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STRONGHOLD TECHNOLOGIES INC
Form 10QSB
May 20, 2005

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

FORM 10-QSB

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 for the quarterly period ended
March 31, 2005.

OR

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

Commission file number: 333-54822

STRONGHOLD TECHNOLOGIES, INC.

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

Nevada

22-3762832

(State or other jurisdiction of
incorporation or organization)

(IRS Employer Identification No.)

106 Allen Road, Basking Ridge, NJ 07920

(Address of principal executive offices)

(908) 903-1195

(Issuer's telephone number)

N/A

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

Check whether the issuer (1) filed all reports required to be filed by Section
13 or 15(d) of the Securities Exchange Act during the past 12 months (or for
such shorter period that the registrant was required to file such reports), and
(2) has been subject to such filing requirements for the past 90 days.

Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common
equity, as of the latest practicable date: as of May 19, 2005, 17,287,349 shares
of the Registrant's common stock, (par value, \$0.0001), were outstanding.

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

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Stronghold Technologies, Inc. and Subsidiary
Condensed Consolidated Balance Sheet

| March 31, | 2005 |
|---|--------------|
| ----- | |
| ASSETS | |
| Current assets | |
| Cash | \$ 500 |
| Accounts receivable, less allowance for returns and doubtful accounts of \$219,891 | 38,124 |
| Inventories | 53,231 |
| Prepaid expenses | 33,592 |
| | ----- |
| Total current assets | 125,447 |
| | ----- |
| Property and equipment, net | 57,345 |
| | ----- |
| Other assets | |
| Software development costs, net of amortization | 823,795 |
| Deferred charge, convertible debt loan acquisition costs, net of amortization | 384,462 |
| Other | 127,195 |
| | ----- |
| Total other assets | 1,335,452 |
| | ----- |
| | \$ 1,518,244 |
| | ===== |

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LIABILITIES AND STOCKHOLDERS' DEFICIT

| | |
|---|--------------|
| Current liabilities | |
| Accounts payable | \$ 501,638 |
| Accrued expenses and other current liabilities | 1,337,471 |
| Interest payable, stockholders | 438,155 |
| Notes payable, stockholders, current portion | 1,195,531 |
| Deferred revenue | 596,953 |
| Obligations under capitalized leases, current portion | 18,053 |
| Total current liabilities | 4,087,801 |
| Long-term liabilities | |
| Notes payable, stockholders, less current portion | 1,129,600 |
| Note payable, convertible debt of \$3,350,000 net of debt discount of \$3,350,000 and debt discount amortization of \$842,209 | 842,209 |
| Obligations under capitalized leases, less current portion | 4,654 |
| Payroll taxes payable, long term | 325,000 |
| Total long-term liabilities | 2,301,463 |
| Commitments and contingencies | |
| Stockholders' deficit | |
| Preferred stock, Series A, \$.0001 par value; authorized 5,000,000 shares, 2,002,750 issued and outstanding (aggregate liquidation preference of \$3,004,125) | 201 |
| Preferred stock, Series B, \$.0001 par value; authorized 2,444,444 shares, 2,444,444 issued and outstanding (aggregate liquidation preference \$2,200,000) | 244 |
| Common stock, \$.0001 par value, authorized 50,000,000 shares, 17,287,349 issued and outstanding | 1,729 |
| Additional paid-in capital | 11,349,219 |
| Stock subscription receivable | (3,000) |
| Accumulated deficit | (16,219,413) |
| Total stockholders' deficit | (4,871,020) |
| | \$ 1,518,244 |

See accompanying notes to condensed consolidated financial statements

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

Three Months Ended March 31,

| | 2005 | 2004 |
|---------------|------------|------------|
| Net sales | \$ 261,652 | \$ 643,678 |
| Cost of sales | 118,179 | 236,508 |
| Gross profit | 143,473 | 407,170 |

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| | | |
|--|----------------|--------------|
| Selling, general and administration | 800,285 | 964,002 |
| | ----- | ----- |
| Loss from operations | (656,812) | (556,832) |
| Interest expense | 416,098 | 26,897 |
| | ----- | ----- |
| Net loss applicable to common stockholders | \$ (1,072,910) | \$ (583,728) |
| | ===== | ===== |
| Basic and diluted loss per common share | \$ (0.07) | \$ (0.04) |
| | ===== | ===== |
| Weighted average number of common shares outstanding | 16,394,016 | 13,341,930 |
| | ===== | ===== |

See accompanying notes to condensed consolidated financial statements

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

| Three Months Ended March 31, | 2005 | 2004 |
|--|----------------|--------------|
| ----- | | |
| Cash flows from operating activities | | |
| Net loss | \$ (1,072,910) | \$ (583,728) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Provision for returns and allowances | -- | 14,000 |
| Depreciation and amortization | 186,897 | 96,948 |
| Amortization of convertible debt discount | 302,628 | |
| Increase (decrease) in cash attributable to changes in operating assets and liabilities: | | |
| Accounts receivable | 265,674 | (130,247) |
| Inventories | (8,527) | 52,721 |
| Prepaid expenses | 56,892 | (19,686) |
| Other receivables | -- | |
| Other assets | 4,362 | (78,231) |
| Accounts payable | (117,540) | 15,978 |
| Accrued expenses and other current liabilities | 59,574 | (96,573) |
| Interest payable, stockholders | 39,787 | 12,095 |
| Deferred revenue | 3,545 | 36,824 |
| | ----- | ----- |
| Net cash used in operating activities | (279,618) | (679,899) |
| | ----- | ----- |
| Cash flows from investing activities | | |
| Payments for purchase of property and equipment | -- | (1,991) |
| Payments for software development costs | (65,455) | (134,326) |
| Payments of security deposits | (800) | |
| | ----- | ----- |
| Net cash used in investing activities | (66,255) | (136,317) |
| | ----- | ----- |
| Cash flows from financing activities | | |
| Proceeds from issuance of common stock, net of financing costs | | 42,052 |

