition of the Predecessor Entity, which had only twenty-two months of operating history. We must, therefore, be considered to be subject to all of the risks inherent in the establishment of a new business enterprise. Our limited operating history makes it difficult to evaluate our financial performance and

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

prospects. We cannot make assurances at this time that we will operate profitably or that we will have adequate working capital to meet our obligations as they become due. Because of our limited financial history, we believe that period-to-period comparisons of our results of operations will not be meaningful in the short term and should not be relied upon as indicators of future performance.

Changes to Critical Accounting Policies and Estimates

Financial Reporting Release No. 60, which was 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. The following is a brief discussion of the more significant accounting policies and methods that we use.

In addition, Financial Reporting Release No. 61 was recently released by the SEC to require all companies to include a discussion to address, among other things, liquidity, off-balance sheet arrangements, contractual obligations and commercial commitments.

The discussion and analysis of our financial condition and results of operations are based upon its 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.

-26-

We evaluate our estimates on an ongoing basis. The most significant estimates relate to our recognition of revenue and the capitalization of our software development.

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

Revenue Recognition Policy

Revenue related to the sale of our products is comprised of one-time charges to the dealerships for hardware (including server, wireless infrastructure, desktop PC, printer, interior/exterior access points/antennas and handheld devices), software licensing fees and installation/training services. The average installation for DealerAdvance Sales Solution(tm) is approximately \$83,000. The most significant variable in pricing is the number of handheld devices.

Once DealerAdvance Sales Solution(tm) is installed, Stronghold provides hardware and software maintenance services for a yearly fee equal to approximately 10% of the one-time implementation fees. All dealerships contract these services and are billed on a monthly basis. Stronghold provides other services, including software and report customization, business and operations consulting, and sales training services. All of these services are contracted on

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

an as needed basis and typically are charged on a time and expenses basis. In addition, we offer a sixty-day performance trial period. After this time, a large portion of the dealerships convert the one-time fee into a third party lease. Stronghold has entered into a number of relationships with leasing companies in which the leasing company finances the implementation fees for the dealership in a direct contractual relationship with the dealership. Stronghold accepts no liability under these arrangements, and the lease is based on the creditworthiness of the dealership. The leasing company receives an invoice from Stronghold, and remits funds upon acceptance by the dealership. Stronghold receives all funds as invoiced, with all interest costs passed to the dealership. These leases typically run 36 months in duration, during which time Stronghold contracts for service and maintenance services. After the initial installation, Stronghold charges separately for future software customization, additional training, and additions to the base system (e.g., more handheld devices for additional sales people). Depending upon the dealership arrangement, the support and maintenance contracts are either billed monthly and recorded as revenue monthly, or are recorded up front to unearned maintenance fees at the present value of the 36-month revenue stream and amortized monthly to revenue over the life of the agreement.

Revenue Restatement

On December 26, 2002, we reclassified our consolidated financial statements for the first three quarters of 2002. This step was taken on the advice of Rothstein, Kass & Company, P.C., our accounting firm, to reflect accounting changes in accordance with revenue recognition guidelines released by the Securities and Exchange Commission.

Accordingly, our revenue was reclassified such that it may be recognized in future quarters. For the nine months ended September 30, 2002, revenue was reclassified from \$2,952,076 to \$1,898,884. The revenue restatement was included in our December 31, 2002 year-end audited financial statements and included in our 2002 10-K filing. The corresponding

-27-

restated Q2 results for 2002 were not separately filed. The comparative financial statements, included herein, are compared to the corresponding restated Q2 2002 financial statements.

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

Software Development Capitalization Policy

Software development costs, including significant product enhancements incurred subsequent to establishing technological feasibility in the process of software production, are capitalized according to Statement of Financial Accounting Standards No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed." Costs incurred prior to the establishment of technological feasibility are charged to research and development expenses. For the quarter ended, September 30, 2003, Stronghold capitalized \$171,945 of development costs in developing enhanced functionality

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

of its DealerAdvance(tm) product.

THREE MONTHS ENDED SEPTEMBER 30, 2003 AND THREE MONTHS ENDED SEPTEMBER 30, 2002.

For the quarter ended September 30, 2003, we had revenue of \$902,204 compared to revenue of \$706,486 for the quarter ended September 30, 2002. This represents an increase of \$197,768 or 27.99%. The impact of our efforts to strengthen and realign our sales force during the first half of 2003 positively impacted revenue and the signing of new dealership customer contracts in the third quarter. Additionally, the plan that we implemented in the second quarter whereupon we divided our sales force into geographic markets and hired several experienced industry veterans as regional business development managers has improved results.

