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Secure Technologies Group, Inc.
Form 10KSB
April 15, 2005

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

FORM 10-KSB

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Year Ended December 31, 2004

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THESE SECURITIES EXCHANGE ACT OF 1934

For the transition period from.....to.....

Commission file Number 0-9940

SECURE TECHNOLOGIES, INC.

(Name of small business issuer as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

13-2854686
(IRS Employer
Identification Number)

21634 Club Villa Terrace, Boca Raton, Florida
(Address of principal executive offices)

33433
(Zip Code)

Issuer's telephone number: (561) 447-6612

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered pursuant to Section 12(g) of the Exchange Act: Common stock, \$.01 par value

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the 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 X No ___

Check if there is no disclosure of delinquent filers pursuant to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. []

The issuer's revenues for the year ended December 31, 2004 were \$26,000.

The aggregate market value of the common equity held by non-affiliates of the Registrant as of April 13, 2005 was approximately \$1.645 million computed on the basis of the reported closing price per share (\$0.38) of such stock on the National Association of Securities Dealers, Inc.'s Over the Counter Bulletin Board. Shares of common stock held by each officer and director and by each person who owns 5% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

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As of April 13, 2005, the Registrant has 8,730,000 shares of its par value \$0.0001 common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: None

Transitional Small Business Disclosure Format (check one): Yes No

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Statement Regarding Forward Looking Disclosure

Statements in this Form 10-KSB annual report may be "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include, but are not limited to, statements that express our intentions, beliefs, expectations, strategies, predictions or any other statements relating to our future activities or other future events or conditions. These statements are based on current expectations, estimates and projections about our business based, in part, on assumptions made by management. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results may, and are likely to, differ materially from what is expressed or forecasted in the forward-looking statements due to numerous factors, including those described above and those risks discussed from time to time in this Form 10-KSB annual report, including the risks described under "Risk Factors," and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in other documents which we file with the Securities and Exchange Commission. In addition, such statements could be affected by risks and uncertainties related to our ability to acquire new security technologies or companies with security technologies and successfully market the products, market and customer acceptance, competition, government regulations and requirements, pricing and development difficulties, our ability to make acquisitions and successfully integrate those acquisitions with our business, as well as general industry and market conditions and growth rates, and general economic conditions. Any forward-looking statements speak only as of the date on which they are made, and we do not undertake any obligation to update any forward-looking statement to reflect events or circumstances after the date of this Form 10-KSB.

The success of recent or contemplated future acquisitions will depend on the effective integration of newly-acquired businesses, products or services into the Company's current operations. Important factors for integration include realization of anticipated synergies and cost savings and the ability to retain and attract new personnel and clients.

Investors should evaluate any statements made by the Company in light of these important factors.

Available Information

Information regarding the Company's annual reports on Form 10-KSB, quarterly reports on Form 10-QSB, current reports on Form 8-K, and any amendments to these reports, are available to the public from the SEC's website at <http://www.sec.gov> as soon as reasonably practicable after the Company electronically files such reports with the Securities and Exchange Commission. Any document that the Company files with the SEC may also be read and copied at the SEC's public reference room located at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room.

PART I

Item 1. Description of Business.

Organization

On June 6, 2000 Secure Technology Group, Inc. (formerly The Finx Group, Inc.) was organized as a Delaware corporation. Effective June 30, 2000, Fingermatrix, Inc., the predecessor company was merged into Secure Technologies, Inc. Secure Technologies, Inc. has controlling interests in Secured Portal Systems, Inc., which was incorporated in Delaware on August 11, 1999, and Granite Technologies Acquisition Corp., which was incorporated in Delaware on May 15, 2001. Throughout this document our Company and its subsidiaries may be collectively referred to as "We", "Our", "Us", "Secure Technologies", the "Company" or the "Registrant".

Our Business

Products

Since September 30, 2002, our business has solely focused on the marketing and sale of security systems.

On September 13, 1999, we obtained the Georal license which gives us distribution rights for the sale of Georal security products to a broad range of customers. The Georal security products' include all models of the Georal security door. The categories of customers covered by the Georal license includes the United States Treasury Department, the United States Central Intelligence Agency and all other United States Government intelligence agencies, the United States National Security Agency, the United States Defense Intelligence Agency, the United States Department of the Navy, the United States Air Force, the United States Army, all United States Federal Courts and all United States Embassies, all department stores and retail stores located in the United States (including all retail stores located in foreign countries which are part of a retail store chain which is based in the United States), the Government of Israel, and certain corporations. The Georal license commenced on September 1, 1999 and, as amended, expires on August 31, 2014.

As an inducement to obtain the Georal license and in exchange for 1,000,000 common stock shares of GIL, in September 1999, we issued to Alan J. Risi preferred shares which were converted into 4,200 shares of common stock in July of 2002.

On December 11, 2001, the GIL 2001 security door received certification by the U.S. State Department. On February 21, 2002, the Georal license was amended to expand the categories of customers for which we has the exclusive marketing right to include all financial institutions around the world with we also receiving a right of first refusal to be the exclusive distributor for sales to any governmental body which we does not have exclusive marketing rights. As consideration for the amendment entered into on February 21, 2002, we issued to Alan Risi 40,000 shares of series D 2% convertible preferred stock that was converted into 16,000 shares of common stock. On May 16, 2002, the Georal license for the Georal security systems was further amended whereby the exclusive distribution agreement was expanded to give we additional exclusive world wide sales and marketing rights. As consideration for the amendment entered into on May 16, 2002, we issued to Alan Risi 60,000 shares of its series C 2% convertible preferred stock which were converted into 24,000 shares of common stock. On September 9, 2002, the Georal license was further expanded to provide us with additional exclusive marketing rights. As consideration for this

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amendment, we issued to Alan Risi 100,000 shares of its series C preferred stock which were converted into 40,000 shares of common stock. On October 16, 2002, we issued to Alan Risi an additional 250,000 shares of its series C preferred stock for an amendment to the Georal license which provided us with participation rights in certain maintenance revenue generated by Georal and extended the term of the agreement an additional five years, to September 18, 2014. Using the Black-Scholes option valuation formula, the convertible preferred stock was valued at \$2.98 million.

On December 10, 2003, we, its wholly-owned subsidiary, Secured Portal Systems, Inc., Alan J. Risi ("Risi"), GIL Security Systems, Inc. ("GIL"), and Georal International, Ltd., entered into a amended and restated worldwide exclusive distribution agreement covering all security entrance systems created, developed, manufactured and/or distributed or otherwise sold by GIL, Georal or their successors. The restated agreement expanded our exclusivity and gave us certain other rights. The agreement provided for certain payments by we and, if the payments were not made, GIL, Georal and Risi have the right to terminate the restated agreement, in which event, the relationship among the parties would be governed by the prior agreement.

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On or about April 28, 2004, we received a notice from GIL stating that the agreement was terminated for failure of us to pay the amount provided in the restated agreement. The notice further stated GIL's position that all agreements between GIL and we and its subsidiary are terminated.

We are considering its legal rights and believe that its subsidiary will continue to be able to exercise its right to market the security portals in major markets groups; however, we can give no assurance as to its ability to protect such rights or, if litigation is necessary, that it will prevail in any legal action it may commence.

As of December 31, 2004, we have written-off the value of the license agreement and the value of its investment in the GIL shares.

