

LAZARD GLOBAL TOTAL RETURN & INCOME FUND INC
Form N-CSRS
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-21511

Lazard Global Total Return and Income Fund, Inc.
(Exact name of registrant as specified in charter)

30 Rockefeller Plaza
New York, New York 10112
(Address of principal executive offices) (Zip code)

Nathan A. Paul, Esq.
Lazard Asset Management LLC
30 Rockefeller Plaza
New York, New York 10112
(Name and address of agent for service)

Registrant's telephone number, including area code: (212) 632-6000

Date of fiscal year end: 12/31

Date of reporting period: 06/30/06

ITEM 1. REPORTS TO STOCKHOLDERS.

LAZARD ASSET MANAGEMENT

Lazard Global Total Return & Income Fund, Inc.

Semi-Annual Report

JUNE 30, 2006

Lazard Global Total Return & Income Fund, Inc.

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Please consider the Fund's investment objectives, risks, charges and expenses carefully before investing. For more complete information about the Fund, you may obtain the prospectus by calling 800-828-5548. Read the prospectus carefully before you invest. The prospectus contains investment objectives, risks, charges, expenses and other information about the Fund, which may not be detailed in this report.

Lazard Global Total Return & Income Fund, Inc.

Investment Overview

Dear Shareholder,

We are pleased to present this semi-annual report for Lazard Global Total Return & Income Fund, Inc. ("LGI" or the "Fund"), for the period ended June 30, 2006. LGI is a diversified, closed-end management investment company that began trading on the New York Stock Exchange ("NYSE") on April 28, 2004. Its ticker symbol is "LGI."

The Fund has been in operation for a little over two years, and we are pleased with LGI's overall performance since inception. We believe that the Fund has provided investors with an attractive yield and diversification, backed by the extensive experience, commitment, and professional management of Lazard Asset Management LLC (the "Investment Manager" or "Lazard").

Portfolio Update (as of June 30, 2006)

For the second quarter of 2006, the Fund's Net Asset Value per share ("NAV") performance was flat, outperforming the Morgan Stanley Capital International (MSCI®) World® Index, which declined 0.5%. Similarly, for the year-to-date, the NAV return of 8.2% has outperformed the benchmark return of 6.1%. And since inception, the Fund's annualized NAV return of 13.3% compares favorably to the benchmark's return of 12.4%. Shares of LGI ended the second quarter of 2006 with a market price of \$19.58, representing an 11.8% discount to the Fund's NAV of \$22.19. The Fund's net assets were \$213.2 million as of June 30, 2006, with total leveraged assets of \$297.0 million, representing 28.2% leverage.

We believe that LGI's investment thesis remains sound. The Fund's NAV returns, since its inception and in 2006, have outperformed the Index. Second quarter performance was affected by the sharp sell-off in global markets, which continued into early June. A rebound came late in the month and global markets ended the quarter roughly flat. While the smaller, short-duration currency and debt portion of the Fund has experienced only moderate positive returns thus far in 2006. It has been a meaningful positive contributor to performance for the Fund since its inception.

As of June 30, 2006, 65.7% of the Fund's total leveraged assets consisted of global equities and 34.1% consisted of emerging markets currency and debt instruments, while the remaining 0.2% consisted of cash and other assets.

Declaration of Dividends

Pursuant to LGI's level distribution policy, the Fund's Board of Directors has declared a monthly dividend distribution of \$0.1042 per share on the Fund's outstanding stock each month since inception. The first dividend was paid on July 23, 2004. This distribution level represents an annualized market yield of 6.4% based on the share price of \$19.58 at the close of NYSE trading on June 30, 2006. Since inception, LGI's distributions have not included any return of capital to the Fund's stockholders.

Additional Information

Please note that available on www.LazardNet.com are frequent updates on the Fund's performance, press releases, and a monthly fact sheet that provides information about the Fund's major holdings, sector weightings, regional exposures, and other characteristics. You may also reach Lazard by phone at 1-800-828-5548.

On behalf of Lazard, we thank you for your investment in Lazard Global Total Return & Income Fund, Inc. and look forward to continuing to serve your investment needs in the future.

Message from the Portfolio Managers

Global Equity Portfolio
(65.7% of total leveraged assets)

The Fund's equity portfolio is invested primarily in equity securities of large, well-known global companies with strong financial productivity at attractive valuations. Examples include GlaxoSmithKline, a global, research-based pharmaceutical company based in the United Kingdom; Bank of America, a holding company that provides banking and non-banking financial services and products in the U.S. and internationally; Nokia Corp., the Finnish manufacturer of mobile telephones, enhanced communicators, entertainment and gaming devices, and media and imaging telephones; and Total SA, the French-based energy supplier that explores for, produces, refines, transports, and markets oil and natural gas.

Companies held in the global equity portfolio are all based in developed-market regions around the world.

Lazard Global Total Return & Income Fund, Inc.

Investment Overview (continued)

As of June 30, 47.2% of these stocks were based in North America, 22.9% were from continental Europe (not including the U.K.), 19.1% were from the U.K., and 10.8% were from Japan. The global equity portfolio is similarly well diversified across a number of industry sectors. The top two sectors, by weight, at June 30, were financials (31.3%), which includes banks, insurance companies, and financial services companies, and information technology (19.0%), a sector that encompasses industries involved in the design, development, installation, and implementation of information systems and applications, including hardware, software, IT services, and media-related companies. Other sectors in the portfolio include consumer discretionary, consumer staples, energy, health care, industrials, and telecommunications services. The average dividend yield on the global equity portfolio was 2.3% at June 30.

Global Equity Market Review

The rally in global equities continued through the first half of the second quarter, before stocks fell sharply amid concerns over a potential acceleration in inflation and its implications for future monetary policy. Comments from the newly installed Federal Reserve ("Fed") Chairman, Benjamin Bernanke, regarding the "unwelcome" increase in prices, called into question the prevailing belief that the cycle of monetary tightening in the U.S. was nearing an end. Concerns that the Fed would continue to aggressively raise rates fueled fears of a material global economic slowdown and a sharp contraction in liquidity, as central banks around the world tightened monetary policy. Not surprisingly, the sectors of the market that had performed best in recent years, such as economically sensitive groups and companies in the fragile economies of Japan and Germany, were hardest hit in the sell-off. Smaller-cap stocks underperformed for the quarter, after significantly outperforming their larger peers in recent years. Smaller, less-liquid markets, such as Greece and Austria, also lagged in the decline. In contrast, the U.S. and U.K. markets proved resilient. From a sector perspective, defensive groups, such as utilities and consumer staples, outperformed. Commodity producers were volatile during the quarter and were particularly hard hit in the sell-off. However, they performed in line with the broad index for the overall quarter, thanks to their strength early in the period. Energy stocks outperformed, as the price of oil proved resilient and ended the quarter near an all-time high.

What Helped and What Hurt LGI

Stock selection in technology helped the Fund's performance in the second quarter, as one of its global equity portfolio's largest holdings, Oracle, reported better-than-expected earnings. The company's latest results prove that it is doing a good job of executing its acquisition strategy. In addition, customers are embracing its broader product offerings, potentially helping the company to gain market share from its largest competitor. The company also announced that it plans to use the solid free cash flow that it has generated to repurchase \$4 billion in stock over the year. Consumer discretionary holdings detracted from performance based on concerns that higher interest rates and a slowing housing market would hurt consumer spending. However, we believe that valuations in this sector are attractive.