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| | | |
|---|-----------|-----------|
| Proceeds from notes payable, stockholders | 50,000 | 895,000 |
| Principal repayments of notes payable, stockholders | -- | (20,000) |
| Proceeds from notes payable, convertible debt | 1,000,000 | -- |
| Payments made for debt issuance cost relating to notes payable, convertible debt | (85,577) | -- |
| Principal repayments of notes payable | (606,667) | (45,000) |
| Principal payments for obligations under capital leases | (11,883) | (11,042) |
| | ----- | ----- |
| Net cash provided by financing activities | 345,873 | 861,010 |
| | ----- | ----- |
| Net increase in cash | (0) | 44,794 |
| Cash, beginning of period | 500 | 8,161 |
| | ----- | ----- |
| Cash, end of period | \$ 500 | \$ 52,955 |
| | ===== | ===== |
| Supplemental disclosure of cash flow information, cash paid during the period for interest | \$ 78,846 | \$ 14,801 |
| | ===== | ===== |

See accompanying notes to condensed consolidated financial statements

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). These statements are unaudited and, in the opinion of management, include all adjustments (consisting of normal recurring adjustments and accruals) necessary to present fairly the results for the periods presented. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to applicable SEC rules and regulations. Operating results for the three-month period ended March 31, 2005 are not necessarily indicative of the results that may be expected for the year ending December 31, 2005. These financial statements should be read in conjunction with the financial statements and the notes thereto included in the Company's Annual Report of Form 10-KSB for the fiscal year ended December 31, 2004.

1. INVENTORIES

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

2. LOSS PER COMMON SHARE

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

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loss per common share.

3. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In December 2004, the FASB issued SFAS No. 123(R), "Accounting for Stock-based Compensation (Revised)." SFAS No. 123(R) supersedes APB No. 25 and its related implementation guidance. SFAS No. 123(R) establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. SFAS No. 123(R) focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS No. 123(R) requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service in exchange for the award the requisite service period (usually the vesting period). No compensation costs are recognized for equity instruments for which employees do not render the requisite service. The grant-date fair value of employee share options and similar instruments will be estimated using option-pricing models adjusted for the unique characteristics of those instruments (unless observable market prices for the same or similar instruments are available). If an equity award is modified after the grant-date, incremental compensation cost will be recognized in an amount equal to the excess of the fair value of the modified award over the fair value of the original award immediately before the modification. The Company has not completed its evaluation of SFAS No. 123(R) but expects the adoption of this new standard will have an impact on operating results due to the Company's use of options as employee incentives. This pronouncement becomes effective as of the beginning of the first interim or annual reporting period that begins after December 15, 2005.

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4. STOCK-BASED COMPENSATION

In December 2002, FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure," which amended SFAS No. 123, "Accounting for Stock-Based Compensation." This Statement provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based compensation. It also amends the disclosure provisions to require more prominent disclosure about the effects on reported net income (loss) of an entity's accounting policy decisions with respect to stock-based employee compensation. As permitted by the Statement, the Company does not plan to adopt the fair value recognition provisions of SFAS No. 123 at this time. However, the Company has adopted the disclosure provisions of the Statement.

The Company accounts for its stock-based employee compensation plans under Accounting Principles Board Opinion No. 25, under which no compensation cost has been recognized in the accompanying consolidated statements of operations, as all options granted under those plans had an exercise price equal to or in excess of the market value of the underlying common stock at the date of grant.

Had compensation cost for these options been determined consistent with the fair value method provided by SFAS No. 123, the Company's net loss and net loss per common share would have been the following pro forma amounts for the three-month periods ended March 31, 2005 and 2004.

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| | Three months ended March 31, | |
|---|---------------------------------|--------------|
| | 2005 | 2004 |
| Net loss applicable to common stockholders, as reported | (1,072,910) | \$ (583,728) |
| Deduct | | |
| Total stock-based compensation expense determined under fair value method for all awards, net of related tax effect | 3,162 | 12,819 |
| Pro Forma | (1,076,072) | \$ (12,819) |
| Basic and diluted EPS | | |
| As reported | \$ (0.07) | \$ (0.04) |
| Pro forma | \$ (0.07) | \$ (0.04) |
| March 31, 2005 and 2004 | | |

The fair value of issued stock options is estimated on the date of grant using the Black-Scholes option-pricing model including the following assumptions: expected volatility of approximately 15%, expected dividend yield rate of 0%, expected life of 10 years, and a risk-free interest rate of 4.50 and 4.13% for March 31, 2005 and 2004, respectively.

5. GOING CONCERN

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. Since the beginning of the fiscal year, the Company has incurred a net loss of \$1,072,910 and has negative cash flows from operations of \$279,618 for the three months ended March 31, 2005, and has a working capital deficit of \$3,962,354 and a stockholders' deficit of \$4,871,020 as of March 31, 2005. These conditions raise substantial doubt about the Company's ability to continue as a going concern. During 2005, management of the Company will rely on raising additional capital to fund its future operations. If the Company is unable to generate sufficient revenues or raise sufficient additional capital, there could be a material adverse effect on the consolidated financial position, results of operations and cash flows of the Company. The accompanying consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

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6. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consist of the following at March

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31, 2005

| | |
|------------------------|-------------|
| Sales tax | \$ 100,518 |
| Payroll taxes | 480,965 |
| Compensation | 350,420 |
| Commissions | 137,479 |
| Other accrued expenses | 268,089 |
| | ----- |
| Total | \$1,337,471 |
| | ----- |

Payroll Tax Payment Agreement with IRS

On April 30, 2004, the Company entered into an installment agreement with the United States Internal Revenue Service ("IRS") to pay overdue payroll taxes and penalties of totaling \$1,233,101 under the terms of which the Company will pay a minimum of \$35,000 each month, commencing June 28, 2004, until it has paid the withholding taxes due in full, to be completed in thirty-six month period by April 30, 2007. If the Company is unable to fulfill this agreement, the IRS could take possession of the Company's assets. As of March 31, 2005, the company has made all required payments to the IRS. The Company has recorded the portion of the payroll taxes of \$325,000 to be paid in the remaining monthly periods of 23 through 36 within the agreed upon payment plan in the long term liabilities section under the heading "Payroll taxes payable-long term" section of the balance sheet.

7. NOTES PAYABLE, STOCKHOLDERS

On March 15, 2004, the Company entered into a note payable with its preferred stockholders Stanford Venture Capital Holdings, Inc. for approximately \$875,000. The note bears interest at 8% per annum and is due on March 15, 2007. The balance of this note is located in the long-term portion of notes payable, stockholders.