The Secured Card Solutions Software Program enables colleges and universities to link access control of their recreation facilities with the university ID card, process memberships, issue recreation equipment and obtain utilization reports for multiple recreation facilities. The system is cost-effective to implement and is user-friendly for employees and provides accurate and timely information for recreation administrators. We have provided Virginia Commonwealth University with two of our Secured Card software solutions - the "Secured Recreational Sports Solution" and "The Secured Card Solution". "The Secured Recreational Sports Solution" which currently serves Virginia Commonwealth University from three locations offering a variety of fitness, aquatics and intramurals. The activities are offered to all students, faculty, and university and hospital employees. The Secured Recreational Sports Solution's database is integrated with the Virginia Commonwealth University card database for single university identification. The Secured Recreational Sports Solution handles all check-in of members, locker assignment and equipment check-in and check-out. It also keeps track of member billing and payroll deduction and handles member suspensions and automatic emailing of special events. The Secured Sports Recreation Solution application is written using the new Microsoft.NET architecture. We have also entered into a services and support agreement with Florida International University for the installation, support and use of our Secured Recreational Sports Solution.

Marketing

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We are marketing our security systems directly through sales consultants and through channel marketing relationships. We are marketing the Secured Card Solutions Software Program directly to universities across the United States. We have installed our Secured Recreational Sports Management Solution at Virginia Commonwealth University and at Florida International University.

Competition

Although there are many product offerings for Card Control Access, we believe that we are developing a niche industry by focusing on the colleges and universities sports recreation facilities. Our upcoming WEB Based Secured Recreational Sports Management Solution will mimic the existing program's capabilities on an internet browser using Microsoft.NET architecture and will further solidify our leadership role in our market niche.

Employees

We currently employ two individuals who are our executive officers. Our remaining functions are provided by independent consultants

RISK FACTORS

We Have a History of Losses and Cash Flow Deficits

We have incurred significant operating losses during each of the two years ended December 2004 and as of December 31, 2004 we have a capital deficiency of \$9.34 million. We expect to incur additional losses during the time period in which we are developing products and markets for our subsidiaries and we cannot be assured of when, if ever, our operations will become profitable or the extent of any future profitability. We also cannot be assured that the current trends of negative cash flow and increased losses and expenses (including compensation expense charges that may result from the issuance of our securities in the future) will not continue or, if so, for how long.

The Market for Our Common Stock is Limited

Currently, our common stock trades on the National Association of Securities Dealers Automated Quotation System Over-the-Counter Bulletin Board (the "NASDAQ Bulletin Board"). By its nature, the NASDAQ

Bulletin Board is a limited market and investors may find it more difficult to dispose of our securities, which are owned by them. Currently, we do not meet the financial and other requirements for a NASDAQ SmallCap, listing. Apart from specific financial criteria that we would have to comply with in order to obtain such listing, there are other corporate governance criteria that must be satisfied in order to obtain any such listing. Among such corporate governance requirements is the requirement that there be no disparity in the voting rights of the holders of the common stock. At the present time, The Trinity Group-I, Inc. owns all of the outstanding shares of our Series A preferred stock. The holder of our Series A preferred stock has the right to elect a majority of the Board of Directors. The NASDAQ may consider the issuance of the Series A preferred stock as a violation of their voting rights rules and policy. The failure to comply with NASDAQ's voting rights rules or policy or any of its other applicable regulations relating to transactions engaged in by us may result in sanctions. Any such actions by NASDAQ could further limit the market for our common stock.

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Trading in Our Securities May Be Restricted Due to Compliance with Applicable Penny Stock Regulations

Broker-dealer practices in connection with transactions in "penny stocks" are regulated by certain penny stock rules and regulations adopted by the SEC. Penny stocks generally are equity securities with a price of less than \$5.00 (other than securities registered on certain national securities exchanges or quoted on NASDAQ provided that current price and volume information with respect to transactions in such securities is provided by the exchange or system). The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document that provides information about penny stocks and the risks in the penny stock market. These rules also impose additional sales practice requirements on broker-dealers which sell such securities to persons other than established customers or institutional accredited investors. For transactions covered by this rule, broker-dealers must also make a special suitability determination for the purchaser and receive the purchaser's written consent to the transaction prior to a sale. Consequently, the application of this rule to the trading of our common stock may affect the ability or willingness of broker-dealers to sell our securities and adversely affect market liquidity for such securities.

Our Company is Subject to Control by a Principal Stockholder

Trinity Group-I, Inc. has advanced significant funds to us and our subsidiaries and owns a controlling interest in our equity. The Trinity Group-I, Inc. is solely owned by Lewis S. Schiller, our Chairman of the Board and Chief Executive Officer. All of the shares of The Trinity Group-I, Inc. owned by Lewis S. Schiller are pledged to an entity controlled by Carol Schiller, the wife of Lewis S. Schiller. In addition, Douglas Schiller, Linda Schiller and Blake Schiller, the adult children of Lewis S. and Carol Schiller, own interests in our outstanding common stock. In addition, The Trinity Group-I, Inc. and Grazyna B. Wnuk owns all of our outstanding Series B preferred stock, which as of December 31, 2004 were convertible into approximately 3,885,000 shares of our common stock. The Trinity Group-I, Inc. also owns all of our Series A preferred stock which gives it the right to elect a majority of our Board of Directors. This concentration of ownership and voting rights could delay or prevent a change of control. In addition, Lewis S. Schiller could elect to sell all, or a substantial portion, of his equity interest in The Trinity Group-I, Inc. to a third party. In the event of such a sale by Mr. Lewis S. Schiller, such third party may be able to control our affairs in the same manner that Lewis S. Schiller is able to do so by virtue of his ownership of The Trinity Group-I, Inc. Any such sale may adversely affect the market price of our common stock and could adversely affect our business, financial condition or results of operations.

A Significant Portion of the Net Proceeds of Any Potential Financing May Be Used for the Payment of Related Party and Other Indebtedness and for Salaries of Executives and Key Personnel

The Trinity Group-I, Inc. and Lewis S. Schiller have advanced significant funds to us. Also, Lewis S. Schiller and Grazyna B. Wnuk are owed accrued salaries as of December 31, 2004 of approximately \$3.5 million. A portion of the proceeds of any potential financing may be used to repay some or all of the amounts owe to these related parties. In addition, it is possible that a substantial portion of the proceeds from any potential financing would be allocated for general corporate purposes, including working capital, would be used to pay the salaries of certain of our officers and other key personnel and consultants.

We Require Additional Financing for Our Business Activities

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We currently have limited operating capital and our inability to obtain a significant financing may adversely affect our business and no assurances are made that any such financing will occur, or that if any financing is completed, that additional financing will not be required.

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We Have Granted Significant Benefits Under Certain Existing and Proposed Employment Agreements

Lewis S. Schiller, our Chairman of the Board and Chief Executive Officer, and Grazyna B. Wnuk, our Vice President, Secretary and a Director has employment agreements with us. These employment agreements provide significant benefits to each of them. The terms of these agreements were determined by our management, who are also parties to these agreements.

Rapid Technological Change Could Render Certain of Our Products and Proposed Products Obsolete or Non-Competitive

Major technological changes can occur rapidly in the security industries. It is entirely possible that newer technologies, techniques or products will be developed with more capabilities and better performance than our present and proposed products. The development by competitors of new or improved technologies, techniques or products may make our present or planned products obsolete or non-competitive.

