STRONGHOLD TECHNOLOGIES INC
Form SB-2/A
December 02, 2004

As filed with the Securities and Exchange Commission on December 2, 2004

An Exhibit List can be found on page II-6.

Registration No. 333-117532

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON D.C. 20549

AMENDMENT NO. 2

TO
FORM SB-2
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

STRONGHOLD TECHNOLOGIES, INC.
(Name of small business issuer in its charter)

Nevada	4841	22-3762832
(State or other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

106 Allen Road
Basking Ridge, NJ 07920
(908) 903-1195
(Address and telephone number of principal executive offices and principal place of business)

Christopher Carey, Chief Executive Officer
STRONGHOLD TECHNOLOGIES, INC.
106 Allen Road
Basking Ridge, NJ 07920
(908) 903-1195
(Name, address and telephone number of agent for service)

Copies to:
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APPROXIMATE DATE OF PROPOSED SALE TO THE PUBLIC:
From time to time after this Registration Statement becomes effective.

If any securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box: [X]

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ________

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. _________

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. _________

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. _________

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CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered (1)	Proposed maximum offering price per share	Proposed maximum aggregate offering price	Amou registr
Common stock, $.0001 par value issuable upon conversion of Callable Secured Convertible Notes	80,000,000 (2)	$.25(3)	$20,000,000.00	
Common Stock, $.0001 par value issuable upon exercise of Warrants	6,000,000 (4)	$.57	$3,420,000.00	
Total	86,000,000		$23,420,000.00	

* previously paid.

(1) Includes shares of our common stock, par value $0.0001 per share, which may be offered pursuant to this registration statement, which shares are issuable upon conversion of callable secured convertible notes and the exercise of warrants held by the selling stockholders. In addition to the shares set forth

in the table, the amount to be registered includes an indeterminate number of shares issuable upon conversion of the callable secured convertible notes and exercise of the warrants, as such number may be adjusted as a result of stock splits, stock dividends and similar transactions in accordance with Rule 416. The number of shares of common stock registered hereunder represents a good faith estimate by us of the number of shares of common stock issuable upon conversion of the callable secured convertible notes and upon exercise of the warrants. For purposes of estimating the number of shares of common stock to be included in this registration statement, we calculated a good faith estimate of the number of shares of our common stock that we believe will be issuable upon conversion of the callable secured convertible notes and upon exercise of the warrants to account for market fluctuations, and antidilution and price protection adjustments, respectively. Should the conversion ratio result in our having insufficient shares, we will not rely upon Rule 416, but will file a new registration statement to cover the resale of such additional shares should that become necessary. In addition, should a decrease in the exercise price as a result of an issuance or sale of shares below the then current market price, result in our having insufficient shares, we will not rely upon Rule 416, but will file a new registration statement to cover the resale of such additional shares should that become necessary.

(2) Includes a good faith estimate of the shares underlying the callable secured convertible notes to account for market fluctuations.

(3) Estimated solely for purposes of calculating the registration fee in accordance with Rule 457(c) under the Securities Act of 1933, using the average of the high and low price as reported on the Over-The-Counter Bulletin Board on September 16, 2004, which was $.25 per share.

(4) Includes a good faith estimate of the shares underlying warrants exercisable at $.57 per share to account for antidilution and price protection adjustments.

(5) Estimated solely for purposes of calculating the registration fee in accordance with Rule 457(g) under the Securities Act of 1933, using the exercise price of $.57.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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PRELIMINARY PROSPECTUS SUBJECT TO COMPLETION, DATED DECEMBER 2, 2004

STRONGHOLD TECHNOLOGIES, INC.
86,000,000 SHARES OF
COMMON STOCK

This prospectus relates to the resale by the selling stockholders of up to 86,000,000 shares of our common stock, including up to 80,000,000 shares of common stock underlying secured convertible notes in a principal amount of $3,000,000 and up to 6,000,000 issuable upon the exercise of common stock purchase warrants. The secured convertible notes are convertible into our common stock at the lower of $0.70 or 50% of the average of the three lowest intraday trading prices for the common stock on a principal market for the 20 trading days before but not including the conversion date. The selling stockholders may sell common stock from time to time in the principal market on which the stock is traded at the prevailing market price or in negotiated transactions. The selling stockholders may be deemed underwriters of the shares of common stock which they are offering. We will pay the expenses of registering these shares.

Our common stock is registered under Section 12(g) of the Securities Exchange Act of 1934 and is listed on the Over-The-Counter Bulletin Board under the symbol "SGHT.ob". The last reported sales price per share of our common stock as reported by the Over-The-Counter Bulletin Board on December 1, 2004, was $.20.

Investing in these securities involves significant risks. See "Risk Factors" beginning on page 4.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this Prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is ______________, 2004.

The information in this Prospectus is not complete and may be changed. This Prospectus is included in the Registration Statement that was filed by Stronghold Technologies, Inc. with the Securities and Exchange Commission. The selling stockholders may not sell these securities until the registration statement becomes effective. This Prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the sale is not permitted.

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PROSPECTUS SUMMARY

The following summary highlights selected information contained in this prospectus. This summary does not contain all the information you should consider before investing in the securities. Before making an investment decision, you should read the entire prospectus carefully, including the "risk factors" section, the financial statements and the secured convertible notes to the financial statements.

STRONGHOLD TECHNOLOGIES, INC.

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

For the nine months ended September 30, 2004, we generated $1,819,896 in revenue and a net loss of $2,020,921. In addition, for the year ended December 31, 2003, we generated revenue of $2,996,344 and a net loss of $4,258,007. As a result of recurring losses from operations and a net deficit in both working capital and stockholders' equity, our auditors, in their report dated March 17, 2004, have expressed substantial doubt about our ability to continue as going concern.

Our principal offices are located at 106 Allen Road, Basking Ridge, NJ 07920, and our telephone number is (908) 903-1195. We are a Nevada corporation.