The Company also has notes payable to its Chief Executive Officer Christopher J. Carey that are described in detail in the financings section below under the header Loans from Christopher J. Carey, an Executive Officer, Director and Shareholder of the Company

The following table provides a reconciliation of these loans to the current and long term sections of the balance sheet as well notes regarding the extension of the loans from Mr. Carey:

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| ----- | | | | | |
|------------------------------------|---------|-----------|-------|------------------------------|----------|
| Balance at March 31, 2005 | | | | | |
| ----- | | | | | |
| | Current | Long Term | Total | Original Term/Due Date | Ext T |
| ----- | | | | | |
| Stockholder - Christopher J. Carey | | | | | |
| ----- | | | | | |

3 mos

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| | | | | | |
|--|-----------|-----------|-----------|------------------------|-----|
| Stockholder Bridge Loan | 60,000 | | 60,000 | due 9/18/03 | 11/ |
| Stockholder Bridge Loan | 300,000 | | 300,000 | 3 mos due 9/18/03 | 11/ |
| Stockholder Loan | 105,000 | 254,600 | 359,600 | 18 mos due 12/31/03 | 12/ |
| Christopher J. Carey - AC Trust Fund | 375,403 | | 375,403 | 12 mos due 9/30/03 | 11/ |
| Christopher J. Carey - CC Trust Fund | 355,127 | | 355,127 | 12 mos due 9/30/03 | 11/ |
| Total-Stockholder - Christopher J, Carey | 1,195,530 | 254,600 | 1,450,130 | | |
| Stanford | | 875,000 | 875,000 | 3 yrs due 3/2007 | |
| Totals | 1,195,530 | 1,129,600 | 2,325,130 | | |

8. COMMITMENTS AND CONTINGENCIES

Callable Secured Convertible Notes

To obtain funding for its ongoing operations, the Company" entered into a Securities Purchase Agreement (the "Securities Purchase Agreement") with New Millennium Capital Partners II, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and AJW Partners, LLC (collectively, the "Investors") on June 18, 2004 for the sale of (i) \$3,000,000 of the AJW Notes and (ii) stock purchase warrants to buy 3,000,000 shares of the Company's common stock (the "AJW Warrants").

On June 18, 2004, the Investors purchased \$1,500,000 in AJW Notes and received Warrants to purchase 1,500,000 shares of the Company's common stock. On July, 28, 2004 the Investors purchased \$500,000 in AJW Notes and received Warrants to purchase 500,000 shares of common stock. On October 22, 2004 the Investors purchased \$350,000 in AJW Notes and received Warrants to purchase 350,000 shares of common stock. On March 18, 2005 the Investors purchased \$650,000 in AJW Notes and received Warrants to purchase 650,000 shares of common stock.

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The AJW 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) 25% of the average of the three lowest intraday trading prices for the Company's common stock during the 20 trading days before, but not including, the conversion date. The Company may prepay the AJW Notes in the event that no event of default exists, there are a sufficient number of shares available for conversion of the AJW Notes and the market price

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is at or below \$0.57 per share. The full principal amount of the AJW Notes is due upon default under the terms of AJW Notes. In addition, the Company has granted the Investors a security interest in substantially all of its assets and intellectual property as well as registration rights.

The AJW Note payable, convertible debt, is recorded at \$3,000,000 net of debt discount of \$3,000,000 and amortization of \$842,209, of which such amortization has been charged to interest expense. This Note payable, Convertible Debt is reported in accordance with Emerging Issues Task Force "EITF" 98-5 "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios" and EITF 00-27 "Application of Issue No. 98-5 to Certain Convertible Instruments" paragraph 19. The Debt Discount is reported at 100% of the net proceeds of the Convertible Debt Financing in accordance with EITF 98-5 that specifies that the beneficial conversion expense may not exceed the net proceeds. Additionally, the interest expense and debt discount and corresponding amortization are recorded in accordance EITF 00-27 paragraph 19 that states that convertible instruments that have a stated redemption date require a discount resulting from recording a beneficial conversion option to be accreted from the date of issuance to the stated redemption date of the convertible instrument, regardless of when the earliest conversion date occurs.

The Warrants are exercisable until five years from the date of issuance at a purchase price of \$0.57 per share. In addition, the exercise price of the Warrants is adjusted in the event the Company issues common stock at a price below market. Since the Company does not intend to issue common stock at below market price the warrants were valued at \$NIL using the Black-Scholes option pricing model including the following assumptions: exercise price of \$0.57, expected volatility of 2.06%, expected dividend yield rate of 0%, expected life of 5 years, and a risk free interest rate of 4.73%.

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

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

The agreement entered into on June 18, 2004 was amended on March 4, 2005, changing the conversion price of the convertible notes to the lower of (i) \$0.70 or (ii) 25% of the average of the three lowest intraday trading prices for our common stock during the 20 trading days before, but not including, the conversion date. The original agreement had the conversion price as the lower of (i) \$0.70 or (ii) 50% of the average of the three lowest intraday trading prices for our common stock during the 20 trading days before, but not including, the conversion date.

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New Callable Secured Convertible Notes Issuance

On March 31, 2005, in order to obtain funding for its ongoing operations, the Company entered into a new Securities Purchase Agreement (the "New Securities Purchase Agreement") with New Millennium Capital Partners II, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and AJW Partners, LLC (collectively, the "Investors") for the sale of (i) \$650,000 in callable convertible secured notes (the "Notes") and (ii) stock purchase warrants to buy 650,000 shares of the

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Company's common stock (the "Warrants"). On March 31, 2005 the Investors purchased \$350,000 in Notes, and received Warrants to purchase an aggregate of 350,000 shares of the Company's stock. On May 4, 2005, the Investors purchased \$300,000 in Notes and received Warrants to purchase 300,000 shares of our common stock.

The Notes bear interest at 12%, mature two years from the date of issuance, and are convertible into our common stock, at the Investors' option, at the lower of (i) \$0.70 or (ii) 25% of the average of the three lowest intraday trading prices for the Company's common stock during the 20 trading days before, but not including, the conversion date. The Company may prepay the Notes in the event that no event of default exists, there are a sufficient number of shares available for conversion of the Notes and the market price is at or below \$0.03 per share, the market price at the time of the closing. The full principal amount of the Notes is due upon default under the terms of Notes. In addition, the Company has granted the investors a security interest in substantially all of its assets and intellectual property as well as registration rights.