We Cannot Predict Market Acceptance for Our Proposed Products

All of our security products that we currently offer and may develop in the future may not gain market acceptance. The degree of acceptance of our existing security products and any security products that we may develop in the future will depend upon numerous factors, including demonstration of the advantages, uniqueness and reliability of such products, their cost effectiveness, the potential barriers to market entry by alternative products, marketing and distribution support and the financial ability and credibility of such entities.

The Business in Which We Are Engage in May Be Subject to Intense Competition

We may face intense competition from numerous companies which are developing, producing and marketing products for securing access to buildings and facilities which will directly compete with our products. We intend to distribute a security access or entrance system to customers which include government and other institutional purchasers who have been serviced by vendors, which have established and tested security products and systems that have become recognized and accepted in this industry. The type of security system that we will offer to our customers is subject to technological change and compliance with product specifications established by our intended customers. New entrants in this industry must establish product reliability through testing and use in order to gain widespread commercial acceptance of such products. Many of our potential competitors may have greater financial, technical, personnel and other resources than we do and that we expect to have in the foreseeable future. We cannot provide any assurances that we will be able to compete effectively with any of such competitors.

The Board of Directors May Issue Additional Preferred Stock in the Future

We are authorized to issue up to 5,000,000 shares of preferred stock, \$.01 par value (the "Preferred Stock"). The Preferred Stock may be issued in one or more series, the terms of which may be determined at the discretion of our

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Board of Directors, without further approval of the stockholders. Among the rights of the holders of any additional Preferred Stock that may be authorized by the Board of Directors are rates of dividends, voting rights, terms of redemption, amounts payable upon liquidation, sinking fund provisions and conversion rights. One of the effects of any such additional Preferred Stock that may be issued in the future may be to enable the Board of Directors to render more difficult or to discourage an attempt to obtain control of the Company by means of a tender offer, proxy contest, merger or otherwise and thereby protect the continuity of our current management. The terms of any such additional Preferred Stock that may be issued in the future could adversely affect the rights of the holders of common stock. Accordingly, the issuance of any such shares of Preferred Stock may discourage bids for the common stock or adversely affect the market price of the common stock.

A Substantial Number of Our Shares of Common Stock Will Be Available for Future Sale in the Public Market

As of April 13, 2004, approximately 338,000 shares of our outstanding common stock are "restricted securities" as that term is defined in Rule 144 promulgated under the Securities Act and in the future may be sold only pursuant to an effective Registration Statement under the Securities Act, in compliance with the exemption provisions of Rule 144 or pursuant to another exemption under the Securities Act. Furthermore, any shares that are issued upon the exercise of any outstanding warrants or options will be eligible for sale, without registration under Rule 144 (subject to the aforementioned volume restrictions of the Rule) following the expiration of two years from the date of exercise.

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We Do Not Intend to Pay Any Dividends on the Common Stock in the Foreseeable Future

We currently intend to retain all future earnings, if any, to finance our current and proposed business operations and we do not anticipate paying any cash dividends on our common stock in the foreseeable future. The holder of our Preferred Stock have rights senior to the holders of common stock with respect to any dividends. We may also incur indebtedness in the future that may prohibit or effectively restrict the payment of cash dividends on our common stock.

The Liability of Our Officers and Directors to Us and Our Shareholders is Limited

The applicable provisions of the Delaware Business Corporation Law and our Certificate of Incorporation limit the liability of our officers and directors to us or our shareholders for monetary damages for breaches of their fiduciary duties to us, with certain exceptions, and for other specified acts or omissions of such persons. In addition, the applicable provisions of the Delaware Business Corporation Law and of our Certificate of Incorporation and By-Laws provide for indemnification of such persons under certain circumstances. As a result of these provisions, shareholders may be unable to recover damages against our officers and directors for actions taken by them which constitute negligence, gross negligence or a violation of their fiduciary duties and may otherwise discourage or deter our shareholders from suing our officers or directors even though such actions, if successful, might otherwise benefit us and our shareholders.

Reliance on Management and Key Personnel and Consultants

While investors have voting rights, they will not be able to take a direct role in the management of our operations. Our success is contingent on

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the judgment and expertise of our directors and officers and on our being able to attract and retain a senior management team, some of who are approaching retirement age. Our success will also depend to a significant extent upon the skills of certain key personnel and consultants. Our failure to attract replacement or additional qualified employees or to retain the services of key personnel or consultants could adversely affect our business.

We Could Be Subject to Potential Uninsured Liability

We intend to obtain liability, property and business interruption insurance. We may not have sufficient funds with which to purchase and/or maintain such insurance. We plan to operate in a professional and prudent manner to reduce potential liability. Nevertheless, an uninsured claim against us, if successful and of sufficient magnitude could have a material adverse effect on us. In addition, the lack of or the inability to obtain insurance of the type and in the amounts required could impair our ability to enter into certain contracts, which may be, in certain instances, conditioned upon the availability of adequate insurance coverage.

Item 2. Description of Properties.

Our executive offices are located in Boca Raton, Florida in space provided by an executive officer. Our independent consultants perform work for us out of their own offices located throughout the United States.

Item 3. Legal Proceedings.

Although the Company is a party to certain legal proceedings that have occurred in the ordinary course of business, it does not believe such proceedings to be of a material nature with the exception of the following item. On or about April 8, 2002, a complaint styled "Law Offices of Jerold K. Levien, against Secure Technologies Group, Inc. f/k/a Fingermatrix, Inc., The Trinity Group-I, Inc." was filed in the Supreme Court of the State of New York County of New York, and the plaintiff has received a judgment for \$334,595, such amount having been accrued on the Company's books, plus interest.

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PART II

Item 5. Market for Common Equity and Related Stockholder Matters.

The Company's common stock is traded on the National Association of Securities Dealers, Inc.'s Over the Counter Bulletin Board ("OTC Bulletin Board") under the symbol "SCTC". The following table sets forth, for the periods indicated, the quarterly range of the high and low closing bid prices per share of our common stock as reported by the OTC Bulletin Board Trading and market services. Such bid quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions.

Bid Prices

Quarter ended	High	Low
March 31, 2004	\$4.23	\$1.00
June 30, 2004	\$2.40	\$1.30
September 30, 2004	\$1.70	\$0.93
December 31, 2004	\$1.25	\$0.80
Quarter ended	High	Low

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March 31, 2003	\$8.50	\$1.00
June 30, 2003	\$6.50	\$0.88
September 30, 2003	\$2.00	\$0.53
December 31, 2003	\$1.63	\$0.63

The closing price of common stock on April 13, 2005 was \$0.38.

We have authorized 150,000,000 shares of our \$0.0001 par value common stock. As of April 13, 2005, there were approximately 10,000 holders of record of our common stock. We have not paid dividends on common stock and do not anticipate paying dividends in the foreseeable future. We intend to retain future earnings, if any, to finance the expansion of our operations and for general corporate purposes.

Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make assumptions, estimates and judgments that affect the amounts reported in the financial statements, including the notes thereto, and related disclosures of commitments and contingencies, if any. We consider our critical accounting policies to be those that require the more significant judgments and estimates in the preparation of our financial statements, including the following: impairment of long-lived assets, including the valuation of the exclusive license agreement; accounting for expenses in connection with stock options and warrants; and accounting for income taxes. Our management relies on historical experience and on other assumptions believed to be reasonable under the circumstances in making its judgment and estimates. Actual results could differ materially from those estimates. There have been no significant changes in assumptions, estimates and judgments in the preparation of these financial statements from the assumptions, estimates and judgments used in the preparation of our prior year's audited financial statements.