Emerging Market Currency and Debt Portfolio **(34.1% of total leveraged assets)**

The Fund also seeks enhanced income through investing in high-yielding, short-duration¹ (typically, under one-year) emerging market forward currency contracts and local currency debt instruments. At June 30, this portfolio consisted primarily of forward currency contracts (81.3%), and a smaller allocation to sovereign debt obligations (14.1%) and structured notes (4.6%) and had an average duration of approximately 5.5 months, with an average yield of 8.8% .2

At June 30, the Fund's emerging market currency and debt holdings were highly diversified across 30 countries within Eastern Europe (17.2%), Asia (27.0%), Latin America (21.3%), the Middle East (7.7%), Africa (16.9%), and the Commonwealth of Independent States and Baltic countries (9.2%), and with 1.0% in other assets.

Emerging Market Currency and Debt Market Review After a solid first quarter characterized by strong performance and buoyant risk appetite, emerging markets witnessed a tumultuous second quarter. As liquidity continued to be drained slowly by many central banks across the globe, market technicals, risk reduction, and consequent volatility were the important second-

Lazard Global Total Return & Income Fund, Inc.

Investment Overview (continued)

quarter themes. Emerging markets currencies experienced directional pressure on the massive outflow of foreign equity capital, and FX volatility rose in the second quarter. Losses were most significant across countries perceived to be overvalued, high-beta to global risk appetite, or simply crowded.

During the past few years, a large number of emerging markets countries have experienced record dollar inflows from current account and/or capital account surpluses, which should have pressured their currencies stronger. Yet, in the growth versus inflation policy trade-off, most central banks chose growth, as central banks absorbed most inflows by increasing FX reserves and expanding money supply, preventing currency appreciation and preserving external competitiveness. Inflation has been rising (albeit from very low levels), and central bank officials are now being forced to take note of the immense size of their reserves (mostly in U.S. dollars) and the currency exposure this implies. Many of these countries are now curtailing these increasingly expensive intervention policies, and are hiking rates to address currency volatility and restore market confidence. Furthermore, rising rates in the developed markets have also pressured emerging market central bankers to tighten monetary policy.

What Helped and Hurt LGI

The portfolio's large exposure to Russia was the top contributor to performance, driven primarily by the 3.2% appreciation of the currency. Russia continues to see massive dollar inflows, primarily due to oil exports. The Central Bank intervened by accumulating dollars to prevent these inflows from pressuring the ruble stronger. This led to increasing money supply and, consequently, rising inflation. However, with inflation already close to 11% in Russia, there has been a refocus on inflation control, allowing the ruble to appreciate.

Romania was also a leading contributor to performance. The National Bank of Romania has pursued its inflation-targeting policy with added fervor this year, after last year's policy of easing rates to deter yield-seeking inflows (even in the face of persistent inflation) led to some loss of credibility. The Central Bank hiked rates in the second quarter and significantly raised reserve requirements.

Detracting from performance was the portfolio's exposure to Turkey. While previously successful in controlling inflation, Turkey's Central Bank came under scrutiny earlier in 2006. Turkey's stock market has more than a 60% foreign-investor presence, led by hedge funds and private investors, and many of these investors rushed to the exits, when the stock market began to fall, and risk budgets were slashed. The Central Bank's downplaying of the sell-off disappointed the already nervous market, and a subsequent release of the inflation numbers confirmed the market's fears and fueled further panic selling. The Central Bank finally raised rates and announced it would intervene to support the currency. Turkish assets then recovered some of their losses, but still ended the quarter weaker.

Exposure to Colombia also hurt portfolio performance, as capital flight from the fixed income and equity markets led to a sell off in Colombia's peso.

Lazard Global Total Return & Income Fund, Inc.

Investment Overview (continued)

Notes to Investment Overview:

- 1 A measure of the average cash weighted term-to-maturity of the investment holdings. Duration is a measure of the price sensitivity of a bond to interest rate movements. Duration for a forward currency contract is equal to its term-to-maturity.
- 2 The quoted yield excludes the implicit cost of borrowing for the forward currency contracts.

All returns reflect reinvestment of all dividends and distributions. Past performance is not indicative, nor a guarantee, of future results.

The performance data of the index and other market data have been prepared from sources and data that the Investment Manager believes to be reliable, but no representation is made as to their accuracy. The index is unmanaged, has no fees or costs and is not available for investment.

The views of the Fund's management and the portfolio holdings described in this report are as of June 30, 2006; these views and portfolio holdings may have changed subsequent to this date. Nothing herein should be construed as a recommendation to buy, sell, or hold a particular investment. There is no assurance that the portfolio holdings discussed herein will remain in the Fund at the time you receive this report, or that portfolio holdings sold will have not been repurchased. The specific portfolio holdings discussed may in aggregate represent only a small percentage of the Fund's holdings. It should not be assumed that investments identified and discussed were, or will be, profitable, or that the investment decisions we make in the future will be profitable, or equal the performance of the investments discussed herein.

The views and opinions expressed are provided for general information only, and do not constitute specific tax, legal, or investment advice to, or recommendations for, any person. There can be no guarantee as to the accuracy of the outlooks for markets, sectors and securities as discussed herein. You should read the Fund's prospectus for a more detailed discussion of the Fund's investment objective, strategies, risks and fees.

Lazard Global Total Return & Income Fund, Inc.

Investment Overview (continued)

**Comparison of Changes in Value of \$10,000 Investment in
LGI and MSCI World Index* (unaudited)**

**Average Annual Total Returns*
Periods Ended June 30, 2006
(unaudited)**

	One Year	Since Inception**
Market Price	13.00%	5.26%
Net Asset Value	15.56	13.32
MSCI World Index	16.93	12.44

* All returns reflect reinvestment of all dividends and distributions. The performance quoted represents past performance. Current performance may be lower or higher than the performance quoted. Past performance is not indicative, nor a guarantee, of future results; the investment return, market price and net asset value of the Fund will fluctuate, so that an investor's shares in the Fund, when sold, may be worth more or less than their original cost. The returns do not reflect the deduction of taxes that a stockholder would pay on the Fund's distributions or on the sale of Fund shares.

The performance data of the index has been prepared from sources and data that the Investment Manager believes to be reliable, but no representation is made as to its accuracy. The MSCI World Index represents market value-weighted average returns of selected securities listed on the stock exchanges of Europe, Australasia and Far East, New Zealand, Canada, and the United States. The index is unmanaged, has no fees or costs and is not available for investment.

** The Fund's inception date was April 28, 2004.

Lazard Global Total Return & Income Fund, Inc.