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

9. Restatement of Certain Transactions as of September 30, 2004

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

| | Three months ended September 30, 2004 | Nine months ended September 30, 2004 |
|---|---|--|
| Net Loss | (\$10,904.00) | (\$47,258.00) |
| Basic and diluted loss per common share | (\$ 0.001) | (\$ 0.003) |

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9. SUBSEQUENT EVENTS

New Callable Secured Convertible Notes Issuance

On May 4, 2005, the Investors purchased \$300,000 in Notes and received Warrants to purchase 300,000 shares of our common stock, completing the sale of (i) \$650,000 in callable secured convertible notes (the "Notes") and (ii) stock purchase warrants (the "Warrants") to buy 650,000 shares of our common stock that was agreed upon on March 31, 2005.

New Stockholder Loans

Subsequent to the balance sheet, on May 4, 2005 Christopher Carey committed an additional loan to the company of \$100,000, of which the terms are 8%, interest only, with principal due in 12 months.

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

Definitions

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

Our History

We were incorporated as a Nevada corporation on September 8, 2000, under the name TDT Development, Inc. On May 16, 2002 we acquired Stronghold Technologies, Inc., a New Jersey corporation referred to herein as our "Predecessor Entity", pursuant to a merger of the Predecessor Entity into our wholly-owned subsidiary, TDT Stronghold Acquisition Corp., referred to herein as "Acquisition Sub". As consideration for the merger, we issued 7,000,000 shares of our common stock, par value \$0.0001 per share, to the stockholders of the Predecessor Entity in exchange for all of the issued and outstanding shares of the Predecessor Entity. Following the merger, Acquisition Sub, the survivor of the merger, changed its name to Stronghold Technologies, Inc. (NJ) and remains our only wholly-owned subsidiary. On July 11, 2002, we changed our name from TDT Development, Inc. to Stronghold Technologies, Inc. On July 19, 2002, we exchanged all of the shares that we held in our two other wholly-owned subsidiaries, Terre di Toscana, Inc. and Terres Toscanes, Inc., which conducted an import and distribution business specializing in truffle-based food product, for 75,000 shares of our common stock held by Mr. Pietro Bortolatti, our former president.

Overview of our Handheld Technology Business

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

Our past results of operations and ensuing financial condition have resulted from our allocating significant resources to the development of our wireless technology business for use by the automobile dealership market that have been traditionally slow to accept such products. We have achieved initial acceptance, which has resulted in our generating limited revenue. The sales to date from our inception through the second quarter of 2004 have been achieved through direct selling efforts defined as employees of our company selling directly to dealers. We believe the initial sales of our products have positioned our company to now start selling through third party sellers that have established distribution channels. We announced our first distribution agreement in the third quarter and have realized the first sale pursuant to this distribution agreement.

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In the event that our distribution efforts through third party sellers do not increase our revenue to where we attain cash flow self sufficiency, then we would have to raise additional capital in order to maintain operations. In the event we did not raise such additional capital if needed, these conditions would raise substantial doubt about the Company's ability to continue as a going concern. Additionally, should there be a significant slow down in the purchase of automobile vehicles in the USA domestic market; this could cause dealers to slow down there buying decision of new technology which would negatively impact our results of operations.

Our Revenues

Stronghold's revenues are primarily received from system installation, software licenses and system maintenance. The approximate average selling package price of the system and installation is \$60,000. Additional revenues are derived from monthly system maintenance agreements that have a monthly fee of \$850 per month and a total contract value of \$30,600. The revenues derived from these categories are summarized below:

- o Software License Revenues: This represents the software license portion of the Dealer Advance Service Solution purchased by customers of the Company. The software and intellectual property of Dealer Advance has been developed and is owned by the Company.
- o System Installation Revenues: This represents the installation and hardware portion of the Dealer Advance Service Solution. All project management during the installation is performed by us. The installation and hardware portions include cable wiring subcontracting services and off the shelf hardware and handheld computers ("PDA"s).
- o Monthly Recurring Maintenance Revenue: This represents the maintenance and support contract for the Dealer Advance Service Solution that the customer executes with the system installation. The typical maintenance contract is for 36 months. In the three year operating history of the company, approximately 50% of all the company's customers have prepaid the maintenance fees through a third party leasing finance company. The third part leasing arrangements with dealers are commitments by the dealer client directly to the financing company with no recourse to the company. 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.

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General and Administrative Operating Expenses

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

- o Marketing and Selling;
- o General and Administrative;
- o Development & Operations;

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Our marketing and selling expenses include all labor, sales commissions and non-labor expenses of selling and marketing of our products and services. These include the salaries of two Vice Presidents of Sales and the Business Development Manager ("BDM") staff.

Our general and administrative expenses include expenses for all facilities, insurance, benefits, telecommunications, legal and auditing expenses are included as well as the executive management group wage expense.

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

Bad debt expenses are also included under Selling, General and Administrative Expenses. The policy for recognition of bad debt expenses established for the year end December 31, 2003 is still in effect. This policy has been established utilizing the amount of future returns estimated based on historical calculations, technology obsolescence and return period. We have set the policy for reserves for doubtful accounts at 20% of our accounts receivables to account for estimated rights of returns and uncollectible accounts. This is based on a historical return rate of 18% for 2003 and 16% in 2004. In the first full operating year of 2002 the return rate was 25%. The estimate for total returns in the life of our company as of March 31, 2005 is 22 returns on 118 sales for a return rate of 18.64% for the life of operations. In recognizing revenue, we consider the following factors:

- o Our price to the buyer is substantially fixed or determinable at the date of sale as evidenced by the contract signed for each sales and the terms and conditions of each;
- o The buyer has paid our company and the buyers obligation is not contingent on resale of the product;
- o The buyer's obligation to our company would not be changed in the event of theft or physical destruction or damage of the product;
- o The buyer acquiring the product for resale has economic substance apart from that provided by our company;
- o we do not have significant obligations for future performance to directly bring about resale of the product by the buyer; and
- o The amount of future returns can be reasonably estimated based on historical calculations, technology obsolescence and return period.