Revenue is comprised of one-time charges to the dealerships for hardware (including server, wireless infrastructure, desktop PC, printer, interior/exterior access points/antennas and handheld devices), software licensing fees and installation/training services. The average installation is \$83,000. The most significant variable in pricing is the number of handheld devices. Other sources of revenue include monthly support and maintenance contracts (required with purchase of DealerAdvance(tm) and fee-based business development consulting and sales training services. Depending upon the dealership arrangement, the support and maintenance contracts are either billed monthly and recorded as revenue monthly, or are recorded up front to unearned maintenance fees at the present value of the 36-month revenue stream and amortized monthly to revenue.

We generated \$567,593 in gross profits from sales for the quarter ended September 30, 2003, which was an increase of \$238,144 from the quarter ended September 30, 2002, when we generated \$329,449 in gross profits. We were able to improve our gross profit margin from 46.6 % in the quarter ended September 30, 2002 to 62.8% in the quarter ended June 30, 2003. The

-28-

higher gross profit as a percentage of revenue reflects the Company's ability to control its prices given its premium product offering and continued efforts to reduce cost of services. Additional factors are attributed to better buying of subcontracted services, lower software and information licensing costs, lower costs for materials, and better negotiated prices with customers.

Total Selling, General and Administrative expense in the quarter ended September 30, 2003 were \$1,401,070, an increase of 6.7% or \$87,821 from the quarter ended September 30, 2002 of \$1,313,249. We completed DealerAdvance Sales Solution(tm) Version 3.3. The product enhancements included in Version 3.3 are designed to improve the user environment, navigation and implementation of the system. These improvements are anticipated to increase client return on investment as well as customer satisfaction while providing overall increased sales for the Company. We will continue to enhance our products, and offer customized services to our customers, and will accomplish this with a smaller software support group. In subsequent quarters we will consider additional staff to begin new applications development as increased volume and cash allows.

Our interest and penalty expense increased from \$45,327 in the quarter ended September 30, 2002 to \$223,196 in the quarter ended September 30, 2003. This increase of \$177,869 was based on the increase in loan amounts outstanding and accrued payroll tax deposit penalties.

The net loss for the quarter ended September 30, 2003 was \$1,056,623 which is an increase of \$27,496 from the loss for the quarter ended September

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

30, 2002 of \$1,029,127. The loss per share decreased by \$.01 from \$.11 loss per share with a weighted average of 9,787,834 shares outstanding in the quarter ended September 30, 2002 and \$.10 loss per share in the quarter ended September 30, 2003 weighted average of with 10,460,339 shares outstanding.

Industry Trends

The automotive industry has identified sales productivity tools and CRM systems to be of high priority. Many consolidators and independent dealership owners have begun to explore and pilot some of these solutions to determine the most effective means for managing and exploiting prospects and customers to increase car sales. To date, only a small number of the 22,600 dealership sites in the United States have implemented these systems. There remains substantial uncertainty as to the type of systems that will be implemented as well as the pace at which implementation will take place.

Since big-ticket consumer purchases are sensitive to broad economic trends, our operations may be affected by general economic conditions. Our business could suffer if Stronghold's customers, automobile dealerships, are affected by the continuing poor economic conditions. For example, if dealer sales are trending downward, capital expenditures like those associated with Stronghold's DealerAdvance(tm) suite of products may be delayed or abandoned.

Dividend Policy

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

-29-

of our business and we do not anticipate paying any cash dividends in the foreseeable future. Our board of directors has sole discretion to pay cash dividends based on our financial condition, results of operations, capital requirements, contractual obligations and other relevant factors.

Item 3. Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of September 30, 2003. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of September 30, 2003, our disclosure controls and procedures were (1) designed to ensure that material information relating to us, including its consolidated subsidiaries, is made known to our Chief Executive Officer and Chief Financial Officer by persons within those entities, particularly during the period in which this report was being prepared and (2) effective, in that they provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

No change in our internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended September 30, 2003 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting, other than the promotion of Robert Nawy from Assistant Chief Financial Officer to Chief Financial Officer on September 1, 2003. Mr. Nawy will have among his duties the administration and oversight of disclosure procedures.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

None.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

Pursuant to a Securities Purchase Agreement, referred to herein as the Series B Purchase Agreement, dated as of April 30, 2003, by and between the Company and Stanford Venture Capital Holdings, Inc., the Company agreed to issue to Stanford 2,444,444 shares of our Series B \$0.90 Convertible Preferred Stock, \$.0001 par value per share. The aggregate purchase price for the Series B Preferred Stock is \$2,200,000. The Company intends to use the proceeds to fund its general working capital requirements.