Investment Overview (concluded)

Ten Largest Equity Holdings June 30, 2006 (unaudited)

<u>Security</u>	<u>Value</u>	<u>Percentage of Net Assets</u>
Microsoft Corp.	\$ 7,605,120	3.57%
Oracle Corp.	6,911,730	3.24
Diageo PLC Sponsored ADR	6,829,305	3.20
HSBC Holdings PLC Sponsored ADR	6,741,105	3.16
Citigroup, Inc.	6,700,536	3.14
Bank of America Corp.	6,647,420	3.12
Exxon Mobil Corp.	6,447,885	3.02
JPMorgan Chase & Co.	6,253,632	2.93
Nomura Holdings, Inc. ADR	6,252,880	2.93
Johnson & Johnson	6,249,656	2.93

Portfolio Holdings Presented by Sector June 30, 2006 (unaudited)

<u>Sector</u>	<u>Percentage of Total Investments</u>
Commercial Services	1.6%
Consumer Discretionary	3.4
Consumer Durables	0.8
Consumer Staples	9.8
Emerging Markets Debt Obligations	7.9
Energy	11.0
Financials	25.4
Health Care	6.4
Producer Manufacturing	6.2
Technology	14.6
Telecommunications	1.9
Short-Term Investment	11.0
	<hr/>
Total Investments	100.0%
	<hr/>

Lazard Global Total Return & Income Fund, Inc.

Portfolio of Investments**June 30, 2006 (unaudited)**

Description	Shares	Value
Common Stocks 91.5%		
Finland 1.8%		
Nokia Oyj Sponsored ADR (c)	192,800	\$ 3,906,128
France 3.0%		
Societe Generale Sponsored ADR	72,000	2,116,080
Total SA Sponsored ADR (c)	64,000	4,193,280
Total France		6,309,360
Germany 2.1%		
Siemens AG Sponsored ADR	50,600	4,393,092
Italy 2.0%		
Eni SpA Sponsored ADR (c), (d)	72,850	4,279,938
Japan 9.9%		
Canon, Inc. Sponsored ADR	29,800	2,183,446
Hoya Corp. Sponsored ADR (c), (d)	54,300	1,914,075
Mitsubishi UFJ Financial Group, Inc. ADR (c)	323,100	4,507,245
Mitsui Sumitomo Insurance Co., Ltd. ADR (d)	17,600	2,212,413
Nissan Motor Co., Ltd. Sponsored ADR (d)	87,600	1,925,448
Nomura Holdings, Inc. ADR (d)	332,600	6,252,880
Sumitomo Mitsui Financial Group, Inc. ADR (d)	209,100	2,195,550
Total Japan		21,191,057
Netherlands 2.2%		
Heineken NV ADR (d)	225,600	4,778,208
Sweden 0.9%		
Telefonaktiebolaget LM Ericsson Sponsored ADR	61,900	2,045,176
Switzerland 8.9%		
Credit Suisse Group Sponsored ADR	73,400	4,109,666
Nestle SA Sponsored ADR	57,400	4,499,012
Novartis AG ADR	39,600	2,135,232
Swiss Re Sponsored ADR (c), (d)	55,200	3,851,304
UBS AG	21,400	2,347,580
Zurich Financial Services AG ADR	92,500	1,974,875

Total Switzerland		18,917,669
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United Kingdom 17.5%		
Barclays PLC Sponsored ADR (c), (d) .	67,800	\$ 3,103,884
BP PLC Sponsored ADR	69,600	4,844,856
Cadbury Schweppes PLC Sponsored ADR (c), (d)	112,700	4,375,014
Diageo PLC Sponsored ADR	101,100	6,829,305
GlaxoSmithKline PLC ADR (c)	80,200	4,475,160
HSBC Holdings PLC Sponsored ADR (d)	76,300	6,741,105
Tesco PLC Sponsored ADR (d)	119,000	2,205,379
Vodafone Group PLC Sponsored ADR	219,100	4,666,830
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Total United Kingdom		37,241,533
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United States 43.2%		
Bank of America Corp. (c)	138,200	6,647,420
Chevron Corp.	73,400	4,555,204
Cisco Systems, Inc. (c)	220,400	4,304,412
Citigroup, Inc. (c)	138,900	6,700,536
ConocoPhillips	32,900	2,155,937
Dell, Inc. (a)	92,900	2,267,689
Exxon Mobil Corp. (c)	105,100	6,447,885
First Data Corp.	84,300	3,796,872
General Electric Co.	116,300	3,833,248
Honeywell International, Inc.	55,000	2,216,500
International Business Machines Corp.	53,100	4,079,142
Johnson & Johnson (c)	104,300	6,249,656
JPMorgan Chase & Co. (c)	148,896	6,253,632
Mellon Financial Corp.	60,400	2,079,572
Microsoft Corp. (c)	326,400	7,605,120
Oracle Corp. (a), (c)	477,000	6,911,730
Pfizer, Inc.	103,500	2,429,145
The Coca-Cola Co. (c)	74,200	3,192,084
The Home Depot, Inc.	165,500	5,923,245
United Technologies Corp.	68,900	4,369,638
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Total United States		92,018,667
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Total Common Stocks (Identified cost \$175,796,088)		195,080,828
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The accompanying notes are an integral part of these financial statements.

Lazard Global Total Return & Income Fund, Inc.

Portfolio of Investments (continued)

June 30, 2006 (unaudited)

Description	Principal Amount (000) (e)	Value
Foreign Government Obligations 6.4%		
Egypt 3.0%		
Egypt Treasury Bills:		
0.00%, 07/18/06	7,475	\$ 1,293,129
0.00%, 09/05/06	2,875	491,448
0.00%, 09/12/06	3,775	644,197
0.00%, 09/26/06	3,100	527,221
0.00%, 10/17/06	6,800	1,150,659
0.00%, 11/07/06	2,725	458,794
0.00%, 02/27/07	11,700	1,917,926
Total Egypt		6,483,374
Mexico 0.3%		
Mexico Government Bond, 9.00%, 12/20/12	6,050	541,505
Turkey 3.1%		
Turkey Government Bonds:		
0.00%, 11/08/06	137	80,861
0.00%, 03/07/07	4,242	2,331,858
0.00%, 05/09/07	843	446,299
0.00%, 06/27/07	5,020	2,593,114
15.00%, 02/10/10	2,033	1,222,232
Total Turkey		6,674,364
Total Foreign Government Obligations		13,699,243
(Identified cost \$15,247,650)		
Structured Notes 2.5%		
Brazil 1.3%		
Citibank Brazil Inflation-Linked Bond NTN-B:		
10.52%, 05/18/09 (f)	927	\$ 900,495
10.54%, 08/17/10 (f)	1,029	990,925
9.90%, 05/18/15 (f)	989	872,711
Total Brazil		2,764,131

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Colombia 0.2%

Citibank Colombia TES Linked Deposit, 10.83%, 04/26/12 (f)	397	371,768
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Costa Rica 0.7%

Citibank CRC Linked Deposit, 10.93%, 10/11/06 (f)	1,511	1,563,604
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Zambia 0.3%

Smith Barney ZMK Linked Deposit, 13.00%, 09/29/06	1,941,300	553,866
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Total Structured Notes

(Identified cost \$5,421,446)		5,253,369
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Description

Shares

Value

Short-Term Investment 12.5%

Collateral for Securities

on Loan 12.5%

State Street Navigator Securities Lending Prime Portfolio, 5.07% (Identified cost \$26,557,779) (g), (h)	26,557,779	26,557,779
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Total Investments 112.9%

(Identified cost \$223,022,963) (b) .		\$ 240,591,219
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Liabilities in Excess of Cash

and Other Assets (12.9)%		(27,424,301)
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Net Assets 100.0%

		\$ 213,166,918
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The accompanying notes are an integral part of these financial statements.