THREE MONTHS ENDED MARCH 31, 2005 AND THREE MONTHS ENDED MARCH 31, 2004.

Revenue

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For the quarter ended March 31, 2005, we had revenue of \$261,652 compared with revenue of \$643,678 for the quarter ended March 31, 2004. Revenue is generated from software license and system installation, maintenance support and service revenues. Revenues for the three months ended March 31, 2005 are broken down as follows:

| Three Months Ended March 31, 2005 | Three Months Ended March 31, 2004 | \$ Change | % |
|---|---|-----------|-------|
| ----- | ----- | ----- | ----- |

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| | | | |
|--|------------|------------|--------------|
| Software License & System Installation | \$ 85,653 | \$ 530,082 | \$ (444,429) |
| Support Maintenance | 162,794 | 108,509 | 54,285 |
| Services | 13,206 | 5,087 | 8,119 |
| Total Revenue | \$ 261,652 | \$ 643,678 | \$ (382,025) |

This decrease in revenue of \$382,025 or 59.35% 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 that resulted in less installations
- o concerns from the market regarding the viability of the company's ability to continue as a going concern, particularly with respect to the pending foreclosure suit with PNC Bank, which was finally paid off and satisfied on March 31, 2005.

Although we cannot provide guarantees, we do believe that our revenues will stabilize and achieve prior period revenue levels. Additionally, we may increase revenues in the future as we further develop our third party distributors and as the market learns that the potential for a bank foreclosure has been removed. We do not expect that we will incur additional expenses such as training and the development of training manuals associated with the implementation of our third party distributor sales strategy.

Cost of Sales

Cost of sales on a percentage basis increased 45.17% of revenue for the three months ended March 31, 2005 as compared to 36.74% of revenue for the three months ended March 31, 2004 for a net increase of 8.42%. The table below shows the Cost of Sales and percentage by category and the comparison in dollars and percentage for the three months ended March 31, 2005 and three months ended March 31, 2004. The increase in Cost of Sales as a percentage of revenue of 8.42% is primarily attributed to a corresponding percentage increase in Labor as a result of fewer installations in the period. We expect that our cost of sales as a percentage of revenue will increase in the future as we utilize additional third party distributors to increase the sales volume, however expect the total gross profit dollars to increase as the revenue volume stabilizes and then increases.

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| | Q1 2005 | Q1 2004 | Q1 2005 | Q1 2004 | |
|-----------------------------|-----------|-----------|--------------|--------------|---|
| Cost of Sales | Dollars | Dollars | % of Revenue | % of Revenue | % |
| Hardware Components | \$ 27,346 | \$ 87,559 | 10.45% | 13.60% | |
| Client Software & Licensing | 13,010 | 25,313 | 4.97% | 3.93% | |
| Distribution Fees | 422 | -- | 0.16% | -- | |
| Subcontractors | 3,154 | 7,594 | 1.21% | 1.18% | |
| Misc Installation Costs | 770 | 1,488 | 0.29% | 0.23% | |

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| | | | | |
|----------------------------------|-----------|-----------|--------|-------|
| Installations/Travel | 18,288 | 51,102 | 6.99% | 7.94% |
| Repairs | 80 | 9,611 | 0.03% | 1.49% |
| Shipping | 9,366 | 53,342 | 3.58% | 8.29% |
| Labor | 45,743 | 500 | 17.48% | 0.08% |
| Total Cost of Sales | \$118,179 | \$236,508 | | |
| Total Cost of Sales % of Revenue | 45.17% | 36.74% | | |

Gross Profits

We generated \$143,473 in gross profits from sales for the quarter ended March 31, 2005, which was a decrease of \$263,697 from the quarter ended March 31, 2004, when we generated \$407,170 in gross profits. Our gross profit margin percentage decreased by 8.42% from 63.26% in the quarter ended March 31, 2004 to 54.83% in the quarter ended March 31, 2005. The decrease in gross profit is primarily attributable to the reduction in installations for the period and excess labor capacity.

Selling, General and Administrative Expenses

Total Selling, General and Administrative expenses in the quarter ended March 31, 2005 were \$800,285, a decrease of 16.98% or \$163,717 from the quarter ended March 31, 2004 of \$964,002. The reduction in expense is primarily attributable to the reduction of staff from 29 in March 31, 2004 to 17 in the quarter ended March 31, 2005. The significant reduction in staffing resulted in a reduction of payroll expenses of \$210,586 which was the largest portion of the \$163,717 reduction offset by an increase in amortization of \$89,949 attributed to the Deferred Charge amortization associated with the loan acquisitions costs of the convertible debt instrument. Other significant expense reductions within selling, general and administrative expenses for the quarter ended March 31, 2005 and March 31, 2004 included the following:

- o Telephone expense of \$19,065 and
- o Travel and automobile expenses reductions of \$31,208

Our interest and penalty expense increased from \$26,897 in the quarter ended March 31, 2004 to \$416,098 in the quarter ended March 31, 2005. This increase of \$389,202 is primarily due a new non-cash category of interest expense resulting from the Beneficial Conversion Expense attributed to the AJW Convertible Notes. This new non-cash category expense is attributed to the Company's 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". The Company recorded \$302,628 of Beneficial Conversion Expense in the first quarter of 2005 as compared to the first quarter of 2004 when there was no beneficial conversion expense. Additionally, the company also incurred additional interest charges of \$71,815 attributable to the new convertible debt of \$3,350,000 and an additional \$12,274 for the additional debt financing of \$875,000 provided by Stanford.

Operating Loss

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The Company's operating losses increased by \$99,980 in comparing the quarter ended March 31, 2005 to the quarter ended March 31, 2004, which were \$656,812 and \$556,832 respectively. This increase in losses is primarily attributed to the significant reduction in revenue of \$382,026 for the comparative periods.

Net Loss

We had a net loss of \$1,072,910 for the quarter ended March 31, 2005 compared to \$583,728 for the quarter ended March 31, 2004, an increase in net losses of \$489,182. This increase of net losses of 83.8% is primarily attributable to the \$389,000 increase in interest expense and reduction of revenue of \$382,026 for the comparative periods.