Results of Operations

During 2004 and 2003 our revenues were \$26,000 and \$36,000, respectively and were earned from sales of our Secured Card Solutions Software Program

For all of 2004 and 2003 our significant on-going operating expenses were executive payroll, and marketing expense and professional fees. Executive payroll is currently \$850,000 annually. Expenses associated with our marketing, which currently are \$1.1 million on an annual basis, represent consulting fees for the consultants who perform such functions. Professional fees for legal and accounting services currently approximate \$500,000 annually.

The value assigned to the Georal License of approximately \$2.5 million was written-off during 2004. Previously, the license was being amortized over the life of the Georal License. Such amortization for 2004 and 2003 was \$184,000 and \$245,000, respectively.

During 2004 and 2003 we compensated our employees and consultants with stock options and stock grants that have been registered on Form S-8 and unregistered stock purchase warrants. During 2004 and 2003 stock based

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compensation was \$595,000 and \$4.042 million, respectively.

We incur interest expense at an annual rate of 9% on related party notes payable. For 2004 and 2003 interest expenses on related party notes payable was \$98,000 and \$107,000, respectively.

Financial Condition - Liquidity and Capital Resources

As of December 31, 2004, our working capital deficiency approximates \$4.2 million, representing a \$5.2 million improvement in our working capital position from December 31, 2003. Lewis S. Schiller has agreed to defer the payment of \$3.5 million of accrued and unpaid salaries and \$1 million of principal and interest due to him until January 1, 2006. These deferrals resulted in a decrease in our working capital deficiency. Since April 1999, our primary source of funding has been Trinity, our controlling shareholder. On July 29, 2004, Lewis S. Schiller and The Trinity Group-I, Inc. converted \$500,000 of debt obligations into 50,000 shares of Series D Convertible Preferred Stock. Each share of Series D Convertible Preferred Stock is convertible into 40 shares of common stock. Grazyna B. Wnuk converted \$75,000 of accrued salary into 7,500 shares of Series D Convertible Preferred Stock. The Series D Convertible Preferred Stock votes alongside of common stock on an if converted basis regardless of whether there is common shares available for conversion at the time of any vote. During 2004 we received \$96,000 from Trinity and \$385,000 from unaffiliated lenders, all of which was used for our operations. We are attempting to obtain outside equity financing; however, we make no assurances that we will be successful in obtaining such financing.

On December 10, 2003, the Company, its wholly-owned subsidiary, Secured Portal Systems, Inc., Alan J. Risi ("Risi"), GIL Security Systems, Inc. ("GIL"), and Georal International, Ltd., entered into a amended and restated worldwide exclusive distribution agreement covering all security entrance systems created, developed, manufactured and/or distributed or otherwise sold by GIL, Georal or their successors. The restated agreement expanded the Company's exclusivity and gave the Company certain other rights. The agreement provided for certain payments by the Company and, if the payments were not made, GIL, Georal and Risi have the right to terminate the restated agreement, in which event, the relationship among the parties would be governed by the prior agreement.

On or about April 28, 2004, the Company received a notice from GIL stating that the agreement was terminated for failure of the Company to pay the amount provided in the restated agreement. The notice further stated GIL's position that all agreements between GIL and the Company and its subsidiary are terminated.

The Company is considering its legal rights and believes that its subsidiary will continue to be able to exercise its right to market the security portals in major markets groups; however, the Company can give no assurance as to its ability to protect such rights or, if litigation is necessary, that it will prevail in any legal action it may commence.

As of December 31, 2004, the Company wrote-off the value of the licensing agreement.

The accompanying unaudited interim consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the liquidation of liabilities in the normal course of business. However, the Company has generated only nominal revenue from continuing operations and has a history of net losses and as of December 31, 2004 has a working capital deficiency of \$4.19 million and a capital deficiency of \$9.34 million. Historically, the Company has been dependent on financial support from

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its controlling stockholder, Trinity Group-I, Inc. ("Trinity"), and other related parties. Management is currently seeking additional financing; however, the Company can give no assurances such financing will be consummated, that the terms of any financing will be reasonable or that the amount raised will be adequate to meet the Company's current and ongoing obligations. The continuation of the Company as a going concern is dependent upon its ability both to obtain financing and to generate revenues. The accompanying consolidated financial statements do not include any adjustments that would result should the Company be unable to continue as a going concern

Item 7. Financial Statements and Supplementary Data.

The information required by Item 7. is included as Exhibit 99.1 to this Form 10-KSB/A.

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Item 8A. Controls and Procedures

As required by Rule 13a-15 under the Securities Exchange Act of 1934, we carried out an evaluation of the effectiveness of the design and operation of our company's disclosure controls and procedures as of December 31, 2004. This evaluation was carried out under the supervision and with the participation of our company's management, including our company's Chief Executive Officer/Chief Accounting Officer at that time. Based upon that evaluation, our company's Chief Executive Officer/Chief Accounting Officer concluded that our company's disclosure controls and procedures are effective. There have been no significant changes in our company's internal controls or in other factors, which could significantly affect internal controls subsequent to the date we carried out our evaluation.

Disclosure controls and procedures and other procedures are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time period specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934 is accumulated and communicated to management including our Chief Executive Officer/Chief Accounting Officer as appropriate, to allow timely decisions regarding required disclosure.

PART III

Item 9. Directors and Executive Officers of the Registrant.

Directors and Management

Officers are elected by, and serve at the pleasure of, the board of directors. Set forth below is information concerning the directors and executive officers of the registrant as of the date hereof.

Name	Age	Position with the Company
-----	-----	-----
Lewis S. Schiller	74	Chief Executive Officer, President and Chairman of the Board
Grazyna B. Wnuk	41	Secretary, Vice-President and Director

Lewis S. Schiller was appointed our Chairman of the Board, Chief Executive Officer and President of Secure Technologies Group and its

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subsidiaries on April 28, 1999. Mr. Schiller is also Chairman of the Board and a director of The Trinity Group-I, Inc. For more than five years prior to his resignation on April 2, 1998, Lewis S. Schiller served as Chairman of the Board, Chief Executive Officer and a director of The Sagemark Companies, Ltd., a public company, and as Chairman of the Board, Chief Executive Officer and a director of The Sagemark Companies, Ltd.'s. public and privately held subsidiaries.

Grazyna B. Wnuk ("Ms. Wnuk") was appointed Vice-President and Secretary of the Company on April 28, 1999. Ms. Wnuk was appointed a Director of the Company on November 19, 1999. For more than five years prior to her resignation on April 2, 1998, Ms. Wnuk served as Secretary and a director of The Sagemark Companies, Ltd. and all of its public and privately held subsidiaries.

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Item 10. Executive Compensation

Set forth below is information concerning the Company's Chief Executive Officer and other executive officers who received or accrued compensation from the Company and its subsidiaries in excess of \$100,000 (on an annualized basis) during 2004 and 2003.