The Offering

Common stock offered by selling stockholders..................	Up to 86,000,000 shares, including the following: - up to 80,000,000 shares of common stock underlying secured convertible notes in the principal amount of $3,000,000 (includes a good faith estimate of the shares underlying the callable secured convertible notes to account for market fluctuations antidilution and price protection adjustments, respectively), and - up to 6,000,000 shares of common stock issuable upon the exercise of common stock purchase warrants at an exercise price of $.57 per share (includes a good faith estimate of the shares underlying warrants to account for antidilution and price protection adjustments). This number represents 85.33% of our current outstanding stock.
Common stock to be outstanding after the offering.........	Up to 100,776,655 shares

Use of proceeds.........................	We will not receive any proceeds from the sale of the common stock. However, we will receive the sale price of any common stock we sell to the selling stockholder upon exercise of the warrants. We expect to use the proceeds received from the exercise of the warrants, if any, for general working capital purposes. However, the selling stockholders will be entitled to exercise the warrants on a cashless basis if the shares of common stock underlying the

	warrants are not then registered pursuant to an effective registration statement. In the event that the selling stockholder exercises the warrants on a cashless basis, then we will not receive any proceeds. In addition, we have received gross proceeds $2,000,000 from the sale of the secured convertible notes and the investors are obligated to provide us with an additional $1,000,000 within five days of this registration statement being declared effective. The proceeds received from the sale of the callable secured convertible notes will be used for business development purposes, working capital needs, payment of consulting and legal fees and borrowing repayment.
Over-The-Counter Bulletin Board Symbol..........................	SGHT

The above information regarding common stock to be outstanding after the offering is based on 15,936,655 shares of common stock outstanding as of November 22, 2004 and assumes the subsequent conversion of our issued secured convertible notes and exercise of warrants by our selling stockholders.

To obtain funding for our ongoing operations, we entered into a Securities Purchase Agreement with New Millennium Capital Partners II, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and AJW Partners, LLC on June 18, 2004 for the sale of (i) $3,000,000 in callable secured convertible notes and (ii) stock purchase warrants to buy 3,000,0000 shares of our common stock. This prospectus relates to the resale of the common stock underlying these callable secured convertible notes and warrants.

On June 18, 2004, the investors purchased $1,500,000 in callable secured convertible notes and received warrants to purchase 1,500,000 shares of our common stock and on July 27, 2004 the investors purchased $500,000 in callable secured convertible notes and received warrants to purchase 500,000 shares of our common stock. On October 22, 2004, the investors purchased $350,000 in callable secured convertible notes and received warrants to purchase 350,000 shares of our common stock. In addition, provided that all of the conditions in the Securities Purchase Agreement are satisfied, the investors are obligated to provide us with additional funds as follows:

- $650,000 will be funded within five business days of the effectiveness of the registration statement.

The callable secured convertible notes bear interest at 12%, mature two years from the date of issuance, and are convertible into our common stock, at the investors' option, at the lower of (i) $0.70 or (ii) 50% of the average of the three lowest intraday trading prices for our common stock during the 20 trading days before, but not including, the conversion date. As of November 22, 2004, the average of the three lowest intraday trading prices for our common stock during the preceding 20 trading days as reported on the Over-The-Counter Bulletin Board was $.20 and, therefore, the conversion price for the secured convertible notes was $.10. Based on this conversion price, the $3,000,000 callable secured convertible notes, excluding interest, were convertible into 30,000,000 shares of our common stock.

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We may prepay the callable secured convertible notes in the event that no event of default exists, there are a sufficient number of shares available for conversion of the callable secured convertible notes and the market price is at or below $.57 per share. The full principal amount of the callable secured convertible notes is due upon default under the terms of callable secured convertible notes. In addition, we have granted the investors a security interest in substantially all of our assets and intellectual property as well as registration rights.

The warrants are exercisable until five years from the date of issuance at a purchase price of $0.57 per share. In addition, the exercise price of the warrants is adjusted in the event we issue common stock at a price below market.

The investors have contractually agreed to restrict their ability to convert the callable secured convertible notes and exercise the warrants and receive shares of our common stock such that the number of shares of our common stock held by them and their affiliates after such conversion or exercise does not exceed 4.99% of our then issued and outstanding shares of our common stock.

See the "Selling Stockholders" and "Risk Factors" sections for a complete description of the secured convertible notes.

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RISK FACTORS

This investment has a high degree of risk. Before you invest you should carefully consider the risks and uncertainties described below and the other information in this prospectus. If any of the following risks actually occur, our business, operating results and financial condition could be harmed and the value of our stock could go down. This means you could lose all or a part of your investment.

Risks Relating to Our Business:

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

We have a history of operating losses and have incurred significant net losses in each fiscal quarter since our inception. We had a net loss of $4,258,007 and $4,528,803 for the fiscal years ended December 31, 2003 and December 31, 2002, respectively. We have an accumulated net operating loss of approximately $7,531,007 for the period from May 17, 2002 through December 31, 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 for the foreseeable future. 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 numerous factors outside of our control, including:

- Competing products that are more effective or less costly than ours;
- Our ability to develop and commercialize our own products and technologies; and
- Our ability to increase sales of our existing products and any new products.

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

We Have Recently Entered A Forbearance Agreement with a Lender in Connection with a Loan Agreement in Which We Are Presently In Default. If We Are Unable To Comply with the Terms of Payment in the Forbearance Agreement, the Lender Could Accelerate The Maturity Date Of The Loan Or Attempt To Seize The Assets Of Our Company Pledged As Security For The Loan.

On November 1, 2001, we entered into a line of credit with United Trust Bank (now PNC Bank) pursuant to which the Predecessor Entity borrowed $1.5 million. On September 30, 2002, we converted the outstanding line of credit with UnitedTrust Bank into a $1,500,000 promissory note. As of December 31, 2003, $1,231,667 was outstanding under the promissory note.

On January 9, 2004, we were served with a Notice of an Event of Default by United Trust Bank under its Loan Agreement stating that pursuant to section 6.01(d) of the Loan Agreement, an Event of Default exists due to our failure to pay Payroll Tax Obligations aggregating in the amount of $1,089,897 as of December 31, 2003 (including estimated penalties and interest). On April 1, 2004, we received a second Notice of Event of Default stating that the Bank had accelerated the maturity of the Loan and declared all principal, interest, and other outstanding amounts due and payable. On April 27, 2004, PNC Bank, N.A., as successor by merger to UnitedTrust Bank filed a complaint in the Superior Court of New Jersey, Law Division, Union County (Docket No. UNN-L_001522-04) against our company and Christopher J. Carey, in his capacity as guarantor, to collect the sums outstanding under the Loan Agreement, dated as of September 30, 2002. On July 15, 2004, we entered into a fully executed forbearance agreement with PNC Bank, N.A. We made an initial principal payment of $420,000 with the execution of the forbearance as well as payments of $50,000 on August 15, 2004 and September 15, 2004. Additionally, we are required to make two consecutive monthly installments of $50,000.00 on October 15, 2004 and November 15, 2004 followed by the remaining principal on or before December 15, 2004. Failure to adhere to this schedule will cause the suit to be reinstated and PNC Bank will resume collection of the sum under the suit. If the bank is successful in a lawsuit, it could seize our assets which may cause us to cease our operations.