Lazard Global Total Return & Income Fund, Inc.

Portfolio of Investments (continued)

June 30, 2006 (unaudited)

Forward Currency Contracts open at June 30, 2006:

The statements contained in this Annual Report on Form 10-KSB that are not historical facts are forward-looking statements within the meaning of Section

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

The more prominent risks and uncertainties inherent in our business are described below. However, additional risks and uncertainties may also impair our b

Our sole executive officer and director and CEO may be subject to fines, sanctions and/or penalties of an indeterminable nature as a result of violations of t

During the quarter ended December 31, 2006, we made certain loans to Mr. Steven Humphries, our sole executive officer and director, or a company contr

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, The

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 \$4,444,000 and

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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 w

There Is A Possibility That We Will Be Unable To Obtain Sufficient Funds, Will Incur A Cash Flow Deficit, Therefore Our Business Could Suffer A Loss

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We believe that our current funds and accounts receivable will only be sufficient for our immediate future, raising substantial doubt about our ability to con

Since our inception, we have financed all of our operations through sales of private equity, debt financings and commercial bank loans. Our future capital r

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We May Fail To Gain Market Acceptance Of Our Products, Therefore Our Business And Results Of Operations Could Be Harmed.

We are still in the early marketing stages of our WebDA™ Customer relationship Management system. The initial version of this development was comple

We may experience design, marketing, and other difficulties that could delay or prevent our introduction, or marketing of the new product. In addition, the

The nature of our product and technology requires us to market almost exclusively to automobile dealerships. Should any particular dealership or group of

We are highly dependent on the principal members of our management, research and sales staff. The loss of their services might significantly delay or prev

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

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We are dependant upon certain providers of software, including Microsoft Corporation and their Pocket PC software, to provide the operating system for our

In designing, developing and supporting our wireless data services, we rely on mobile device manufacturers, content providers, database providers and software

Competition In The Wireless Technology Industry Is Intense And Technology Is Changing Rapidly, Therefore We May Be Unable To Compete Successfully

Many wireless technology and software companies are engaged in research and development activities relating to our range of products. The market for hardware

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

We rely primarily on trade secret laws, patent law, copyright law, unfair competition law and confidentiality agreements to protect our intellectual property

We May Be Sued By Third Parties For Infringement Of Their Proprietary Rights, Therefore We May Incur Defense Costs And Possibly Royalty Obligations

The wireless technology and software industries are characterized by the existence of a large number of patents and frequent litigation based on allegations of

Our former Chief Executive Officer Has Significant Control Of Our Common Stock And, Therefore, Could Control Our Actions In A Manner That Conflicts

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We Have Shares Eligible for Future Issuance, Therefore Our Stockholders May Suffer Dilution As A Result.

As of December 31, 2006, we had 43,587,393 shares of our Common Stock issued and outstanding. In addition, we have 3,707,643 shares of Common Stock

We Do Not Intend to Pay Cash Dividends On Our Shares of Common Stock, Therefore Our Stockholders Will Not Be Able to Receive a Return on Their Shares

We have never declared or paid dividends on our Common Stock and we do not intend to pay any Common Stock dividends in the foreseeable future. We intend

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

Our stock is a penny stock. The SEC generally defines a penny stock as an equity security that has a market price of less than \$5.00 per share or an exercise price

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The broker must provide the bid and offer quotations and compensation information before effecting the transaction. This information must be contained on

Item 2. DESCRIPTION OF PROPERTIES

We do not currently own any real property.

Under the terms of a Consulting Agreement between DealerAdvance, Inc. (the "Company") and Humphries Marketing Group, LLC ("HMG") dated April 1, 2006,

Item 3. LEGAL PROCEEDINGS

From time to time, we may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. However, litigation is not

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business, financial condition or operating results.

The Company is engaged in arbitration proceedings with Lenard Berger (the "Claimant"), a former officer, with regard to a claim for damages for the Com

During the course of doing business the Company made certain guarantees to prospective clients as an inducement to contract for services. These guarantee

On January 25, 2007, our Predecessor Entity, Stronghold Technologies, Inc. (NJ) a New Jersey corporation and a wholly owned subsidiary of Dealer Adv

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

None.

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Item 5. 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 "DLAV". The following table sets forth the h

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

Item 6. MANAGEMENT'S DISCUSSION AND ANALYSIS AND RESULTS OF OPERATIONS

This section provides a narrative on the Company's operating performance, financial condition and liquidity and should be read in conjunction with the acco

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

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Predecessor Entity. No fairness opinion was issued in connection with this merger. Following the merger, Acquisition Sub, the survivor of the merger, char

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 s

On September 26, 2006, we changed our name to Dealer Advance, Inc. As a result, symbol on the OTCBB was changed to DLAV.

On January 25, 2007, our Predecessor Entity filed a voluntary petition for relief under Chapter 7 of the United States Bankruptcy Code in the United States

HISTORY OF OUR CUSTOMER RELATIONSHIP MANAGEMENT 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 w

Since the creation of the new subsidiary and merger of Dealer Advance Inc. and name change from Stronghold Technologies Inc. to Dealer Advance Inc., ,

Our Revenues Moving Forward

Beginning with the 1st Quarter of 2007 the Company's revenue model will change. Rather than being hardware driven, the Company will become software

The Company currently has approximately 32 user contracts at dealerships throughout the United States. Management believes that the majority of those co

Additionally, many of the Company's client customer base are part of dealer groups comprised of three or more dealerships. Up until now the Company ha

Table of Contents

COST OF GOODS SOLD

Our Cost of Goods Sold in 2006 was primarily attributed to supporting the maintenance portion of contracts as referenced above in the revenues section and

Prior to 2006, Cost of Goods Sold as a percentage of revenue was greater due to the fact that the Company had generated revenues from new software systems

With the release of the new WebDA™ system announced in Jan 2007, the company we will incur new categories of Cost of Goods Sold for hosting and services

GENERAL AND ADMINISTRATIVE OPERATING EXPENSES

Our general operating expenses are primarily comprised of:

- o
- o
- o

Our marketing and selling expenses include all labor, sales commissions and non-labor expenses of selling and marketing of our products and services.

Our general and administrative expenses include expenses for all facilities, insurance, benefits, telecommunications, legal and auditing expenses are included

Our development & operations expenses include the expenses for the Client Consultant group which advises and supports the installations of our Dealer Accounts

RESEARCH AND DEVELOPMENT

In June the Company hired Rajneesh Sharma as its Chief Information Officer. His first action as CIO was the closing of the Company's Virginia technical support center

SALES DEVELOPMENT

In March 2006, the Company entered into a consulting agreement with Humphries Marketing Group (HMG), a Texas based automotive exclusive advertising agency

Table of Contents

As part of Mr. Humphries operating sales strategy, the Company has split the country into two regions (East and West). The Company and hired two Region

YEAR ENDED DECEMBER 31, 2006 AND YEAR ENDED DECEMBER 31, 2005.