Name and Principal Position	Year	Annual Compensation			Restricted Stock Awards	Long-term Compensation	LTIP Payo (\$)
		Salary	Bonus	Other Annual Compensation		Awards Payo (\$)	
Lewis S. Schiller, CEO and Chairman	2003	\$579,000 (1)	--	--	--	--	--
	2004	\$551,000 (1)	--	--	--	1,480,000	--
Grazyna B. Wnuk, VP and Secretary	2003	\$232,000 (2)	--	--	--	--	--
	2004	\$220,500 (2)	--	--	--	606,000	--

(1) Mr. Lewis S. Schiller's salary for 2004 and 2003 is pursuant to his employment agreement which was executed in 2001. His annual salary for years prior to 2001 was accrued at \$250,000 which was approved by the Board of Directors effective July 1, 1999. None of Lewis S. Schiller's salary has been paid to him since April of 1999 and all such unpaid amounts are accrued as an expense in our consolidated financial statements.

(2) Ms. Wnuk's salary for 2004 and 2003 is pursuant to her employment agreement which was executed in 2002. Approximately \$66,000 of Ms. Wnuk's salary has been paid to her since April of 1999 and all such unpaid amounts are accrued as an expense in our consolidated financial statements.

Option/SAR Grants in 2004

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None of our officers received options during 2004.

Aggregated Option/SAR Exercises in Last Year and Year-end Option/SAR Values

The following table presents information regarding the unexercised options to purchase shares of our common stock held by our executive officers who are included in the preceding summary compensation table as of December 31, 2003.

Name	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Securities Underlying Unexercised Options/SARs at Year End (#)		Value of Un- In-the-Money Op- Year En
			Exercisable	Unexercisable	Exercisable
Lewis S. Schiller, CEO and Chairman	-	-	800,000	-	-
Grazyna B. Wnuk, VP and Secretary	-	-	800,000	-	-

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Employment Agreements

Lewis S. Schiller has an employment agreement with us whereby he is employed as our Chief Executive Officer. Mr. Schiller's contract is for an initial term commencing April 29, 1999 through April 28, 2009 and provides for annual compensation of \$500,000. Mr. Schiller's contract may be extended an additional five years and also provides for an annual increase as calculated as the greater of 5% or the increase in the cost of living index. Mr. Schiller's contract provides him with a bonus for each year of the term equal to 10% of the amount by which the greater of consolidated net income before income taxes or consolidated net cash flow exceeds \$600,000. Mr. Schiller's contract entitles him to 20% of the gross profit on the sale of any of the Company's, or its subsidiaries, investments securities. Mr. Schiller's contract provides him the opportunity to participate in the future expansion of the Company whereby he is entitled, at his option, to purchase up to 25% of the authorized securities of any subsidiary which is organized for any purpose. Mr. Schiller's contract provides him with certain fringe benefits including a vehicle, health insurance and life insurance. In the event of a change of control, Mr. Schiller's contract provides him with severance equal to all amounts owed to him for the full term of the employment agreement.

Grazyna B. Wnuk has an employment agreement with us whereby she is employed as our Vice-President. Ms. Wnuk's contract was executed in 2002 and was negotiated pursuant to a board authorization dated April 29, 1999. Ms. Wnuk's contract's initial expiration is April 28, 2009 and provides for annual compensation of \$200,000 per year. Ms. Wnuk's contract may be extended an additional five years and for an annual increase as calculated as the greater of

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5% or the increase in the cost of living index. Ms. Wnuk's contract provides her with a bonus for each year of the term equal to 1% of the amount by which the greater of consolidated net income before income taxes or consolidated net cash flow exceeds \$600,000. Ms. Wnuk's contract entitles her to 1% of the gross profit on the sale of any of the Company's, or its subsidiaries, investments securities. Ms. Wnuk's contract provides her the opportunity to participate in the future expansion of the Company whereby she is entitled, at her option, to purchase up to 1% of the authorized securities of any subsidiary which is organized for any purpose. Ms. Wnuk's contract provides her with certain fringe benefits including a vehicle, health insurance and life insurance. In the event of a change of control, Ms. Wnuk's contract provides her with severance equal to all amounts owed to her for the full term of the employment agreement.

Item 11. Security Ownership of Certain Beneficial Owners and Management.

The following table sets forth certain information regarding the beneficial ownership of our common stock as of December 31, 2004 by: (i) each of our executive officers and directors; (ii) each person whom we know to be the beneficial owner of more than 5% of our outstanding common stock; and (iii) all of our officers and directors as a group.

Unless otherwise indicated, to our knowledge, all persons listed below have sole voting and investment power with respect to their shares of common stock, except to the extent applicable law gives spouses shared authority. Any shares of common stock that an individual or group has the right to acquire within sixty (60) days after December 31, 2004 pursuant to the exercise of warrants or options are deemed to be outstanding for the purpose of computing the percentage ownership of such person or group, but are not deemed outstanding for the purpose of calculating the percentage owned by any other person listed below.

Title of Class	Name and address of Beneficial Owner	Amount and Nature of Beneficial Ownership(1)
Common Stock(2)	Lewis S. Schiller 21634 Club Villa Terrace Boca Raton, FL 33433	6,703,844
Common Stock(4)	Grazyna B. Wnuk 21634 Club Villa Terrace Boca Raton, FL 33433	481,746
Common Stock	Officer and directors as a group (2 persons)	7,185,590
Common Stock(3)	The Trinity Group-I, Inc. 21634 Club Villa Terrace Boca Raton, FL 33433	6,703,804

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(1) Unless otherwise indicated, to the Company's knowledge, all persons and entities listed above have sole voting and investment power with respect to

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their voting shares, except to the extent applicable law gives spouses shared authority.

- (2) Includes 40 shares directly owned by Lewis S. Schiller, and 6,703,804 shares beneficially owned by The Trinity Group-I, Inc. The Trinity Group-I, Inc. is wholly owned by Lewis S. Schiller and, accordingly, Mr. Schiller may be deemed to be the beneficial owner of The Trinity Group-I, Inc. As a result, Mr. Schiller's beneficial ownership includes 1,000 shares of Series A Preferred Stock, 14,815 shares of Series B Preferred Stock, 75,000 shares of Series D Preferred Stock and 5,703,804 shares of Common Stock owned by The Trinity Group-I, Inc. which are the same shares presented in the table as beneficially owned by The Trinity Group-I, Inc. It does not include the effect of a warrant to purchase 800,000 shares of Common Stock for \$2.50 per share which as of December 31, 2004 the exercise price of which is considerably above the market price for the Common Stock. None of the shares of Series A Preferred Stock, Series B Preferred Stock or Common Stock is held jointly by The Trinity Group-I, Inc and Mr. Schiller.
- (3) Includes 54 shares directly owned by The Trinity Group-I, Inc., 3,703,750 shares from the assumed conversion of the Series B Preferred Stock and 3,000,000 shares from the assumed conversion of the Series D Preferred stock. The Trinity Group-I, Inc. holds 14,815 shares of Series B Preferred Stock. Each shares of Series B Preferred Stock is convertible into such shares as calculated by dividing \$100 by the lowest price that the Common Stock trades during the period that the Series B Preferred Stock is outstanding which as of December 31, 2004 was \$0.40. As of December 31, 2004 the Series B Preferred Stock held by The Trinity Group-I, Inc. is convertible into 3,703,750 shares of Common Stock $[(100 / \$0.0016) * 14,815 = 3,703,750]$. The Trinity Group-I, Inc. holds 75,000 shares of Series D Preferred Stock of which each share is convertible into 40 shares of Common Stock. The Trinity Group-I, Inc. is wholly owned by Lewis S. Schiller and accordingly, Mr. Schiller is the natural person considered to be the beneficial owner of The Trinity Group-I, Inc. As a result, all of the shares of Series A Preferred Stock, Series B Preferred Stock, Series D Preferred Stock and Common Stock presented in the table as beneficially owned by The Trinity Group-I, Inc. are also included in the table as shares beneficially owned by Mr. Schiller. None of the shares of Series A Preferred Stock, Series B Preferred Stock, Series D Preferred Stock or Common Stock IS held jointly by The Trinity Group-I, Inc and Mr. Schiller.
- (4) Includes 496 shares directly owned by Grazyna B. Wnuk, 181,250 shares from the assumed conversion of the Series B Preferred Stock and 300,000 shares from the assumed conversion of the Series D Preferred Stock. The Grazyna B. Wnuk holds 725 shares of Series B Preferred Stock. Each shares of Series B Preferred Stock is convertible into such shares as calculated by dividing \$100 by the lowest price that the Common Stock trades during the period that the Series B Preferred Stock is outstanding which as of December 31, 2004 was \$0.40. As of December 31, 2004 the Series B Preferred Stock held by Grazyna B. Wnuk is convertible into 181,250 shares of Common Stock $[(100 / \$0.40) * 725 = 181,250]$. Grazyna B. Wnuk holds 7,500 shares of Series D Preferred Stock of which each share is convertible into 40 shares of Common Stock. It does not include the effect of a warrant to purchase 800,000 shares of Common Stock for \$2.50 per share which as of December 31, 2004 the exercise price of which is considerably above the market price for the Common Stock.