Pursuant to the terms of the Series B Purchase Agreement, the issuance of the aforementioned Series B Preferred Stock took place on each of six separate closing dates. At the first closing, which occurred on April 30, 2003, the Company received \$500,000 from Stanford and issued to Stanford 555,556 shares of Series B Preferred Stock. At each of the second and third closings, which occurred on May 15, 2003 and June 13, 2003, respectively, the Company issued 555,556 shares of Series B Preferred Stock, and Stanford paid \$500,000 upon each closing for same. On the fourth closing date, which occurred on July 15, 2003, the Company issued 333,332 shares of Series B Preferred Stock, and Stanford paid \$300,000. On the fifth and sixth closings, which occurred on August 15, 2003 and September 15, 2003, respectively, the Company issued 222,222 shares of Series B Preferred Stock, and Stanford paid \$200,000 upon each closing. For so long as any shares of the Series B Preferred Stock are outstanding and held by Stanford, if the Company issues additional shares of the Company's Common Stock, or common stock equivalents, Stanford has the right to participate in the issuance such that immediately after the subsequent issuance, Stanford's ownership of the total number of outstanding shares of the Company's Common Stock (assuming the conversion of all common stock equivalents into the Company's Common Stock) equals the same percentage of the total shares of the Company's Common Stock (assuming conversion of all common stock equivalents into the Company's Common Stock) as Stanford held immediately prior to the subsequent issuance.

In connection with the Series B Purchase Agreement, the Company and Stanford also 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 B Preferred Stock with the Securities and Exchange Commission, not later than March 15, 2003.

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

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

Agreement, the Company may, at its sole option, choose to issue shares of its Common Stock to Stanford in lieu of such payments.

In addition, in connection with the Series B Purchase Agreement, the Company and Stanford have: (i) waived Section 2(e)(iii) of the Series A Certificate of Designation, which provides for anti-dilution protection if the Company shall issue securities which are convertible into shares of the Company's Common Stock for an exercise price of less than \$1.50; (ii) waived any rights of Stanford to Default Warrants (as defined in the Series A Registration Rights Agreement) due to the Company's failure to register its shares of Common Stock; and (iii) modified the warrants previously issued to Stanford and its assigns to purchase 2,002,750 shares of the Company's Common Stock to reduce the initial exercise price to \$0.25 per share and to extend the expiration date to August 1, 2008.

In addition, on May 6, 2003, the Company and Stanford agreed to convert \$543,000 of the outstanding debt owed to Christopher J. Carey by the Company into 603,333 shares of Common Stock of the Company at a price of \$0.90 per share.

In addition, the Company and Christopher J. Carey have agreed to extend the maturity dates of the Promissory Notes, dated March 18, 2003, for an aggregate amount of \$400,000, to June 30, 2004.

In addition, the Company, Christopher J. Carey and Mary Carey (as trustee) have agreed to extend the maturity dates of loans from the Carey family trusts to the Company in the amount of \$730,532, to December 31, 2003.

No underwriter was employed by the Company in connection with the issuance of the securities described above. We believe that the issuance of the foregoing securities was exempt from registration under Section 4(2) of the Securities Act of 1933, as amended, as transactions not involving a public offering. Each of the recipients were either accredited or sophisticated investors as defined under Section 501 of the Securities Act, and acquired the securities for investment purposes only and not with a view to distribution and had adequate information about the Company. Neither the Company, nor any person acting on its behalf, offered or sold the securities by means of any form of general solicitation or general advertising. A legend was placed on the stock certificates stating that the securities have not been registered under the Securities Act and cannot be sold or otherwise transferred without an effective registration or an exemption therefrom.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

Our annual meeting of stockholders was held on July 22, 2003. The following is a list of all of the nominees to serve as directors on our board of directors, each of whom were elected at the annual meeting and whose term of office continued after the annual meeting:

-32-

Christopher J. Carey

Robert J. Corliss

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

Robert Cox

William Lenahan

Luis Delahoz

There were present at the annual meeting, in person or by proxy, 9,706,394 shares, consisting of 5,259,200 shares of Common Stock, 2,002,750 shares of Series A Preferred Stock (on an as converted to Common Stock basis), and 2,444,444 shares of Series B Preferred Stock (on an as converted to Common Stock basis). The results of the vote of the stockholders taken at the annual meeting by ballot and by proxy as solicited by us on behalf of our board of directors were as follows:

(i) The results of the vote taken at the Meeting for the election of the nominees for our board of directors were as follows:

| Common Stock | For | Withheld |
|----------------------|-----------|----------|
| ----- | ----- | ----- |
| Christopher J. Carey | 5,259,200 | 0 |
| Robert J. Corliss | 5,259,200 | 0 |
| Robert Cox | 5,259,200 | 0 |
| William Lenahan | 5,259,200 | 0 |
| Luis Delahoz | 5,259,200 | 0 |

Series A Preferred Stock

| | | |
|----------------------|-----------|-----------|
| ----- | | |
| Christopher J. Carey | 2,002,750 | 0 |
| Robert J. Corliss | 2,002,750 | 0 |
| Robert Cox | 2,002,750 | 0 |
| William Lenahan | 2,002,750 | 0 |
| Luis Delahoz | 0 | 2,002,750 |

Series B Preferred Stock

| | | |
|----------------------|-----------|-----------|
| ----- | | |
| Christopher J. Carey | 2,444,444 | 0 |
| Robert J. Corliss | 2,444,444 | 0 |
| Robert Cox | 2,444,444 | 0 |
| William Lenahan | 2,444,444 | 0 |
| Luis Delahoz | 0 | 2,444,444 |

(ii) A vote was taken on the proposal to approve an amendment to the Company's Stock Plan to increase the maximum number of shares of the Company's Common Stock available for issuance under the Plan from 300,000 shares to 1,300,000 shares. The proposal was approved by a majority of the shares in attendance. The results of the vote taken at the annual meeting with respect to such amendment were as follows:

-33-

| | For | Against | Abstain | Broker Non-Votes |
|--------------------------|-----------|---------|---------|---------------------|
| ----- | ----- | ----- | ----- | ----- |
| Common Stock | 4,444,500 | 4,300 | 0 | 810,400 |
| Series A Preferred Stock | 2,002,750 | 0 | 0 | 0 |
| Series B Preferred Stock | 2,444,444 | 0 | 0 | 0 |

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

(iii) A vote was taken on the proposal to approve an amendment to the Company's California Stock Plan to increase the maximum number of shares of the Company's Common Stock available for issuance under the California Plan from 100,000 shares to 200,000 shares. The proposal was approved by a majority of the shares in attendance. The results of the vote taken at the annual meeting with respect to such amendment are as follows:

| | For | Against | Abstain | Broker Non-Votes |
|--------------------------|-----------|---------|---------|---------------------|
| Common Stock | 4,444,500 | 4,300 | 0 | 810,400 |
| Series A Preferred Stock | 2,002,750 | 0 | 0 | 0 |
| Series B Preferred Stock | 2,444,444 | 0 | 0 | 0 |

(iv) A vote was taken on the proposal to ratify the appointment of Rothstein, Kass & Company, P.C. as independent auditors of the Company for the fiscal year ending December 31, 2003. The results of the vote taken at the annual meeting with respect to such appointment were as follows:

| | For | Against | Abstain |
|--------------------------|-----------|---------|---------|
| Common Stock | 5,259,200 | 0 | 0 |
| Series A Preferred Stock | 2,002,750 | 0 | 0 |
| Series B Preferred Stock | 2,444,444 | 0 | 0 |

ITEM 5. OTHER INFORMATION.

In October 2003, the Company issued a Private Placement offering to accredited investors to raise up to \$3,000,000 for the purposes of providing general working capital. The purchase price of shares offered shall be based on the average closing price less 20% of SGHT for the (5) five trading days prior to the closing date(s) which will be each Friday after 4 p.m. E.S.T. until the offering is completed or withdrawn by the Company. Shares will be offered as a unit equal to one share of common stock and a warrant to purchase 0.5 of a share of common stock in minimum amounts of \$25,000 per investor. The warrants will have a three (3) year term and an exercise price equal to 130% stock purchase price of the trailing 5-day average OTCBB closing price of the Company's common stock at the time the Unit was purchased. At the date of filing the 10Q for the third quarter of 2003, the amount raised by the company under this Private Placement is \$150,000.00.

-34-

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

See Exhibit Index.

(b) Reports on Form 8-K

None.

-35-

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

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 13th day of November, 2003.

STRONGHOLD TECHNOLOGIES, INC.

BY: /s/ Christopher J. Carey

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

BY: /s/ Robert M. Nawy

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

BY: /s/ Karen S. Jackson

Name: Karen S. Jackson

Title: Controller (principal
accounting officer)

Dated: As of November 13, 2003

ITEM 6. EXHIBIT INDEX

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