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

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

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

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

We May Fail To Gain Market Acceptance Of Our DealerAdvance(TM) suite of products Which May Result in Our Business And Results Of Operations Being Negatively Impacted.

We are still in the early marketing stages of our DealerAdvance(TM) suite of products. Our first pilot system for DealerAdvance Sales Solution(TM) was installed in April 2001 and our sixth and final pilot system was installed in September 2001. We implemented a total of 33 additional sites in 2002. As of December 31, 2003, a total of 69 Dealerships were using the DealerAdvance Sales Solution(TM) in 13 states. We expect to introduce our DealerAdvance Service Solution(TM) over the next two years. This solution is still in the development stages and is not yet ready for testing. While we have received positive feedback of DealerAdvance Sales Solution(TM) by the test sites, sixty-nine 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. The nature of our handheld product and technology requires us to market almost exclusively to automobile dealerships. 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. A large number of automobile dealerships elect to not utilize our product due to the fact that they have their own system, they deem DealerAdvance(TM) suite of products to not be cost effective or other reason, In the event that the DealerAdvance(TM) suite of products is not generally accepted by automobile dealerships, then our revenue and results of operations will be negatively impacted

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

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

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

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

Risks Concerning Our Handheld Technology:

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

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

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

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

Many wireless technology and software companies are engaged in research and development activities relating to our range of products. The market for handheld wireless technology is intensely competitive, rapidly changing and undergoing consolidation. We may be unable to compete successfully against our current and future competitors, which may result in price reductions, reduced profit margins and the inability to achieve market acceptance for our products.

Our competitors in the field are major international car dealership service companies, specialized technology companies, and, potentially, our joint venture and strategic alliance partners. Many of our competitors have substantially greater financial, marketing, sales, distribution and technical resources than us and have more experience in research and development, sales, service, manufacturing and marketing. We anticipate increased competition in the future as new companies enter the market and new technologies become available. Our technology may be rendered obsolete or uneconomical by technological advances developed by one or more of our competitors.

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

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

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

We May Be Sued By Third Parties For Infringement Of Their Proprietary Rights, Therefore We May Incur Defense Costs And Possibly Royalty Obligations Or Lose The Right To Use Technology Important To Our Business.

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

Risks Relating to Our Current Financing Arrangement:

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

As of November 22, 2004, we had 15,936,655 shares of common stock issued and outstanding and callable secured convertible notes outstanding or an obligation to issue callable secured convertible notes that may be converted into an estimated 30,000,000 shares of common stock at current market prices, and outstanding warrants or an obligation to issue warrants to purchase 3,000,000 shares of common stock. In addition, the number of shares of common stock issuable upon conversion of the outstanding callable secured convertible notes may increase if the market price of our stock declines. All of the shares, including all of the shares issuable upon conversion of the notes and upon exercise of our warrants, may be sold without restriction. The sale of these shares may adversely affect the market price of our common stock. As the market price declines, then the callable secured convertible notes will be convertible into an increasing number of shares of common stock resulting in dilution to our shareholders.

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

Our obligation to issue shares upon conversion of our callable secured convertible notes is essentially limitless. The following is an example of the amount of shares of our common stock that are issuable, upon conversion of the Notes (excluding accrued interest), based on market prices 25%, 50% and 75% below the average of the three lowest intraday trading prices for our common stock during the previous 20 trading days as of November 22, 2004 of $0.20.

% Below Market	Price Per Share	With Discount at 50%	Number of Shares Issuable
25%	$.1500	$.0750	40,000,000
50%	$.1000	$.0500	60,000,000
75%	$.0500	$.0250	120,000,000

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

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

The callable secured convertible notes are convertible into shares of our common stock at a 50% discount to the trading price of the common stock prior to the conversion. The significant downward pressure on the price of the common stock as the selling stockholder converts and sells material amounts of common stock could encourage short sales by investors. This could place further downward pressure on the price of the common stock. The selling stockholder could sell common stock into the market in anticipation of covering the short sale by converting their securities, which could cause the further downward pressure on the stock price. In addition, not only the sale of shares issued upon conversion or exercise of notes, warrants and options, but also the mere perception that these sales could occur, may adversely affect the market price of the common stock.

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

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

In The Event That Our Stock Price Declines, The Shares Of Common Stock Allocated For Conversion Of The Callable Secured Convertible Notes and Registered Pursuant To This Prospectus May Not Be Adequate And We May Be Required to File A Subsequent Registration Statement Covering Additional Shares. If The Shares We Have Allocated And Are Registering Herewith Are Not Adequate And We Are Required To File An Additional Registration Statement, We May Incur Substantial Costs In Connection Therewith.

Based on our current market price and the potential decrease in our market price as a result of the issuance of shares upon conversion of the callable secured convertible debentures, we have made a good faith estimate as to the amount of shares of common stock that we are required to register and allocate for conversion of the convertible debentures. As we do not currently have the required amount of shares available, we may be required to file an additional registration statement after we have increased our authorized common stock. Accordingly, subject to obtaining an increase in our authorized shares of common stock, we will allocate and register approximately 86,000,000 shares to cover the conversion of the callable secured convertible debentures. In the event that our stock price decreases, the shares of common stock we have allocated for conversion of the callable secured convertible debentures and are registering hereunder may not be adequate. If the shares we have allocated to the registration statement are not adequate and we are required to file an additional registration statement, we may incur substantial costs in connection with the preparation and filing of such registration statement.