Item 12. Certain Relationships and Related Transactions.

The Company and its subsidiaries incur interest expense on advances from Lewis S. Schiller advances from The Trinity Group-I, Inc., advances from Universal International, Inc., a company owned by Grazyna B. Wnuk, advances from Grazyna B. Wnuk, a loan from E. Gerald Kay, a former director, and advances from

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Carol Schiller, the wife of Lewis S. Schiller. Total unpaid and outstanding advances from such related parties as of December 31, 2004 aggregated approximately \$701,000. Interest accrued on such notes is generally calculated at 9% (which is the weighted average interest rate at the balance sheet date) and as of December 31, 2004 \$878,000 of such interest remains unpaid. Interest expense on related party notes was \$98,000 for 2004 and \$107,000 for 2003.

As of May 7, 2001, Trinity had advanced the Company approximately \$3.7 million in order to fund its operations. On May 7, 2001, Trinity exchanged \$1.5 million of such related party debt for 30,000 shares of Common Stock, representing \$50 per share, the fair market value of the Common Stock on May 7, 2001 and exchanged an additional \$2 million of related party debt into 20,000 shares of Series B 8% Voting Redeemable Convertible Preferred Stock (the "Series B Preferred Stock") whereby each share of Series B Preferred Stock represents \$100 of exchanged related party debt and each share of Series B Preferred Stock is convertible into shares of Common Stock as calculated by dividing \$100 by the lowest price that the Company's shares of Common Stock have traded during the period that the Series B Preferred Stock has been outstanding.

From April 7, 2003 through August 4, 2003, Trinity entered into four separate loan agreements pursuant to which it received loans of \$335,000 from nonaffiliated lenders. Substantially all of such funds were advanced by Trinity to the Company. Pursuant to the loan agreements, Trinity pledged an aggregate of 5,747 shares of the Company's series B 8% voting redeemable convertible preferred stock owned by Trinity. Each share of Series B preferred stock is convertible into shares

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of common stock as calculated by dividing \$100 by the lowest price that the Company's shares of Common Stock have traded during the period that the series B preferred stock has been outstanding. As of September 3, 2003 each share of series B preferred stock was convertible into 190 shares of common stock. Trinity defaulted on all of such loans and the 5,747 shares of pledged series B preferred stock held by the lenders were converted into 948,762 shares of common stock and were transferred to the lenders.

At the time of each of the loans to Trinity by the non-affiliated lenders, Trinity lent the Company a substantial portion of the principal amount of the loan at 9% interest. Trinity defaulted on its loans to the lenders as a result of the Company's default on its loan to Trinity. When the lenders called the note and foreclosed on the collateral, Trinity cancelled the Company's note to it in exchange for shares of series B preferred stock equal to the number of such shares as Trinity transferred to the lenders. As a result of the defaults by the Company and Trinity, the Company issued to Trinity 5,747 shares of series B preferred stock, which is the same number of shares as Trinity converted and transferred to the lenders.

In addition, during 2003, Trinity converted an aggregate of 1,560 shares of Series B Preferred Stock into an aggregate of 156,000 shares of common stock.

On March 17, 2003, the Company issued to Grazyna B. Wnuk, an officer and director, 36,028 shares of its common stock in payment for expenses of \$34,000, which she paid on behalf of the Company, the approximate value of the shares issued.

On July 29, 2004, Lewis S. Schiller and The Trinity Group-I, Inc. converted \$500,000 of debt obligations into 50,000 shares of Series D Convertible Preferred Stock. Each share of Series D Convertible Preferred Stock

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is convertible into 40 shares of common stock. Grazyna B. Wnuk converted \$75,000 of accrued salary into 7,500 shares of Series D Convertible Preferred Stock.

Item 13. Exhibits and Reports on Form 8-K.

See Exhibit Index for the Exhibits filed as part of or incorporated by reference into this Report.

Item 14. Principal Accountants Fees and Services.

During 2004 and 2003, we were billed the following fees by MOORE STEPHENS, P.C.:

	2004	2003
Audit Fees	\$50,000	\$16,000
Tax Fees	-	-
Other Fees	-	-
	-----	-----
	\$50,000	\$16,000
	=====	=====

We do not have an audit committee. Our Board of Directors approves the engagement of an accountant to render all audit and non-audit services prior to the engagement of the accountant based upon a proposal by the accountant of estimated fees and scope of the engagement.

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SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SECURE TECHNOLOGIES GROUP, INC.

/S/ Lewis S. Schiller,
Chief Executive Officer
April 13, 2005

In accordance with the Exchange Act, this report has been signed below by the following person on behalf of the registrant and in the capacities and on the dates indicated.

/S/ Lewis S. Schiller,
Chief Executive Officer,
Chairman of the Board,
President,
Director and
Chief Accounting Officer

April 13, 2005

/S/ Grazyna B. Wnuk,
Secretary, Vice-President and Director
April 13, 2005

Index to Exhibits

Exhibit No.	Description of Document
(3) (i)	Amended and Restated Certificate of Incorporation (1)
(3) (ii)	By-laws (1)
(21)	Subsidiaries of the registrant
(31.1)	Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
(31.2)	Chief Executive Officer and Chief Accounting Officer Certification.
(99.1)	Financial Statements

(1) Incorporated by reference to Form 8-K dated April 28, 1999.

Exhibit (21)
Subsidiaries of the Registrant

1. Secured Portal Systems, Inc., a Delaware company organized in 1999.
2. Granite Technologies Acquisition Corp., a Delaware company organized in 2001.
3. Secured Systems Group, Inc., a Delaware company organized in 2001 and currently inactive.