Revenue

For the year ended December 31, 2006 we had revenue of \$479,474 compared with revenue of \$943,735 for the year ended December 31, 2005 for a decrease

Software License & System Installation

Support & Maintenance

Services

Total Revenue

Software license and system installation revenue decreased \$254,864 in 2006 to \$33,336 as compared to \$288,200 in 2005 for a decrease of 88%. The comp

Support and maintenance revenues decreased \$176,065 in 2006 to \$429,658 as compared to \$605,723 in 2005 for a decrease of 29%. This decrease was att

Services revenue consisting of 3rd party subscription services decreased \$33,332 in 2006 to \$16,480 as compared to \$49,812 in 2005 for a decrease of 67%.

Given that the company has continued to generate losses and are reliant on raising capital to support operations, the continued loss of momentum may caus

Cost of Sales

Cost of sales on a percentage of revenue basis was decreased to 14.88% of revenue for the twelve months ended December 31, 2006 as compared to 34.37%

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Cost of Sales

Hardware Components

Client Software & Licensing

Distribution Fees

Subcontractors

Misc Installation Costs

Installations/Travel

Shipping

Labor

Total Cost of Sales

Total Cost of Sales % of Revenue

Gross Profits

We generated \$408,141 in gross profits from sales for the year ended December 31, 2006, which was a decrease of \$211,234 from the year ended December 31, 2005.

Selling, General and Administrative Expenses

Total Selling, General and Administrative expenses in the year ended December 31, 2006 were \$2,517,382, a decrease of 7.89% or \$215,572 from the year ended December 31, 2005.

o

o

o

Our interest and penalty expense increased from \$747,383 in the year ended December 31, 2005 to \$911,721 in the year ended December 31, 2006. This increase was primarily due to an increase in interest expense on our debt.

Operating Loss

The Company's operating losses decreased by \$4,337 in comparing the year ended December 31, 2006 to the year ended December 31, 2005, which were \$3,632,448 and \$3,636,785, respectively.

Net Loss

We had a net loss of \$4,443,627 the year ended December 31, 2006 compared to \$3,632,448 the year ended December 31, 2005, an increase in net losses of \$811,179.

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increased interest expense and liquidated damages associated with the convertible debt Registration Rights Agreement, expensing of settlement costs for ju

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

FINANCIAL CONDITION

LIQUIDITY AND CAPITAL RESOURCES

OVERVIEW

As of December 31, 2006, our cash balance was \$106,556. We had a net loss of \$4,443,627 for the fiscal year ended December 31, 2006. We had a net ope

As of December 31, 2006, we had the following financing arrangements:

Debt Liability Summary Table

Current Debt liabilities

Interest payable, stockholders

Notes payable, stockholder, current portion

Callable secured convertible notes, current portion

Total Debt current liabilities

Long-term Debt liabilities

Notes payable, stockholders, convertible debt, net of deferred interest of \$615,923

Callable secured convertible notes

Total long term Debt liabilities

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

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December 31, 2006. These conditions raise substantial doubt about our ability to continue as a going concern. During 2006, our management will rely on ra

As of December 15, 2006, we had a commitment for an additional \$900,000 financing with the issuance of a convertible note financing of which \$250,000

We expect that the remaining \$900,000 will provide the necessary cash to support operations through the end of the second quarter of 2007. In the event th

We expect our capital requirements to increase significantly over the next several years as we continue to develop and market the WebDA™ suite and as w

FINANCINGS

We have entered into the following financing transactions:

LOANS FROM CHRISTOPHER J. CAREY, A SHAREHOLDER OF THE COMPANY AND FORMER OFFICER AND DIRECTOR.

On July 31, 2000, the Predecessor Entity entered into a line of credit with Mr. Chris Carey, our former President and Chief Executive Officer. The terms of

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

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 sh

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 U

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
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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,

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

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

On Feb. 6, 2006 a stockholder converted \$150,000 of deferred compensation into 21,428,571 shares of common stock of the Company (the "Shares").

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

- o
- o
- o
- o
- o

In consideration of this waiver, the Company has agreed to pay Mr. Carey \$8,000 a month over a period of 15 months, issue Mr. Carey a convertible note i

Table of Contents

The shares of Series D Preferred Stock are convertible by dividing the stated value by the closing bid price on the day immediately prior to conversion.

FINANCINGS FROM PNC BANK (FORMERLY UNITED TRUST BANK)

On November 1, 2001, the Predecessor Entity entered into a line of credit with UnitedTrust Bank (now PNC Bank) pursuant to which the Predecessor Entity

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

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 20

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

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, Un

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 th

On November 12, 2004, our company and PNC Bank agreed upon terms of an amendment to the forbearance agreement whereby by the payment schedule

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Table of Contents

On March 31, 2005, the Company paid off and satisfied the note due to PNC bank in the principal amount of \$606,667. All accrued interest in the amount of

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

The Series A amounts and closing dates are as follows:

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:

- o
- o
- o
- o
- o

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 of

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 common stock.
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Table of Contents

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 s

On March 3, 2004 and March 15, 2004 we received loans in the amount of \$437,500 each from Stanford, resulting in a total loan of \$875,000. We have agr

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 A

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

CALLABLE SECURED CONVERTIBLE NOTES

To obtain funding for its ongoing operations, the Company entered into various Securities Purchase Agreements with the Investors for the sale of callable c

To date, the Investors purchased \$6,380,000 in notes, and received warrants to purchase an aggregate of 4,930,000 shares of the companies stock, in thirtee

The Notes bear interest at a rate ranging from 8% to 12%, mature two years from the date of issuance, and are convertible into our common stock, at the In
-24-

Table of Contents

To obtain funding for its ongoing operations, we entered into a Securities Purchase Agreement (the “Agreement”) with the investors on December 15, 200

The following closings have occurred under the Agreement:

- o
- o
- o
- o

In addition, provided that all of the conditions in the Securities Purchase Agreement are satisfied, on the final business day of each month until the full amo

The Notes bear interest at 8%, mature two years from the date of issuance, and are convertible into our common stock, at the Investors' option, at a convers

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

The Warrants are exercisable until five years from the date of issuance at a purchase price of \$0.05 per share. In addition, the exercise price of the Warrants

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 critica

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The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared

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 costs.

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 is recognized under the guidelines of Statement of Position SOP 97-2 Software Revenue Recognition.

All sales agreements with clients do not require significant production, modification, or customization of software, additionally all the functionality of the product is available at the time of sale.

1)

2)

3)

4)

Previously in the periods of 2002 through 2005, the Company had also recognized revenue under the guideline of SFAS No. 48 "Revenue Recognition When Realization is Uncertain - An Illustration of the Application of the Cost of Sales Method".

The current revenue recognition plan will include a set up and installation fee for the software of \$2,500.00 and a monthly fee of \$2,500.00. The monthly fee is recognized over the term of the contract.

With the release of the new WebDA™ system, the Company's revenue model will be changed to provide for competitive pricing advantages. Our revenues will be recognized over the term of the contract.

DEFERRED REVENUE

Under the Company's previous revenue model, deferred revenue was recorded as a liability when the Company received the three year maintenance contract.