Our loss per share increased to \$.07 loss per share with a weighted average of 16,394,016 shares outstanding in the quarter ended March 31, 2005 as compared to \$0.04 loss per share in the quarter ended March 31, 2004 with a weighted average of 13,341,930 shares outstanding.

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

Liquidity and Capital Resources

Overview

As of March 31, 2005, our cash balance was \$500. We had a net loss of \$1,072,910 for the quarter ended March 31, 2005. We had a net operating loss of approximately \$11,300,000 for the period from May 17, 2002 through March 31, 2005 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 March 31, 2005 was \$258,015, less allowance for doubtful accounts of \$219,891, and \$523,689 as of the year ended December 31, 2004, less allowances for doubtful accounts of \$218,446. The reason for the decrease in accounts receivable, less doubtful accounts was due to the decrease in revenues. Accounts receivable balances represent amounts owed to us for new installations and maintenance, service, training services, software customization and additional systems components.

As of March 31, 2005 the Company had the following financing arrangements:

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Debt Liability Summary Table

Current Debt liabilities

| | |
|---|-----------|
| IRS Payment Plan | 420,000 |
| Interest payable, stockholders (founding shareholder) | 456,566 |
| Notes payable, stockholders, current portion (founding shareholder) | 1,195,531 |

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| | |
|--|-----------|
| Total Debt current liabilities | 2,577,997 |
| ----- | |
| Long-term Debt liabilities | |
| Notes payable, stockholders, less current portion (founding shareholder and Stanford) | 1,129,600 |
| Note payable, convertible debt, net of debt issuance costs of \$2,507,791 | 842,209 |
| IRS Payment Plan (Long term portion) | 325,000 |
| ----- | |
| Total long term Debt liabilities | 2,296,809 |
| ----- | |

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 | 39 | \$ 222,285 |
| VA | 6/1/2004 | 24 months | 17 | 44,369 |
| CA | 11/1/2004 | 12 months | 7 | 5,525 |
| | | | | ----- |
| | | | Grand Total | \$ 272,179 |
| | | | | ----- |

Financing Needs

To date, we have not generated revenues in excess of our operating expenses. We have not been profitable since our inception, we expect to incur additional operating losses in the future and will require additional financing to continue the development and commercialization of our technology. We have incurred a net loss of approximately \$1,100,000 and have negative cash flows from operations of approximately \$280,000 for the quarter ended March 31, 2005, and have a working capital deficit of approximately \$3,960,000 and a stockholders' deficit of approximately \$4,870,000 as of March 31, 2005. These conditions raise substantial doubt about our ability to continue as a going concern. During 2005, 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.

The Company currently has no further commitments for additional financing as a result of the completion of the new convertible debt of \$650,000, of which the final \$300,000 was funded subsequent to the balance sheet date of March 31, 2005 on May 4, 2005.

The Company expects that this funding will provide the necessary cash to support operations throughout the second quarter of 2005. Since we do not have further financing commitments and will need to raise additional funds after the second quarter of 2005, this condition raises substantial doubt about the Company's ability to continue as a going concern.

Financings

The Company has entered into the following financing transactions:

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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 March 31, 2005, \$359,600 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, 2005, the AC Trust Fund agreed to extend the term of their loan to November 1, 2005. As of December 31, 2003, \$355,128 was outstanding under the CC Trust Fund loan agreement.

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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

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due and payable on September 30, 2003. The 12.5% interest on the outstanding principal is due each year. At the end of the loan period, the Fund will be entitled to exercise 25,000 warrants at \$1.50 per share. On September 30, 2002, the AC Trust Fund agreed to extend the term of their loan to December 30, 2003. On December 30, 2003, the AC Trust Fund agreed to extend the term of their loan to June 30, 2004. On March 30, 2004, the AC Trust Fund agreed to extend the term of their loan to March 31, 2005. On May 1, 2005, the AC Trust Fund agreed to extend the term of their loan to November 1, 2005. As of December 31, 2003, \$375,404 was outstanding under the AC Trust Fund loan agreement.

On March 18, 2003, we entered into a bridge loan agreement with Christopher J. Carey, for a total of \$400,000. The agreement stipulates that the Company will pay an 8% interest rate on a quarterly basis until the loan becomes due and payable on June 30, 2004. We also issued to Mr. Carey 391,754 warrants exercisable for common stock for 10 years at a price of \$0.97 per share. On December 30, 2003, Christopher J. Carey agreed to extend the term of the promissory note to June 30, 2004. As of December 31, 2003, \$360,000 was outstanding under this bridge loan agreement. On May 1, 2004, Christopher J. Carey agreed to extend the term of the loan to June 1, 2005.

On April 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 4.75%.

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.

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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

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\$1,089,897 as of December 31, 2003 (including estimated penalties and interest). The Company continues to make timely scheduled payments pursuant to the terms of the loan and is in forbearance negotiations with the Bank with respect to the default. On April 1, 2004, the Company received a second Notice of Event of Default stating that the Bank had accelerated the maturity of the Loan and declared all principal, interest, and other outstanding amounts due and payable.

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

On April 27, 2004, PNC Bank, N.A., as successor by merger to 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, the Company and PNC Bank agreed upon terms of an amendment to the forbearance agreement whereby by the payment schedule will change to include interest only payments on November 15, 2004, December 15, 2004 and January 15, 2005 with the final principal payment being made on or before January 31, 2005.

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

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Financings by Stanford Venture Capital Holdings, Inc.

On May 15, 2002, we entered into a Securities Purchase Agreement with Stanford Venture Capital Holdings, Inc., referred to herein as Stanford, in which we issued to Stanford (i) such number of shares of our Series A \$1.50 Convertible Preferred Stock, referred to herein as Series A Preferred Stock, that would in the aggregate equal 20% of the total issued and outstanding shares of our common stock, and (ii) such number of warrants for shares of our common stock that would equal the number of shares of Series A Preferred Stock issued to Stanford. The total aggregate purchase price for the Series A Preferred Stock and warrants paid by Stanford was \$3,000,000. The issuance of the Series A Preferred Stock and warrants took place on each of four separate closing dates from May 16, 2002 through and July 19, 2002, at which we issued an aggregate of 2,002,750 shares of our Series A Preferred Stock and warrants for 2,002,750 shares of our common stock to Stanford. . The warrants issued in 2002 were valued at \$294,893 using the black-scholes model using the following assumptions and a stock price of \$1.50:

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- o Conversion price \$1.50;
- o expected volatility of 0%;
- o expected dividend yield rate of 0%;
- o expected life of 5 years; and
- o a risk-free interest rate of 4.91% for the period ended June 30, 2002.