Exhibit 31.1

SECURE TECHNOLOGIES GROUP, INC.
SARBANES-OXLEY ACT SECTION 906 CERTIFICATION

CHIEF EXECUTIVE OFFICER AND CHIEF ACCOUNTING OFFICER

In connection with this annual report on Form 10-KSB of Secure Technologies Group, Inc. for the year ended December 31, 2004, I, Lewis S. Schiller, Chief Executive Officer and Chief Accounting Officer of Secure Technologies Group, Inc., hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that based on my knowledge:

1. this Form 10-KSB for the year ended December 31, 2004

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fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. the information contained in this Form 10-KSB for the year ended December 31, 2004 fairly presents, in all material respects, the financial condition and results of operations of Secure Technologies Group, Inc..

/S/ Lewis S. Schiller,
Chief Executive Officer and Chief Accounting Officer
April 13, 2005

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Exhibit 31.2

SECURE TECHNOLOGIES GROUP, INC. SARBANES-OXLEY ACT SECTION 302(a) CERTIFICATION

CHIEF EXECUTIVE OFFICER AND CHIEF ACCOUNTING OFFICER

I, Lewis S. Schiller, certify that:

1. I have reviewed this annual report on Form 10-KSB of Secure Technologies Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Evaluated the effectiveness of the registrant's disclosure controls and procedures as of the end of the period prior to the filing date of this annual report (the "Evaluation Date"); and

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- c. Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any changes in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):
- a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

/s/ Lewis S. Schiller,
Chief Executive Officer and Chief Accounting Officer
April 13, 2005

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Exhibit (99.3)

Financial Statements and Supplementary Data

The following exhibit comprises the Financial Statements and Supplementary Data as specified by Item 7 of Part II of Form 10-KSB.

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Secure Technologies Group, Inc. and Subsidiaries

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Unaudited Consolidated Balance Sheet

As of December 31, 2004

ASSETS

Cash \$

Total current assets

Furniture, Fixtures and Equipment:

Furniture, fixtures and equipment, cost

Less accumulated depreciation (

Net furniture, fixtures and equipment

TOTAL ASSETS \$

LIABILITIES AND CAPITAL DEFICIENCY

CURRENT LIABILITIES:

Accounts payable \$ 2,0

Accrued payroll and payroll taxes, executive officers 2

Notes payable 3

Notes payable executive officers, including interest 2

Notes payable, related parties, including accrued interest 3

Other current liabilities 6

Current liabilities of discontinued segments (see Note 10) 1,2

Total current liabilities 5,1

Deferred executive salaries 3,1

Notes payable executive officers, including interest 1,0

Total long-term debt 4,1

Commitments and contingencies (see Note 9 and 10)

CAPITAL DEFICIENCY

Preferred stock, \$.01 par value; 5,000,000 shares authorized; 1,000 Series A preferred shares issued, outstanding; 15,540 Series B preferred shares issued and outstanding and 72,500 shares of Series D preferred stock as of December 31, 2004 2,1

Common stock, \$.01 par value; 750,000,000 shares authorized; 749,715,948 shares issued and outstanding as of December 31, 2004 35,6

Additional paid-in capital, common stock (47,1

Accumulated deficit (9,3

Capital deficiency (9,3

TOTAL LIABILITIES AND CAPITAL DEFICIENCY \$

* - Less than \$1,000

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See Notes to Unaudited Consolidated Interim Financial Statements.

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Secure Technologies Group, Inc. and Subsidiaries
Unaudited Consolidated Statements of Operations

Year Ended December 31,	2004	
Revenues	\$ 26,000	\$
Write-off impaired assets	2,451,000	
General and administrative expenses	2,114,000	2,
Compensation expense from issuance of stock options	595,000	4,
Total operating expenses	5,160,000	6,
Operating loss	(5,134,000)	(6,
Other income	-	
Interest expense, related parties	(98,000)	(
Loss from continuing operations	(5,232,000)	(6,
Discontinued Operations: (See Note 10)		
(Loss) gain on disposal of discontinued segments	-	
Gain (loss) from operations of discontinued segments	-	
Net loss	\$ (5,232,000)	\$ (6,
Loss per share computation- basic and diluted:		
Loss from continuing operations	\$ (5,232,000)	\$ (6,
Less dividends on preferred shares	(120,000)	(
Loss from continuing operations attributable to common stockholders	(5,352,000)	(6,
(Loss) gain on disposal of discontinued segments	-	
Income (loss) from operations of discontinued segments	-	
Net loss available to common stockholders	\$ (5,352,000)	\$ (6,
Weighted average shares outstanding	2,998,864	2,
Loss per common share - basic and diluted:		
Loss from continuing operations	(\$1.78)	
(Loss) gain on disposal of discontinued segments	-	
Income (loss) from operations of discontinued segments	-	
Net loss	(\$1.78)	

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See Notes to Consolidated Financial Statements.

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Secure Technologies Group, Inc. and Subsidiaries Unaudited Consolidated Statements of Cash Flows		
Year Ended December 31,	2004	
CASH FLOWS - OPERATING ACTIVITIES:		
Loss from continuing operations	\$ (5,232,000)	\$ (6,
(Loss) gain on disposal of discontinued segments	-	
	(5,232,000)	(6,
Adjustments to reconcile loss from continuing operations to net cash - continuing operations:		
Loss (gain) on disposal of segments	-	
Depreciation and amortization	184,000	
Write-off impaired assets	2,451,000	
Non cash expense from issuance of stock options and stock purchase warrants	595,000	4,
Other adjustments	-	
Changes in assets and liabilities:		
Other assets	-	
Accounts payable	597,000	
Accrued payroll	780,000	
Accrued interest expense, related parties	98,000	
Other current liabilities	64,000	
Net cash-continuing operations	(463,000)	(
Income (loss) from discontinued operations	-	
Adjustments to reconcile loss from operations of discontinued segments to net cash - discontinued operations:		
Changes in the reserve for obsolete and slow moving inventory	-	
Depreciation and amortization	-	
Non cash expense from issuance of stock options	-	
Impairment charge	-	
Bad debt expense	-	
Net change in other assets and liabilities	-	
Net cash-discontinued operations	-	-
Net cash - operating activities	(463,000)	(
CASH FLOWS - INVESTING ACTIVITIES:		
Other investing activities	(8,000)	
Net cash - investing activities	(8,000)	-
CASH FLOWS - FINANCING ACTIVITIES:		

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Loans from related parties	96,000		
Repayments on related party loans	-		
Proceeds from exercise of stock options	-		
Issuance of notes payable	385,000		

Net cash - financing activities	481,000		

Net change in cash	10,000		
Cash - Beginning of period	-		

Cash - End of period	\$ 10,000	\$	

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid during the year for:			
Interest	\$	-	\$
Income Taxes	\$	-	\$

See Notes to Consolidated Financial Statements.

continued

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Secure Technologies Group, Inc. and Subsidiaries
Unaudited Consolidated Statements of Cash Flows

Year Ended December 31, 2004 and 2003

SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:

Year Ended December 31, 2004

On July 29, 2004, Lewis S. Schiller and The Trinity Group-I, Inc. converted \$500,000 of debt obligations into 50,000 shares of Series D Convertible Preferred Stock. Each share of Series D Convertible Preferred Stock is convertible into 10,000 shares of common stock. Grayzna B. Wnuk converted \$75,000 of accrued salary into 7,500 shares of Series D Convertible Preferred Stock and a consultant to the Company converted \$150,000 of accrued consulting fees 15,000 shares of Series D Convertible Preferred Stock. The Series D Convertible Preferred Stock votes alongside of common stock on an if converted basis regardless of whether there is common shares available for conversion at the time of any vote.