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

In June 2004, we entered into a Securities Purchase Agreement for the sale of an aggregate of $3,000,000 principal amount of callable secured convertible notes. The callable secured convertible notes are due and payable, with 12% interest, two years from the date of issuance, unless sooner converted into shares of our common stock. Although we currently have $1,500,000 callable secured convertible notes outstanding, the investor is obligated to purchase additional callable secured convertible notes in the aggregate amount of

$1,500,000. In addition, any event of default such as our failure to repay the principal or interest when due, our failure to issue shares of common stock upon conversion by the holder, our failure to timely file a registration statement or have such registration statement declared effective, breach of any covenant, representation or warranty in the Securities Purchase Agreement or related convertible note, the assignment or appointment of a receiver to control a substantial part of our property or business, the filing of a money judgment, writ or similar process against our company in excess of $50,000, the commencement of a bankruptcy, insolvency, reorganization or liquidation proceeding against our company and the delisting of our common stock could require the early repayment of the callable secured convertible notes, including a default interest rate of 15% on the outstanding principal balance of the notes if the default is not cured with the specified grace period. We anticipate that the full amount of the callable secured convertible notes will be converted into shares of our common stock, in accordance with the terms of the callable secured convertible notes. If we are required to repay the callable secured convertible notes, we would be required to use our limited working capital and raise additional funds. If we were unable to repay the notes when required, the note holders could commence legal action against us and foreclose on all of our assets to recover the amounts due. Any such action would require us to curtail or cease operations.

Risks Relating to Our Common Stock:

If We Fail to Remain Current on Our Reporting Requirements, We Could be Removed From the OTC Bulletin Board Which Would Limit the Ability of Broker-Dealers to Sell Our Securities and the Ability of Stockholders to Sell Their Securities in the Secondary Market.

Companies trading on the OTC Bulletin Board, such as us, must be reporting issuers under Section 12 of the Securities Exchange Act of 1934, as amended, and must be current in their reports under Section 13, in order to maintain price quotation privileges on the OTC Bulletin Board. If we fail to remain current on our reporting requirements, we could be removed from the OTC Bulletin Board. As a result, the market liquidity for our securities could be severely adversely affected by limiting the ability of broker-dealers to sell our securities and the ability of stockholders to sell their securities in the secondary market.

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

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

- that a broker or dealer approve a person's account for transactions in penny stocks; and

- the broker or dealer receive from the investor a written agreement to the transaction, setting forth the identity and quantity of the penny stock to be purchased.

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

- obtain financial information and investment experience objectives of the person; and

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

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

- sets forth the basis on which the broker or dealer made the suitability determination; and

- that the broker or dealer received a signed, written agreement from the investor prior to the transaction.

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

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

USE OF PROCEEDS

This prospectus relates to shares of our common stock that may be offered and sold from time to time by the selling stockholders. We will not receive any proceeds from the sale of shares of common stock in this offering. However, we will receive the sale price of any common stock we sell to the selling stockholder upon exercise of the warrants. We expect to use the proceeds received from the exercise of the warrants, if any, for general working capital purposes. However, the selling stockholders will be entitled to exercise the warrants on a cashless basis if the shares of common stock underlying the warrants are not then registered pursuant to an effective registration statement. In the event that the selling stockholder exercises the warrants on a cashless basis, then we will not receive any proceeds. In addition, we have received gross proceeds $2,350,000 from the sale of the callable secured convertible notes and the investors are obligated to provide us with an additional $650,000 within five days of this prospectus being declared effective. The proceeds received from the sale of the callable secured convertible notes will be used for business development purposes, working capital needs, pre-payment of interest, payment of consulting and legal fees and repayment of debt.

MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our Common Stock is traded on the OTC Bulletin Board, referred to herein as the OTCBB, under the symbol "SGHT.ob". The following table sets forth the high and low bid prices of our Common Stock, as reported by the OTCBB for each quarter since January 1, 2002. The quotations set forth below reflect inter-dealer prices, without retail mark-up, markdown or commission and may not represent actual transactions.

2002	High	Low
January 1, 2002 - March 31, 2002	$0.14	$0.14
April 1, 2002 - June 30, 2002	$1.15	$0.14
July 1, 2002 - September 30, 2002	$1.60	$0.25
October 1, 2002 - December 31, 2002	$2.25	$1.25

2003	High	Low
January 1, 2003 - March 31, 2003	$1.70	$0.25
April 1, 2003 - June 30, 2003	$1.01	$0.59
July 1, 2003 - September 30, 2003	$0.98	$0.47
October 1, 2003 - December 31, 2003	$0.70	$0.30

2004	High	Low
January 1, 2004 - March 31, 2004	$1.15	$0.45
April 1, 2004 - June 30, 2004	$0.70	$0.24
July 1, 2004 - September 30, 2004	$0.25	$0.11

As of November 22, 2004, there were approximately 73 holders of record of our common stock.

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

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Equity Compensation Plan Information

We currently do not have any equity compensation plans.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND PLAN OF OPERATIONS

Some of the information in this Form SB-2 contains forward-looking statements that involve substantial risks and uncertainties. You can identify these statements by forward-looking words such as "may," "will," "expect," "anticipate," "believe," "estimate" and "continue," or similar words. You should read statements that contain these words carefully because they:

- o discuss our future expectations;
- o contain projections of our future results of operations or of our financial condition; and
- o state other "forward-looking" information.

We believe it is important to communicate our expectations. However, there may be events in the future that we are not able to accurately predict or over which we have no control. Our actual results and the timing of certain events could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under "Risk Factors," "Business" and elsewhere in this prospectus. See "Risk Factors."

Our History

We were incorporated as a Nevada corporation on September 8, 2000, under the name TDT Development, Inc. On May 16, 2002 we acquired Stronghold Technologies, Inc., a New Jersey corporation referred to herein as our "Predecessor Entity", pursuant to a merger of the Predecessor Entity into our wholly-owned subsidiary, TDT Stronghold Acquisition Corp., referred to herein as "Acquisition Sub". As consideration for the merger, we issued 7,000,000 shares of our common stock to the stockholders of the Predecessor Entity in exchange for all of the issued and outstanding shares of the Predecessor Entity. Following the merger, Acquisition Sub, the survivor of the merger, changed its name to Stronghold Technologies, Inc. (NJ) and remains our only wholly-owned subsidiary. On July 11, 2002, we changed our name from TDT Development, Inc. to Stronghold Technologies, Inc. On July 19, 2002, we exchanged all of the shares that we held in our two other wholly-owned subsidiaries, Terre di Toscana, Inc. and Terres Toscanes, Inc., which conducted an import and distribution business specializing in truffle-based food product, for 75,000 shares of our common stock held by Mr. Pietro Bortolatti, our former president.