In connection with our Series B financing, as partial consideration for the funds received pursuant to the Series B financing, we agreed to decrease the exercise price to \$.25. With respect to the decrease in the exercise price and the warrants being treated as a cost of the series B financing, the reduction of series A warrants was written in to the Series B preferred stock agreements as part of the negotiation. At the end of fiscal 2003, Stanford exercised the warrants for 2,002,750 shares of our common stock.

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

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On March 3, 2004 and March 15, 2004 we received loans in the amount of \$437,500 each from Stanford. We have agreed to pay Stanford an 8% annual dividend on the funds invested and to redeem the securities not later than three years from the date of funding. As of March 31, 2005 the accrued interest on the loan was \$74,411. On March 7, 2005, the Company and Stanford agreed to settle the accrued interest through March 31, 2005 of \$74,411 for 826,788 shares of restricted common stock. The price per share on March 7, 2005 was \$.09/share.

Additionally, on March 7, 2005, the Company issued Stanford 373,212 shares as consideration for their consent to amending the agreement the Company entered into on June 18, 2004 with respect to the Callable Secured Convertible Notes Issuance (see the appropriate section below), changing the conversion price of the convertible notes to the lower of (i) \$0.70 or (ii) 25% of the average of the three lowest intraday trading prices for our common stock during the 20 trading days before, but not including, the conversion date. The original agreement had the conversion price as the lower of (i) \$0.70 or (ii) 50% of the average of the three lowest intraday trading prices for our common stock during the 20 trading days before, but not including, the conversion date.

Private Placements with Accredited Private Investors

During August and September 2002, we entered into 9 subscription

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

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

Warrants

On June 16, 2004, in connection with the issuance of the 12% callable secured convertible notes (the "AJW Notes") the Company issued to Stanford a warrant (the "Stanford Warrants") to purchase 2,000,000 shares of Common Stock, expiring in five years, at an exercise price of \$.0001, in consideration i) agreeing to a waiver of existing registration rights that included a lock up period for one year after the effective date of a registration statement prohibiting the registration and sale of Stanford's securities and ii) agreeing as holder of Stronghold's Series A \$1.50 Convertible Preferred Stock ("Series A Stock") and Series B \$.90 Convertible Preferred Stock ("Series B Stock"), to waive any dilution issuances required by the Series A Stock and the Series B Stock as a result of the conversion of the AJW Notes or exercise of the Stanford Warrants into the Company's common stock. This issuance of the Stanford Warrants has been accounted for as an adjustment of capital for the waiving of the dilution protection for the Series A and Series B preferred stock. The Stanford Warrants were valued at approximately \$360,000 using the Black-Scholes option pricing model including the following assumptions: exercise price of \$0.0001, expected volatility of 2.06%, expected dividend yield rate of 0%, expected life of 5 years, and a risk free interest rate of 4.73%.

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Callable Secured Convertible Notes

To obtain funding for its ongoing operations, the Company entered into a Securities Purchase Agreement (the "Securities Purchase Agreement") with New Millennium Capital Partners II, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and AJW Partners, LLC (collectively, the "Investors") on June 18, 2004 for the sale of (i) \$3,000,000 of the AJW Notes and (ii) stock purchase warrants to buy 3,000,000 shares of the Company's common stock (the "AJW Warrants").

On June 18, 2004, the Investors purchased \$1,500,000 in AJW Notes and received Warrants to purchase 1,500,000 shares of the Company's common stock. On July, 28, 2004 the Investors purchased \$500,000 in AJW Notes and received Warrants to purchase 500,000 shares of common stock. On October 22, 2004 the Investors purchased \$350,000 in AJW Notes and received Warrants to purchase 350,000 shares of common stock. On March 18, 2005 the Investors purchased \$650,000 in AJW Notes and received Warrants to purchase 650,000 shares of common stock..

The AJW 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) 25% of the average of the three lowest

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intraday trading prices for the Company's common stock during the 20 trading days before, but not including, the conversion date. The Company may prepay the AJW Notes in the event that no event of default exists, there are a sufficient number of shares available for conversion of the AJW Notes and the market price is at or below \$0.57 per share. The full principal amount of the AJW Notes is due upon default under the terms of AJW Notes. In addition, the Company has granted the Investors a security interest in substantially all of its assets and intellectual property as well as registration rights.

The AJW Note payable, convertible debt, is recorded at \$3,000,000 net of debt discount of \$3,000,000 and amortization of \$842,209, of which such amortization has been charged to interest expense. This Note payable, Convertible Debt is reported in accordance with Emerging Issues Task Force "EITF" 98-5 "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios" and EITF 00-27 "Application of Issue No. 98-5 to Certain Convertible Instruments" paragraph 19. The Debt Discount is reported at 100% of the net proceeds of the Convertible Debt Financing in accordance with EITF 98-5 that specifies that the beneficial conversion expense may not exceed the net proceeds. Additionally, the interest expense and debt discount and corresponding amortization are recorded in accordance EITF 00-27 paragraph 19 that states that convertible instruments that have a stated redemption date require a discount resulting from recording a beneficial conversion option to be accreted from the date of issuance to the stated redemption date of the convertible instrument, regardless of when the earliest conversion date occurs.

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The Warrants are exercisable until five years from the date of issuance at a purchase price of \$0.57 per share. In addition, the exercise price of the Warrants is adjusted in the event the Company issues common stock at a price below market. Since the Company does not intend to issue common stock at below market price the warrants were valued at \$NIL using the Black-Scholes option pricing model including the following assumptions: exercise price of \$0.57, expected volatility of 2.06%, expected dividend yield rate of 0%, expected life of 5 years, and a risk free interest rate of 4.73%.