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SOFTWARE DEVELOPMENT CAPITALIZATION POLICY

Software development costs, including significant product enhancements incurred subsequent to establishing technological feasibility in the process of soft

DIVIDEND POLICY

We have never declared or paid any cash dividends on our Common Stock. We anticipate that any earnings will be retained for development and expansion

Item 7. FINANCIAL STATEMENTS

The financial statements required to be filed pursuant to this Item 7 are included in this Annual Report on Form 10-KSB beginning on page F-1. A list of th

Item 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None.

Item 8A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company maintains controls and procedures designed to ensure that it is able to collect the information it is required to disclose in the reports it files w

Internal Controls

The Company maintains a system of internal controls designed to provide reasonable assurance that: transactions are executed in accordance with managem

Since the date of the most recent evaluation of the Company's internal controls by the Chief Executive and Chief Financial Officers, there have been no sig
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those controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

Item 8A(T). CONTROLS AND PROCEDURES

Not applicable

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Item 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE SECURITIES ACT OF 1934

Our executive officers and directors and their respective ages and positions as of December 31, 2003 are as follows:

Name
Steven E. Humphries

On August 14, 2006, the Board of Directors voted to appoint Steven E. Humphries as a director, the Chief Executive Officer and Chief Financial Officer of the Company.

In March, 2003 Mr. Humphries founded Humphries Marketing Group, LLC ("HMG"), a full-service automotive exclusive advertising agency located in North Carolina.

EXECUTIVE OFFICERS

On April 30, 2006, the Company entered into a Consulting Agreement with Humphries Marketing Group ("HMG") pursuant to which HMG has agreed to provide consulting services to the Company.

BOARD COMMITTEES

As the Company currently only has one director it does not have an audit committee, compensation committee or governance/nominating committee.

CODE OF ETHICS

Because we are an early-development stage company with limited resources, we have not yet adopted a "code of ethics", as defined by the SEC, that applies to our directors, officers and employees.

Item 10. EXECUTIVE COMPENSATION

The following table sets forth information concerning the total compensation that the Company has paid or that has accrued on behalf of Company's chief executive officer and each director for the year ended December 31, 2003.

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Name & Principal Position

Steven E. Humphries
President, Chairman of the Board and
Chief Executive Officer

Christopher J. Carey
President, Chairman of the Board and
Chief Executive Officer

The Company has no current employment agreements or long-term compensation plans.

On April 30, 2006, DealerAdvance, Inc. (the "Company") entered into a Consulting Agreement with Humphries Marketing Group, LLC ("HMG") pursuant

OUTSTANDING EQUITY AWARDS

Name

Steven E. Humphries

Except as set forth above, no other named executive officer has received an equity award.

(1)

An option exercisable at an aggregate price of \$1.00 to purchase an amount of shares of common stock of the Company, which vest on the 12 month anniversary.

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Since neither the i) positive net income requirement nor the ii) requirement that the Investors have fully converted their convertible debt outstanding as of A

DIRECTOR COMPENSATION

The following table sets forth with respect to the named director, compensation information inclusive of equity awards and payments made in the year end

Name

None.

We do not pay directors compensation for their service as directors. We are in the process of developing a compensation policy for our directors.

Item 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information regarding the beneficial ownership of our common stock as of April 12, 2007. The information in this table prov

Beneficial ownership has been determined in accordance with the rules and regulations of the SEC and includes voting or investment power with respect to

Name and Address of Beneficial Owner

5% Stockholders

Christopher J. Carey
60 Broadway, PH2
Brooklyn, NY 11211

Stanford Venture Capital Holdings
6075 Poplar Avenue
Memphis, TN 38119

Other Executive Officers and Directors

Steven E. Humphries

(1)

(2)

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EQUITY COMPENSATION IN FISCAL 2006

The following table provides information about the securities authorized for issuance under our equity compensation plans as of December 31, 2006.

EQUITY COMPENSATION PLAN INFORMATION

	Remaining issuance compensation plans⁽²⁾
Equity compensation plans approved by security holders	
Equity compensation plans not approved by security holders	
Total	

(1)

(2)

Item 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Stronghold Technologies, Inc., the Predecessor Entity, became our wholly-owned subsidiary on May 16, 2002 pursuant to a merger with and into Acquisiti

Pursuant to a Securities Purchase Agreement which we entered into on May 15, 2002, with Stanford, a major shareholder of our company, Pietro Bortolatti

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Pursuant to a Securities Purchase Agreement which we entered into on April 24, 2003, we agreed to issue to Stanford a total of 2,444,444 shares of our Ser

In connection with the Series B Purchase Agreement, we entered into a Registration Rights Agreement with Stanford, dated April 30, 2003, in which we ag

In connection with the Series B Purchase Agreement, we entered into a Consulting Agreement with Stanford, pursuant to which Stanford has agreed to per

On November 11, 2003, we agreed with Stanford to modify the terms of the Series A and Series B Preferred Stock to facilitate acquisitions and other comp

Pursuant to the Amended and Restated Series A Certificate of Designation and Series B Certificate of Designation, dated November 11, 2003, by and betw

(a) the filing of an Amended and Restated Certificate of Designation for Series A \$1.50 Convertible Preferred Stock substantially in the form attached here

(b) the filing of an Amended and Restated Certificate of Designation Series B \$0.90 Convertible Preferred Stock substantially in the form attached hereto p

In connection with the Series B Purchase Agreement, our company and Stanford also entered into a Registration Rights Agreement, dated April 30, 2003, i
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of the Series B Preferred Stock, no later than November 15, 2003. Stanford has agreed to extend date of the filing requirements of the Registration Rights A

(c) In consideration of the Notice and the granting of the Consents and Waivers, we reduced the exercise price of the Stanford Warrants from \$0.25 per sha

Pursuant to a Stockholders' Agreement which we entered into on May 16, 2002 with Stanford, Mr. Carey and his wife, if either Stanford or the Careys shou

Stanford is an affiliate of Stanford Financial Group, which is the majority stockholder of TWS International, Inc. Luis Delahoz, one of our outside directors

On July 31, 2000, the Predecessor Entity entered into a line of credit loan arrangement with our President, Christopher Carey, who is also president of Stroh

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

- o
- o
- o
- o
- o

In consideration of this waiver, the Company has agreed to pay Mr. Carey \$8,000 a month over a period of 15 months, issue Mr. Carey a convertible note i

On September 14, 2000, we issued 5,000,000 shares of our common stock to our former president, Pietro Bortolatti, in exchange for the transfer from Mr. F

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Bortolatti at par value, \$.0001 per share. As part of our merger with the Predecessor Entity and the exchange of shares for our truffle business, Mr. Bortolatti

In August 2002, one of our outside directors, Robert Cox, purchased 60,000 shares of our common stock at a purchase price of \$1.50 per share for aggregate

In January 2004, our outside director, Robert Cox, purchased an additional 147,059 shares and a warrant to purchase 73,529 shares at \$0.59/share. The price

Lenard Berger, our Chief Technology Officer and Vice President and James Cumiskey, our Vice President of Sales and Marketing, received 200,000 shares

On September 30, 2002, we entered into a loan agreement with CC Trust Fund to borrow an amount up to \$355,128. This bridge loan was for a period of two

On September 30, 2002, we entered into a loan agreement with AC Trust Fund to borrow an amount up to \$375,404. This bridge loan is for a period of two

During the fourth quarter of 2006, DealerAdvance, Inc. entered into financing transactions with the following officers, directors or the Related Parties:

On December 20, 2006, the Company issued a promissory note in the aggregate principal amount of \$81,800 to Steven Humphries. Mr. Humphries is the President of DealerAdvance, Inc.