Overview of our Handheld Technology Business

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

Our Revenues

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

Software License Revenues

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

System Installation Revenues:

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

Monthly Recurring Maintenance Revenue:

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

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

General and Administrative Operating Expenses:

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

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

Three Months Ended September 30, 2004 Compared to Three Months Ended September 30, 2003

Revenue

For the quarter ended September 30, 2004, we had revenue of $475,969 compared with revenue of $904,254 for the quarter ended September 30, 2003. This decrease in revenue of $428,285 or 47.36% is primarily attributed to the following:

- o the steps we made to address our limited funding that included reductions of our sales, marketing and client consultant staffs,

- a strategic decision to allocate resources to establish our first sales efforts through third party distributors; and

- a loss of momentum in the late part of the second quarter and the early part of the third quarter resulting from concerns regarding closure of our pending funding that was needed to maintain operations.

Our decision to conserve capital, reduce head count and embark on a strategy of third party distribution resulted in our revenue reduction for the quarter ended September 30, 2004 as compared to the quarter ended September 30, 2003. Cost of sales on a percentage basis was maintained at $175,863 or 36.9% of revenue for the three months ended September 30, 2004 as compared to $336,611 or 37.2% of revenue for the three months ended September 30, 2003.

Gross Profits

We generated $300,106 in gross profits from sales for the quarter ended September 30, 2004, which was a decrease of $267,537 from the quarter ended September 30, 2003, when we generated $567,643 in gross profits. Our gross profit margin percentage was unchanged at 63% in both the quarter ended September 30, 2003 and the quarter ended September 30, 2004. Our ability to maintain our gross profit margin despite the reduction in revenue is due to our ability to maintain prices and eliminate excess labor capacity present in 2003.

Selling, General and Administrative Expenses

Total Selling, General and Administrative expenses in the quarter ended September 30, 2004 were $946,913, a decrease of 32.41% or $454,157 from the quarter ended September 30, 2003 of $1,401,070. The significant reduction in expense is primarily attributable to efficiencies gained through the reduction of staff from 44 in September 30, 2003 to 22 in the quarter ended September 30, 2004. The significant reduction in staffing resulted in a reduction of payroll expenses of $350,420, which was the largest portion of the $454,157 reduction. Other significant expense reductions within selling, general and administrative expenses for the quarter ended September 30, 2004 and September 30, 2003 included reductions as follows:

- legal expenses of $48,410,

- printing and reproduction expenses of $17,069 and

- Travel and automobile expenses reductions of $37,172.

Our interest and penalty expense increased from $223,196 in the quarter ended September 30, 2003 to $339,472 in the quarter ended September 30, 2004. This increase of $116,276 is primarily due a new non-cash category of interest expense called Beneficial Conversion Expense. This new non-cash category expense is attributed to our adherence to EITF 98-5 "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios" and EITF 00-27 "Application of Issue No. 98-5 to Certain Convertible Instrument". We recorded $218,650 of Beneficial Conversion Expense in the third quarter of 2004 for the closing of the first two tranches of $2,000,000 of convertible debt detailed in the notes to financials.

Operating Loss

Our operating losses decreased by $186,620 in comparing the quarter ended September 30, 2004 to the quarter ended September 30, 2003, which were $646,807 and $833,427, respectively. This improvement in operating loss despite the significant reduction in revenues is attributable to the maintenance of gross profit margins of 63% and the significant reductions of selling, general and administrative expenses of $454,157.

Net Loss

We had a net loss of $986,279 for the quarter ended September 30, 2004 compared to $1,056,623 for the quarter ended September 30, 2003, a decrease in net losses of $70,344. This reduction of net losses of 6.66% despite the decrease of revenue and increased interest expense is also primarily attributable to the maintenance of gross profit margins of 63% and the significant reductions of selling, general and administrative expenses of $454,157 Our loss per share also reduced to $.07 loss per share with a weighted average of 14,024,528 shares outstanding in the quarter ended September 30, 2004 as compared to $0.10 loss per share in the quarter ended September 30, 2003 with a weighted average of 10,460,333 shares outstanding.

We have never declared or paid any cash dividends on our common stock. We anticipate that any earnings will be retained for development and expansion of our business and we do not anticipate paying any cash dividends in the foreseeable future. Our board of directors, subject to any restrictions or prohibitions that may be contained in our loan or preferred stock agreements, has sole discretion to pay dividends based on our financial condition, results of operations, capital requirements, contractual obligations and other relevant factors.

Nine Months Ended September 30, 2004 Compared to Nine Months Ended September 30, 2003

Revenue

For the nine-month period ended September 30, 2004, we had revenue of $1,819,896 compared with revenue of $2,450,043 for the nine month period ended September 30, 2003. This decrease in revenue of $630,147 or 25.72% is primarily attributed to the following:

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

Our decision to conserve capital, reduce head count and embark on a strategy of third party distribution resulted in our revenue reduction for the nine-month period ended September 30, 2004 as compared to the nine-month ended September 30, 2003. Cost of sales on a percentage basis was maintained at $627,428 or 34.5% of revenue for the nine months ended September 30, 2004 as compared to $937,499 or 38.3% of revenue for the nine months ended September 30, 2003.

Gross Profits

We generated $1,192,168 in gross profits from sales for the nine-month period ended September 30, 2004, which was a decrease of $320,376 from the nine-month period ended September 30, 2003, in which we generated $1,512,544 in gross profits. Our gross profit margin percentage increased 4% from 62% in the nine-month period ended September 30, 2003 to 66% in the nine-month period ended September 30, 2004. Our ability to increase our gross profit margin despite the reduction in revenue is due to our ability to maintain prices, eliminate excess labor capacity present in 2003 and reducing the unit cost of third party hardware.