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

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

The agreement entered into on June 18, 2004 was amended on March 4, 2005, changing the conversion price of the convertible notes to the lower of (i) \$0.70 or (ii) 25% of the average of the three lowest intraday trading prices for our common stock during the 20 trading days before, but not including, the conversion date. The original agreement had the conversion price as the lower of (i) \$0.70 or (ii) 50% of the average of the three lowest intraday trading prices for our common stock during the 20 trading days before, but not including, the conversion date.

New Callable Secured Convertible Notes Issuance

On March 31, 2005, in order to obtain funding for its ongoing operations, the Company entered into a new Securities Purchase Agreement (the "New Securities Purchase Agreement") with New Millennium Capital Partners II, LLC, AJW Qualified

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Partners, LLC, AJW Offshore, Ltd. and AJW Partners, LLC (collectively, the "Investors") for the sale of (i) \$650,000 in callable convertible secured notes (the "Notes") and (ii) stock purchase warrants to buy 650,000 shares of the Company's common stock (the "Warrants"). On March 31, 2005 the Investors purchased \$350,000 in Notes, and received Warrants to purchase an aggregate of 350,000 shares of the Company's stock. On May 4, 2005, the Investors purchased \$300,000 in Notes and received Warrants to purchase 300,000 shares of our common stock.

The Notes bear interest at 12%, mature two years from the date of issuance, and are convertible into our common stock, at the Investors' option, at the lower of (i) \$0.70 or (ii) 25% of the average of the three lowest intraday trading prices for the Company's common stock during the 20 trading days before, but not including, the conversion date. The Company may prepay the Notes in the event that no event of default exists, there are a sufficient number of shares available for conversion of the Notes and the market price is at or below \$0.03 per share, the market price at the time of the closing. The full principal amount of the Notes is due upon default under the terms of Notes. In addition, the Company has granted the investors a security interest in substantially all of its assets and intellectual property as well as registration rights.

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

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

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financial statements:

Revenue Recognition Policy

Revenue is recognized under the guidelines of SFAS No. 48 "Revenue Recognition When Right of Return Exists" and has a four step process that must be met prior to the recording of revenue. The steps consist of the following: signing of sales contract, installation of hardware, completion of the training period and a signed contract from the customer stating they accept the product for the sixty-day trial period. Payment is due upon the completion of the trial period. The sales revenue and cost of sales reported in the consolidated statements of operations is reduced to reflect estimated returns. Service revenue is recognized when earned. All sales agreements with clients do not require significant production, modification, or customization of software, additionally all the functionality of the product is made available upon delivery, therefore the Company recognizes revenue in accordance with Paragraph 8 of 97-2 when:

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- 1) Persuasive evidence of an arrangement exists as evidenced by a signed contract,
- 2) Delivery has occurred, please note that Stronghold does not recognize revenue prior to delivery,
- 3) The price of Stronghold's system is fixed and determinable as evidence by the contract, and
- 4) Collectability is highly probable.

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

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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.

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Deferred Revenue

Deferred revenue is recorded as a liability when we receive the three year maintenance contract in an a one-time advance payment. We then recognize the revenue from the maintenance portion of the contract on a pro rata basis over 36 months as the service is delivered.

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 March 31, 2005, we capitalized \$65,955 of development costs in developing enhanced functionality of our DealerAdvance(TM) products. This compares with \$134,326 for the quarter ended March 31, 2004. We capitalized a total of \$407,505 of development costs for the twelve month period ended December 31, 2004.

ITEM 2. CONTROLS AND PROCEDURES

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of September 30, 2004. Based on this evaluation, our chief executive officer and Chief financial officer concluded that as of March 31, 2005, our disclosure controls and procedures were (1) designed to ensure that material information relating to us, including its consolidated subsidiaries, is made known to our chief executive officer and chief financial officer by others within those entities, particularly during the period in which this report was being prepared and (2) effective, in that they provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

No change in our internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended March 31, 2005 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.
PART II -

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PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

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From time to time, we may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business. We are currently not aware of any such legal proceedings or claims that we believe will have, individually or in the aggregate, a material adverse affect on our business, financial condition or operating results.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

To obtain funding for its ongoing operations, the Company entered into a Securities Purchase Agreement (the "Agreement") with New Millennium Capital Partners II, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and AJW Partners, LLC (collectively, the "Investors") on June 18, 2004 for the sale of (i) \$3,000,000 in callable secured convertible notes (the "Notes") and (ii) stock purchase warrants (the "Warrants") to buy 3,000,000 shares of our common stock.

The following closings have occurred pursuant to the Agreement:

- o 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;
- o on July 27, 2004, the Investors purchased \$500,000 in Notes and received Warrants to purchase 500,000 shares of our common stock;
- o on October 22, 2004, the Investors purchased \$350,000 in Notes and received Warrants to purchase 350,000 shares of our common stock; and
- o On March 18, 2005, the Investors purchase \$650,000 in Notes and received Warrants to purchase 650,000 shares of our common stock.

The Company entered into a second Securities Purchase Agreement with the Investors on March 31, 2005 for the sale of (i) \$650,000 in callable secured convertible notes (the "Notes") and (ii) stock purchase warrants (the "Warrants") to buy 650,000 shares of our common stock.

On March 31, 2005, the Investors purchased \$350,000 in Notes and received Warrants to purchase 350,000 shares of the Company's common stock. On May 4, 2005, the Investors purchased \$300,000 in Notes and received Warrants to purchase 300,000 shares of our common stock.

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The Notes bear interest at 12%, mature two years from the date of issuance, and are convertible into our common stock, at the Investors' option, at a conversion price, which was amended on March 4, 2005, equal to the lower of (i) \$0.70 or (ii) 25% of the average of the three lowest intraday trading prices for our common stock during the 20 trading days before, but not including, the conversion date.

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 callable secured convertible 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 our assets and intellectual property as well as registration rights.

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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 the Company common stock held by them and their affiliates after such conversion or exercise does not exceed 4.99% of the Company's then issued and outstanding shares of common stock.

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

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

See Exhibit Index.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized this ___ day of March 2005.

STRONGHOLD TECHNOLOGIES, INC.

BY: /s/ Christopher J. Carey

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

BY: /s/ Karen S. Jackson

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

Dated: As of May 20, 2005

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ITEM 6. EXHIBIT INDEX

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