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On December 20, 2006, the Company issued a promissory note in the aggregate principal amount of \$32,341 to Humphries Marketing Group, of which Ste

We believe that the terms of all of the above transactions are commercially reasonable and no less favorable to us than we could have obtained from an un

These loans made to Mr. Humphries violate Section 402 of the Sarbanes Oxley Act of 2002. As a result, despite the fact that a portion of such loans were r

Item 13. EXHIBITS

Exhibit Number

2.1(1)(4)

2.2(5)

3.1(2)

3.2(3)

3.3(18)

3.3(20)

4.1(2)

4.2(5)

4.3(8)

4.4(8)

4.5(8)

4.6(10)

4.7(10)

4.8(11)

4.9(11)

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4.10(11)

4.11(11)

4.12(11)

4.13(11)

4.14(11)

4.15(11)

4.16(11)

4.17(11)

4.18(11)

4.19(11)

4.20

4.21

4.22

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4.31

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4.59

4.60

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4.65

4.66

4.67

4.68

4.69

4.70

4.71

4.72

4.73

10.1(2)

10.2(2)

10.3(2)

10.4(5)

10.5(5)

10.6(5)

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10.7(2)

10.8(2)

10.9(2)

10.10(2)

10.11(2)

10.12(2)

10.13(2)

10.14(2)

10.15(4)

10.16(4)

10.17(4)

10.18(4)

10.19(4)

10.20(6)

10.21(6)

10.22(6)

10.23(6)

10.24(6)

10.25(6)

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10.26(6)

10.27(6)

10.28(6)

10.29(6)

10.30(6)

10.31(7)

10.32(7)

10.33(7)

10.34(9)

10.35(13)

10.36(13)

10.37(14)

10.38(14)

10.39(22)

10.40

10.41

10.42

16.1

21(5)

31.1

32.1

32.2

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- (1)
 - (2)
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- (20)
- (21)
- (22)
- (23)
- (24)
- (25)

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table presents the aggregate fees billed for professional services rendered by Rothstein, Kass & Company, P.C. in 2005 and Paritz and Comp

Audit Fees (1)
Tax Fees (2)
Other Fees
TOTAL

-
- (1)
 - (2)
-

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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

DEALERADVANCE, INC.

By: /s/ Steven E. Humphries

*Steven E. Humphries, President and Chief Executive Officer
and Principal Financial/Accounting Officer*

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders DealerAdvance, Inc.

We have audited the accompanying consolidated balance sheet of DealerAdvance, Inc. and Subsidiary as of December 31, 2006, and the related consolidated

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Dealer Advance, Inc.

Hackensack, New Jersey
April 5, 2007

Table of Contents**ASSETS****Current assets**

Cash
 Accounts receivable
 Notes receivable, related party
 Prepaid expenses
 Total current assets

Property and equipment, net**Other assets**

Deferred charge, loan acquisition costs, net of amortization
 Other
 Total other assets

LIABILITIES AND STOCKHOLDERS' DEFICIT**Current liabilities**

Accounts payable
 Interest payable, stockholders
 Notes payable, stockholders, current portion
 Callable secured convertible notes, current portion
 Deferred revenue
 Liquidated damages payable
 Accrued expenses and other current liabilities
 Total current liabilities

Long-term liabilities

Notes payable, stockholders, convertible debt, net of deferred interest of \$615,923
 Callable secured convertible notes, less current portion
 Total long term liabilities

Commitments and contingencies**Stockholders' deficit**

Preferred stock, Series A, \$.0001 par value; authorized 5,000,000 shares, 2,002,750 issued and outstanding (aggregate liquidation preference of \$3,004,125) and preferred stock, Series B, \$.0001 par value; 2,444,444 shares authorized, issued and outstanding (aggregate liquidation preference \$2,200,000) and preferred stock, Series D, \$.01 par value; authorized 10,000 shares authorized, issued and outstanding (aggregate liquidation preference \$1,989,200)
 Common stock, \$.0001 par value, authorized 8,500,000,000 shares, 43,587,393 issued and outstanding
 Additional paid-in capital
 Accumulated deficit
 Total stockholders' deficit

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Sales

Cost of sales

Gross profit

**Selling, general and
administrative**

Loss from operations

Interest expense

Settlement of Litigation

Liquidated damages

**Net loss applicable to common
stockholders**

**Basic and diluted loss per
common share**

**Weighted average number of
common shares outstanding**

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Cash flows from operating activities

Net loss

Adjustments to reconcile net loss to
net cash used in operating activities:

Provision for returns and allowances

Depreciation and amortization

Interest payable, stockholders

Interest payable, convertible debt

Liquidated damages payable

Changes in operating assets and liabilities:

Accounts receivable

Inventories

Prepaid expenses

Accounts payable

Software development costs

Accrued expenses and other current liabilities

Deferred Revenue

Other Assets

Net cash used in operating activities

Cash flows from financing activities

Proceeds from issuance of common stock, net of financing costs

Proceeds from notes payable, stockholders

Principal repayments of notes payable, stockholders

Proceeds from notes payable, convertible debt

Principal repayments of notes payable

Principal payments for obligations under capital leases

Net cash provided by financing activities

Net increase in cash

Cash, beginning of year

Cash, end of year

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Supplementary schedule of non-cash investing and financing activities

Supplemental disclosure of cash flow information, cash paid during the period for interest

Supplemental disclosures of noncash investing and financing activities

During the year ended December 31, 2006, the Company entered into an agreement to convert \$150,000 of accrued officer's compensation into 21,428,571 common stock.

During the year ended December 31, 2006, the Company entered into two agreements to convert \$806,909 of accrued compensation into convertible notes

During the year ended December 31, 2006, the Company entered into three separate agreements to convert \$1,352,532 of notes payable, stockholders and \$ of accrued interest, stockholders, into 10,000 shares of preferred stock.

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Years Ended December 31, 2006 and 2005

Balances,
December 31, 2004

**Conversion of convertible notes to
common stock**

Stock issued for interest due, net of costs

**Payment of stock subscription
receivables**

Net loss
Balances,
December 31, 2005

Issuance of preferred stock

Warrants issued with debt

**Conversion of convertible notes to
common stock**

**Conversion of stockholder notes
to preferred stock**

Stock Issued for compensation

Imputed interest from noninterest bearing notes

Net loss
Balances,
December 31, 2006

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1. Nature of operations

On October 2, 2006 DealerAdvance, Inc. , a newly formed wholly owned subsidiary was merged into Stronghold Technologies, Inc. Stronghold Technologies, Inc. is a wholly owned subsidiary of the Company. The Company is in the business of selling, marketing and installing a web based application software and database system that manages the auto dealer-client relationship.

2. Going concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company incurred a net loss of \$1,000,000 during the year ended December 31, 2006.