Selling, General and Administrative Expenses

Total Selling, General and Administrative expenses in the nine-month period ended September 30, 2004 were $2,779,361, a decrease of 24.96% or $924,563 from the nine-month period ended September 30, 2003 of $3,703,924. The significant reduction in expense is primarily attributable to efficiencies gained through the reduction of staff from 44 as of September 30, 2003 to 22 as of September 30, 2004. The significant reduction in staffing resulted in a reduction of payroll expenses of $794,314. Other significant expense reductions within selling, general and administrative expenses for the nine-month period ended September 30, 2004 as compared to September 30, 2003 included the following:

o legal expenses of $121,000

o printing and reproduction expenses of $30,738

o travel and automobile expenses reductions of $59,495.

o Recruiting expenses of $45,611

o Marketing expenses of $54,475.

These reductions were also offset by an increase of amortization expenses of $247,674 of which $218,000 were attributed to the non cash interest expense associated with the convertible debt discount amortization discussed in the notes to the financial statements.

Our interest and penalty expense increased $12,666 from $421,062 in the nine-month period ended September 30, 2003 to $433,728 in the nine-month period ended September 30, 2004. The nine-month period expense in 2003 of $421,062 included a one-time penalty of $130,000. After adjusting the nine-month period expense for the one time penalty, the increase for the nine-month period is $142,665 and is primarily due a new non-cash category of interest expense called Beneficial Conversion Expense. This new non-cash category expense is attributed to our adherence to EITF 98-5 "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios" and EITF 00-27 "Application of Issue No. 98-5 to Certain Convertible Instrument". We recorded $218,650 of Beneficial Conversion Expense in the third quarter of 2004 for the closing of the first two tranches of $2,000,000 of convertible debt detailed in the notes to financials.

Operating Loss

Our operating losses decreased by $604,186 in comparing the nine-month period ended September 30, 2004 to the nine-month period ended September 30, 2003, which were $1,587,194 and $2,191,380, respectively. This improvement in operating loss despite the significant reduction in revenues is attributable to the increase of gross profit margins of 4% and the significant reductions of selling, general and administrative expenses of $924,563.

Net Loss

We had a net loss of $2,020,921 for the quarter ended September 30, 2004 compared to $2,612,442 for the quarter ended September 30, 2003, a decrease in net losses of $591,521. This reduction of net losses of 22.64 % despite the decrease of revenue and increased interest expense is also primarily attributable to the increase of gross profit margins of 4% and the significant reductions of selling, general and administrative expenses of $924,563. Our loss per share also reduced to $.15 loss per share with a weighted average of 13,603,303 shares outstanding in the nine-month period ended September 30, 2004 as compared to $0.26 loss per share in the nine-month period ended September 30, 2003 with a weighted average of 10,206,182 shares outstanding.

We have never declared or paid any cash dividends on our common stock. We anticipate that any earnings will be retained for development and expansion of our business and we do not anticipate paying any cash dividends in the foreseeable future. Our board of directors, subject to any restrictions or prohibitions that may be contained in our loan or preferred stock agreements, has sole discretion to pay dividends based on our financial condition, results of operations, capital requirements, contractual obligations and other relevant factors.

COMPARISON OF YEAR ENDED DECEMBER 31, 2003 and YEAR ENDED DECEMBER 31, 2002

For the fiscal year ended December 31, 2003, we had total revenue of $2,996,344. Revenue for the year ended December 31, 2002 was $2,802,483, representing an increase of 7% or $196,055. We increased our revenue by adding 30 more system installations for a total of $2,641,371 in revenue in 2003 as compared to 33 installations in 2002 for $2,697,713 while adding $288,075 in monthly recurring maintenance revenues in 2003 as compared to $92,020 in 2002. We also increased revenue from Other Services by $66,899. Other Services consist primarily of training and additional consulting. The increase in monthly maintenance accounted for the largest increase by recognizing recurring revenue from an install base that expanded from 39 at the end of 2002 to 69 at the end of 2003. The composition of revenues is shown in the following table.

Revenue Composition Comparison
2003 Compared to 2002

	2003	2002	$ Change	% Ch
Software & System Installations	$2,641,371	$2,697,713	($56,342)	
Monthly Recurring Maintenance	$288,075	$92,020	$196,055	2
Other Services	$66,899	$12,750	$54,149	4
Total Revenue	$2,996,344	$2,802,484	$193,861	

Revenue is comprised of one-time charges, referred to Software and System Installations in the table above, to the dealerships for hardware (including server, wireless infrastructure, desktop PCs, printers, interior/exterior access points/antennas and handheld devices), software licensing fees and installation/training services. Average installation cost is $70,000. 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 paid up front and recorded to unearned maintenance fees at the present value of the 36-month revenue stream and amortized monthly to revenue.

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Total operating expenses for the fiscal years ended December 31, 2003 and December 31, 2002 were comprised of selling, general and administrative expenses (which includes research and development expenses, consulting and professional costs, recruiting fees, office rent and investor relations expenses), professional salaries, benefits, stock compensation and bad debt write-off expense. Operating expenses for the year ended December 31, 2003 and December 31, 2002 were primarily unchanged increasing $21,632 to $5,512,042 in 2003 from $5,490,419 in 2002. The most significant portion of operating expense is attributed to payroll, which was also principally unchanged increasing $16,880 to $2,936,170 in 2003 from $2,919291 in 2002.

We generated $1,766,170 in gross profits from sales for the year ended December 31, 2003, an increase of $591,107 from the year ended December 30, 2002 when we generated $1,174,454. We were able to improve our gross profit margin by 17.04% from 42% in the year ended December 30, 2002 to 59% in the year ended December 30, 2003 despite having reported a relatively modest increase in revenue. The higher gross profit as a percentage of revenue reflects our ability to maintain sales prices based upon performance of prior installations and continued efforts to reduce our cost of sales. Total cost of sales in 2003 decreased by 397,856 to $1,230,174 in 2003 from $1,628,030 in 2002. The most significant reduction in cost of sales was in hardware components purchased form third party vendors in the amount of $338,240. This reduction in cost of sales and the increases in monthly recurring revenue realized from a larger installation base referred to in the revenue section above contributed to the increase of Gross Profit.

After all operating expenses and interest costs, we reported a loss of $4,258,007 for the fiscal year ended December 31, 2003. This compares with a loss for the fiscal year ended December 31, 2002 of $4,528,803, a decrease of $270,796, or 6%. This improvement in losses with a modest increase in revenue and unchanged general, administrative and operating expenses is primarily due to the improved gross profit margin referred to above that had contributions from reduced cost of sales and an increase in monthly recurring revenue from the increased installation base.

Our business operations and financial results for prior periods were representative of a start-up company and, therefore, not in a position to generate significant revenue. As we moved out of our start-up phase and into a marketing and sales position, our revenues have become more predictable as dealerships install our DealerAdvance(TM) suite of products. We can offer no assurance, however, that future revenues will be maintained or increase. Notwithstanding the gross profit growth, we have yet to generate a profit in any accounting period.

Liquidity and Capital Resources

Overview

As of September 30, 2004, our cash balance was $10,795. We had a net loss of $986,279 for the quarter ended September 30, 2004. We had a net operating loss of approximately $10,000,000 for the period from May 17, 2002 through September 30, 2004 to offset future taxable income. Losses incurred prior to May 17, 2002 were passed directly to the shareholders and, therefore, are not included in the loss carry-forward. There can be no assurance, however, that we will be able to take advantage of any or all tax loss carry-forwards, in future fiscal years. Our accounts receivable as of September 30, 2004 was $543,920 (less allowance for returns of $181,750), and $1,554,533 (less allowances for returns of $170,172) for the quarter ended September 30, 2003. Accounts receivable balances represent amounts owed to us for new installations and maintenance, service, training services, software customization and additional systems components.

As of September 30, 2004, we had the following financing arrangements:

Debt Liability Summary Table

Current Debt liabilities	
IRS Payment Plan	4
Interest payable, stockholders (founding shareholder)	4
Notes payable, stockholders, current portion (founding shareholder)	3
Notes payable, current portion (PNC Bank)	6
Total Debt current liabilities	1,8

Long-term Debt liabilities	
Notes payable, stockholders, less current portion (founding shareholder and Stanford)	1,8
Note payable, convertible debt, net of debt issuance costs of $1,760,609	2
IRS Payment Plan (Long term portion)	5
Total long term Debt liabilities	2,6

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

Location	Date	Term	Months Remaining	Balance on Lease
NJ	8/1/2003	55 months	42	$ 291,380
VA	6/1/2004	24 months	20	$ 38,188
			Grand Total	$ 329,568

Financing Needs

To date, we have not generated revenues in excess of our operating expenses. We have not been profitable since our inception, we expect to incur additional operating losses in the future and will require additional financing to continue the development and commercialization of our technology. We have incurred a net loss of approximately $2,000,000 and have negative cash flows from operations of approximately $1,580,000 for the nine months ended September 30, 2004, and have a working capital deficit of approximately $3,100,000 and a stockholders' deficit of approximately $4,600,000 as of September 30, 2004. These conditions raise substantial doubt about our ability to continue as a going concern. During 2004, our management will rely on raising additional capital to fund its future operations. If we are unable to generate sufficient revenues or raise sufficient additional capital, there could be a material adverse effect on the consolidated financial position, results of operations and we may be unable to continue our operations.

We have a current commitment for an additional $650,000 of financing, which will be closed on the fifth business day following the effective date of the our registration statement becoming effective. The $650,000 financing is the fourth tranche of the $3 Million callable convertible debt financing. We expect that this funding will provide the necessary cash to support operations throughout the first quarter of 2005. Prior to this funding we will operate with cash on hand and cash generated from operations. We do not have further commitments and we will need to raise additional funds after the first quarter of 2005.

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

Financings

We have entered into the following financing transactions:

Loans from Christopher J. Carey, an Executive Officer, Director and Shareholder of the Company

On July 31, 2000, the Predecessor Entity entered into a line of credit with Mr. Chris Carey, our President and Chief Executive Officer and the President and Chief Executive Officer of Stronghold. The terms of the line of credit made available $1,989,500, which the Predecessor Entity could borrow from time to time, until August 1, 2001. The outstanding amounts accrued interest at the per annum rate equal to the floating base rate, as defined therein, computed daily, for the actual number of days elapsed as if each full calendar year consisted of 360 days. The first interest payment under the line of credit was due on August 1, 2001. On such date, the parties agreed to extend the line of credit for one more year, until August 1, 2002.

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

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

On September 30, 2002, we renegotiated the $1,200,000 promissory note with Mr. Carey pursuant to a requirement contained in the promissory note with UnitedTrust Bank. According to the new terms of the loan, Mr. Carey extended the repayment of the principal amount until December 1, 2005. Until such time as the principal is paid, we will pay an interest only fee of 12% per year. Mr. Carey's promissory note is expressly subordinated in right of payment to the prior payment in full of all of the Company's senior indebtedness. Subject to the payment in full of all senior indebtedness, Mr. Carey is subrogated to the rights of the holders of such senior indebtedness to receive principal payments or distribution of assets. As of December 31, 2002, $970,749 was outstanding under the promissory note issued to Mr. Carey.

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

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

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

On March 18, 2003, we entered into a bridge loan agreement with Christopher J. Carey, for a total of $400,000. The agreement stipulates that the Company will pay an 8% interest rate on a quarterly basis until the loan becomes due and payable on June 30, 2004. We also issued to Mr. Carey 391,754 warrants exercisable for common stock for 10 years at a price of $0.97 per share. On December 30, 2003, Christopher J. Carey agreed to extend the term of the promissory note to June 30, 2004. As of September 30, 2004, $370,751, including interest, was outstanding under this bridge loan agreement. On May 1, 2004, Christopher J. Carey agreed to extend the term of the loan to June 1, 2005.

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

Financings from PNC Bank (Formerly United Trust Bank)

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

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

On January 9, 2004, we were served with a notice of an event of default by United Trust Bank, now PNC Bank, a successor by merger effective January 2004 with United Trust Bank, ("the Bank"), under its Loan Agreement. Pursuant to section 6.01(d) of the Loan Agreement, an Event of Default exists due to the Company's failure to pay Payroll Tax Obligations aggregating in the amount of $1,089,897 as of December 31, 2003 (including estimated penalties and interest). The Company continues to make timely scheduled payments pursuant to the terms of the loan and is in forbearance negotiations with the Bank with respect to the default. On April 1, 2004, the Company received a second Notice of Event of Default stating that the Bank had accelerated the maturity of the Loan and declared all principal, interest, and other outstanding amounts due and payable. However, if we are unable to reach a forbearance agreement with the Bank, we may be required to pay off the amounts outstanding under the loan, and if we are unable to pay off the amounts outstanding, the Bank could seize our assets pledged as security for the Loan. If either of these actions occur, we may be unable to continue our operations.