3. Summary of significant accounting policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary. All significant intercompany balances and transactions have been eliminated.

Property and Equipment

Property and equipment are recorded at cost. Depreciation for equipment, software and furniture is provided for financial reporting and tax purposes using the straight-line method over their estimated useful lives. Maintenance, repairs and minor renewals are charged to expenses when incurred. Replacements and major renewals are capitalized.

Accounts Receivable

The Company records its accounts receivable at cost. On a periodic basis, the Company evaluates its accounts receivable and establishes an allowance for doubtful accounts based on the Company's experience and the age of the accounts receivable.

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Software Development Costs

Capitalized software development costs, including significant product enhancements incurred subsequent to establishing technological feasibility in the pro

Fair Value of Financial Instruments

Financial instruments held by the Company include cash, accounts receivable, notes payable and accounts payable. The book value of cash, accounts receiv

Impairment of Long-Lived Assets

The Company periodically assesses the recoverability of the carrying amounts of long-lived assets, including intangible assets. A loss is recognized when e

Retirement Plan

The Company has a retirement plan under Section 401(k) of the Internal Revenue Code ("the Plan"), which covers all eligible employees and provides for r

Deferred income taxes

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109 (SFAS 109) which requires that deferre

Stock-Based Compensation

In December 2004, the FASB issued SFAS No. 123(R), *Share-Based Payment*, which is a revision of SFAS No. 123, *Accounting for Stock-Based Compene*

The fair value of the Company's stock options was estimated using the Black-Scholes option pricing model. Prior to the adoption of SFAS No. 123(R), we
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**Net loss applicable to common
shareholders, as reported**

Add

Total stock-based compensation
expense determined under fair
value method for all awards, net
of related tax effect

Pro forma

Basic and diluted EPS

As reported

Pro forma

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:

Revenue Recognition

Revenue is recognized under the guidelines of Statement of Position SOP 97-2 Software Revenue Recognition.

All sales agreements with clients do not require significant production, modification, or customization of software, additionally all the functionality of the p

- | | |
|----|------------------------------------|
| 1) | Persuasive evidence of an arrang |
| 2) | Delivery has occurred, please no |
| 3) | The price of Dealer Advance's s |
| 4) | Collectability is highly probable. |

Deferred Revenue

Deferred revenue is recorded as a liability when the Company receives the three year maintenance contact in a one-time advance payment. The Company th

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management t

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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".

Recently Issued Accounting Pronouncements

In May 2005, the FASB SFAS No. 154, "Accounting Changes and Error Corrections, a Replacement of APB Opinion No. 20 and FASB Statement No. 3".

4.

Pursuant to the callable secured convertible notes and as a result certain registration rights granted to investors, the Company incurred damages due to its failure to comply with the terms of the notes.

5.

A summary of property and equipment at December 31, 2006 and the estimated lives used in the computation of depreciation and amortization is as follows:

Computer equipment

Computer software

Furniture and fixtures

Computer equipment recorded under capital leases

Leasehold improvements

Less accumulated depreciation and amortization

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6. Accrued expenses and other current liabilities

Accrued expenses and other current liabilities consist of the following at December 31, 2006:

Payroll taxes, including penalites and interest

Commissions

Compensation

Sales tax

Accrued officer's compensation

Litigation

Other

7.

At December 31, 2006, notes payable, stockholders consists of the following:

Note payable, bearing interest at 8% and due in May, 2007

Non interest bearing convertible notes payable, net of interest imputed at 15% per annum of \$615,923

Less current portion

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

8.

Callable secured convertible notes bear interest at a rate ranging from 8% to 12% (weighted average 10.22%)

and are due at various dates from April, 2006 to

December 15, 2009. The notes are secured by the

company's assets

(Less) current portion

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The notes are convertible into our common stock, at the investors' option, at a conversion price, equal to the lower of (i) \$0.05 or (ii) 25% of the average of

On December 15, 2006 the Company entered into an agreement with a group of investors for the sale of \$900,000 of callable secured convertible notes and

In February and March, 2007 the company sold an additional \$300,000 of notes and issued 1,700,000 warrants. In addition, provided that all of the conditions

9. Income taxes

At December 31, 2006, the Company had net operating loss carryforwards of approximately \$16,998,000 which expire between 2009 and 2024.

The Company has a deferred tax asset of approximately \$5,780,000 resulting from available net operating loss carryforwards for which a 100% valuation allowance

A reconciliation of the credit for income taxes with the amount computed by applying the statutory Federal income tax rate to loss before income taxes is as follows:

Computed expected tax credit rate

State income tax credit, net of federal benefit

Deferred tax valuation allowance

Effective income tax rate

10. Stock option plans

The Company has adopted four stock option plans ("Plans") providing for incentive stock options ("ISOs") and non-qualified stock options ("NQSOs"). The information is presented on

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options may be exercised will be determined by the board of directors, except that they may not be exercisable after ten years from the date of grant. All sto

Outstanding at

January 1, 2005

Granted in the year ended

December 31, 2005

Terminated in the year ended

December 31, 2005

Outstanding at

Year ended December 31, 2005

Granted in the year ended

December 31, 2006

Terminated in the year ended

December 31, 2006

Outstanding at

December 31, 2006

The exercise price ranges for options outstanding and exercisable at December 31, 2006 were:

	From		R
	\$ 0.0001	to	
	\$ 0.2001	to	
	\$ 0.4001	to	
	\$ 0.6001	to	
	\$ 0.8001	to	

11. Stockholders' Equity

On Feb. 6, 2006 a stockholder converted \$150,000 of deferred compensation into 21,428,571 shares of common stock of the Company (the "Shares").

On August 14, 2006, a former officer entered into a Settlement Agreement with the Company pursuant to which he exchanged accrued salary, interest, aut
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On August 14, 2006, the Company entered into a settlement agreement with a lender pursuant to which the lender exchanged a loan of \$473,594 including

On August 14 2006, the Company into a settlement agreement with pursuant to which the lender exchanged a loan of \$497,691 including interest for 2,502

Warrants

During the year ended December 31, 2006, we issued the following warrants in connection with callable secured convertible notes (see Note 6 above):

The warrants were valued at approximately \$85,884 using the Black-Scholes option pricing model including the following assumptions: exercise price of \$

12. Commitments and contingencies

Legal proceedings

The Company is subject to legal proceedings and claims which have arisen in the ordinary course of its business and have not been finally adjudicated. The

A former officer of the Company commenced an arbitration proceeding against the Company claiming, among other things, that he was due unpaid salaries

In the ordinary course of business the Company made certain guarantees to prospective clients as an inducement to contract for services. These guarantees,
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13. Related Party Transactions

Transactions with Officers and Directors of DealerAdvance, Inc.

The Company and/or the Company's sole executive officer and director and CEO may be subject to fines, sanctions and/or penalties of an indeterminable nature. In 2006 the Company loaned its sole executive officer and director, and a company controlled by him, \$114,141. During this same period, \$68,000 of the loan was repaid.

14. Subsequent events

On January 25, 2007, Stronghold Technologies, Inc. (the "Subsidiary"), a New Jersey corporation and a wholly owned subsidiary of DealerAdvance, Inc., filed a