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

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

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

On November 12, 2004, our company and PNC Bank agreed upon terms of an amendment to the forbearance agreement whereby by the payment schedule will change to include interest only payments on November 15, 2004, December 15, 2004 and January 15, 2005 with the final principal payment being made on or before January 31, 2005.

Financings by Stanford Venture Capital Holdings, Inc.

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

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

On March 3, 2004 and March 15, 2004 we received loans in the amount of $437,500 each from Stanford. The Company has agreed to pay Stanford an 8% annual dividend on the funds invested and to redeem the securities not later than three years from the date of funding.

Private Placements with Accredited Private Investors

During August and September 2002, we entered into 9 subscription agreements with accredited private investors, as defined in Rule 501 of the Securities Act, pursuant to which we issued an aggregate of 179,333 shares of our common stock at $1.50 per share. These private investments generated total proceeds to us of $269,000.

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

Callable Secured Convertible Notes

On June 18, 2004, to obtain funding for our ongoing operations, we entered into the Securities Purchase Agreement on June 18, 2004 for the sale of (i) $3,000,000 in notes and (ii) Warrants to buy 3,000,0000 shares of our common stock.

On June 18, 2004, the Investors purchased $1,500,000 in notes and received Warrants to purchase 1,500,000 shares of our common stock. On July 28, 2004, the Investors purchased $500,000 in notes and received Warrants to purchase 500,000 shares of common stock. On October 22, 2004 the Investors purchased $350,000 in notes and received Warrants to purchase 350,000 shares of common stock. In addition, provided that all of the conditions in the Securities Purchase Agreement are satisfied, the Investors are obligated to provide the Company with additional funds in the amount of $650,000 which will be funded within five business days of the effectiveness of the registration statement.

The notes bear interest at 12%, mature two years from the date of issuance, and are convertible into our common stock, at the Investors' option, at the lower of (i) $0.70 or (ii) 50% of the average of the three lowest intraday trading prices for our common stock during the 20 trading days before, but not including, the conversion date. We may prepay the notes in the event that no event of default exists, there are a sufficient number of shares available for conversion of the notes and the market price is at or below $.57 per share. The full principal amount of the notes is due upon default under the terms of notes. In addition, we have granted the investors a security interest in substantially all of its assets and intellectual property as well as registration rights. The note payable, convertible debt is recorded at $2,000,000 less original debt issuance costs of $317,917 and beneficial conversion feature of $1,682,083, presently reported on the September 30, 2004 Balance Sheet net of amortization at $276,160 and $1,484,449, respectively.

The Warrants are exercisable until five years from the date of issuance at a purchase price of $0.57 per share. In addition, the exercise price of the Warrants is adjusted in the event we issue common stock at a price below market.

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

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

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

CRITICAL ACCOUNTING POLICIES AND USE OF ESTIMATES

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

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

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

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

Revenue Recognition Policy

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

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

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

Revenue Restatement

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

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

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

Software Development Capitalization Policy

Software development costs, including significant product enhancements incurred subsequent to establishing technological feasibility in the process of software production, are capitalized according to Statement of Financial Accounting Standards No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed." Costs incurred prior to the establishment of technological feasibility are charged to research and development expenses. For the quarter ended September 30, 2004, we capitalized $77,739 of development costs in developing enhanced functionality of our DealerAdvance(TM) products. This compares with $171,945 for the quarter ended September 30, 2003. For the nine month period ended September 30, 2004 we capitalized $342,596 of developments costs as compared to $500,007 for the nine month period ended September 30, 2003. We capitalized a total of $683,052 of development costs for the twelve month period ended December 31, 2003.

BUSINESS

Our History

We were incorporated as a Nevada corporation on September 8, 2000, under the name TDT Development, Inc. On May 16, 2002, we acquired Stronghold Technologies, Inc., a New Jersey corporation, referred to herein as our

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

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

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

Overview of our Handheld Technology Business

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

We are engaged in the business of selling, marketing and installing an Intel based server that, together with wireless handheld PDA's, manages the auto dealer-client relationship. We believe our DealerAdvance(TM) suite of Customer Relationship Management ("CRM") software, has been designed to maximize revenues and reduce operating expenses of automobile dealerships. We completed the development of our DealerAdvance Sales Solution(TM), a software suite which we believe is designed to increase sales by effectively capturing a greater percentage of unsold customer prospects and maximizing customer "be-back" rates. We are in various stages of development of complimentary CRM systems for our handheld devices, including the DealerAdvance Service Solution(TM), which we believe is designed to further increase our clients' revenues and profits by managing dealer service operations, customer information and vehicle inventory. We are designing our products to be functionally equivalent to the devices used by automobile rental agencies in which automobile return and checkout is automated using scanning and other point of sale technology.

Description of Products

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

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

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

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

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

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

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

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

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

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

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

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

The DealerAdvance Suite includes Master Server Software, which manages all customer data and access to third party services. One copy of server software is required for each dealership. DealerAdvance Desktop Application, which used to access customer data, present workplans, reports and logs, scan drivers licenses, and manage user access to the system. This application must be installed on each desktop in the dealership. Dealership receives a license to install an unlimited number of desktops associated with a particular Dealeradvance Server. DealerAdvance Handheld Application, which is used to access customer data, present workplans, product comparison, available inventory. Each dealership must purchase a license of this application for each handheld in use at the dealership.

The system has the following features:

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

DEALERADVANCE is compatiable with and works with:

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

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

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

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

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

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

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

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

As of December 31, 2003, a total of 70 dealers were using the DealerAdvance Sales Solution(tm), of which approximately 40 had reached or exceeded the 60-day performance period generally associated with installation. In January 2004 we installed systems in 2 dealerships in Oregon.

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

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

New Product Developments

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

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

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

- o With Version 3.4 introduced in January 2004, we introduced a Call Management application that is expected to allow dealerships to automatically capture and track prospects that contact the dealership via phone. This new program allows salespeople to retrieve customer information while talking to the customer and to conduct a needs analysis for handling prospect phone calls. The Call Management application automatically generates management logs and reports de