On July 29, 2004, the Company issued additional warrants to purchase an aggregate of 584,860,000 shares of Common Stock at an exercise price of \$0.01 per share resulting in stock compensation expense of \$594,984.

Year Ended December 31, 2003

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On various dates during 2003, the Company issued stock options, stock purchase warrants and stock grants resulting in non cash stock compensation expense of \$4,042,000.

On March 17, 2003, the Company issued to Grazyna B. Wnuk, an officer and director, 36,028 shares of its common stock in payment for expenses of \$34,000, which she paid on behalf of the Company, the approximate value of the shares issued.

See Notes to Consolidated Financial Statements.

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Secure Technologies Group, Inc. and Subsidiaries
Unaudited Consolidated Statement of Changes in Capital Deficiency
For the Years Ended December 31, 2004

	Preferred Shares	Common Shares	Preferred Par	Preferred Stock in Excess of par	Common Par	Ad
Balance at December 31, 2003	16,540	2,998,864	\$ - *	\$1,554,000	\$ -	\$35,
Issuance of stock purchase warrants	-	-	-	-	-	
Issuance of Series D Preferred stock in wxchange for related party debt and salaries	82,500	-	- *	574,000	-	
Issuance of Series D Preferred stock for related to debt issuance	8,250	-	- *	-	-	
Accrued dividends on preferred stock	-	-	-	-	-	
Net loss for the year ended December 31, 2004	-	-	-	-	-	
Balance at December 31, 2004	114,040	2,998,864	\$ - *	\$2,128,000	\$ -	\$35,

* - Less than \$1,000

See notes to consolidated financial statements.

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Secure Technologies Group, Inc. and Subsidiaries
Unaudited Consolidated Statement of Changes in Capital Deficiency

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For the Years Ended December 31, 2003

	Preferred Shares	Common Shares	Preferred Par	Preferred Stock in Excess of par	Common Par
Balance at December 31, 2002	18,100	615,661	\$ - *	\$1,710,000	\$ -*
Issuance of stock options and warrants	-	-	-	-	-
Stock issued for repayment of notes payable	-	36,028	-	-	-*
Issuance of stock grants	-	1,171,996	-	-	-*
Exercise of stock options	-	70,417	-	-	-*
Conversion of related party debt into shares of series B preferred stock	5,747	-	- *	575,000	-
Conversion of series B preferred stock	(7,307)	1,104,762	- *	(731,000)	-
Accrued dividends on preferred stock	-	-	-	-	-
Net loss for the year ended December 31, 2003	-	-	-	-	-
Balance at December 31, 2003	16,540	2,998,864	\$ - *	\$1,554,000	\$ -

Secure Technologies Group, Inc. and Subsidiaries
Unaudited Consolidated Statement of Changes in Capital Deficiency
For the Years Ended December 31, 2003

	Additional Paid-in Capital	Accumulated Deficit	sub-total	Subscriptions Receivable
Balance at December 31, 2002	\$30,725,000	(\$35,497,000)	(\$3,062,000)	(\$775,000)
Issuance of stock options and warrants	1,896,000	-	1,896,000	775,000
Stock issued for repayment of notes payable	32,000	-	32,000	-
Issuance of stock grants	1,568,000	-	1,568,000	-
Exercise of stock options	352,000	-	352,000	-
Conversion of related party debt into shares of series B preferred stock	(240,000)	-	335,000	-
Conversion of series B preferred stock	731,000	-	-	-
Accrued dividends on preferred stock	-	(127,000)	(127,000)	-
Net loss for the year	-	-	-	-

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ended December 31, 2003	-	(6,152,000)	(6,152,000)	-
<hr style="border-top: 1px dashed black;"/>				
Balance at December 31, 2003	\$35,064,000	(\$41,776,000)	(\$5,158,000)	\$ -
<hr style="border-top: 1px dashed black;"/>				

* - Less than \$1,000

See notes to consolidated financial statements.

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Secure Technologies Group, Inc. and Subsidiaries
Unaudited Notes to Consolidated Financial Statements
December 31, 2004 and 2003

1. Summary of Significant Accounting Policies

Organization

On June 6, 2000 secure technology Group, Inc. (formerly The Finx Group, Inc.) was organized as a Delaware corporation. Effective June 30, 2000, Fingermatrix, Inc., the predecessor company was merged into Secure Technologies, Inc. Secure Technologies, Inc. has controlling interests in Secured Portal Systems, Inc., which was incorporated in Delaware on August 11, 1999, and Granite Technologies Acquisition Corp., which was incorporated in Delaware on May 15, 2001. Throughout this document Secure Technologies Group, Inc. and its subsidiaries may be collectively referred to as "Secure Technologies", the "Company" or the "Registrant".

Nature of Operations

On September 13, 1999, the Company obtained the Georal license which gives the Company distribution rights for the sale of Georal security products to a broad range of customers. The Georal security products' include all models of the Georal security door. The categories of customers covered by the Georal license includes the United States Treasury Department, the United States Central Intelligence Agency and all other United States Government intelligence agencies, the United States National Security Agency, the United States Defense Intelligence Agency, the United States Department of the Navy, the United States Air Force, the United States Army, all United States Federal Courts and all United States Embassies, all department stores and retail stores located in the United States (including all retail stores located in foreign countries which are part of a retail store chain which is based in the United States), the Government of Israel, and certain corporations. The Georal license commenced on September 1, 1999 and, as amended, expires on August 31, 2014.

As an inducement to obtain the Georal license and in exchange for 1,000,000 common stock shares of GIL, in September 1999, the Company issued to Alan J. Risi preferred shares which were converted into 4,200 shares of common stock in July of 2002.

On December 11, 2001, the GIL 2001 security door received certification by the U.S. State Department. On February 21, 2002, the Georal license was amended to expand the categories of customers for which the Company has the exclusive marketing right to include all financial institutions around the world with the Company also receiving a right of first refusal to be the exclusive distributor for sales to any governmental body which the Company does not have

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exclusive marketing rights. As consideration for the amendment entered into on February 21, 2002, the Company issued to Alan Risi 40,000 shares of series D 2% convertible preferred stock that was converted into 16,000 shares of common stock. On May 16, 2002, the Georal license for the Georal security systems was further amended whereby the exclusive distribution agreement was expanded to give the Company additional exclusive world wide sales and marketing rights. As consideration for the amendment entered into on May 16, 2002, the Company issued to Alan Risi 60,000 shares of its series C 2% convertible preferred stock which were converted into 24,000 shares of common stock. On September 9, 2002, the Georal license was further expanded to provide the Company with additional exclusive marketing rights. As consideration for this amendment, the Company issued to Alan Risi 100,000 shares of its series C preferred stock which were converted into 40,000 shares of common stock. On October 16, 2002, the Company issued to Alan Risi an additional 250,000 shares of its series C preferred stock for an amendment to the Georal license which provided the Company with participation rights in certain maintenance revenue generated by Georal and extended the term of the agreement an additional five years, to September 18, 2014. Using the Black-Scholes option valuation formula, the convertible preferred stock was valued at \$2.98 million.

On December 10, 2003, the Company, its wholly-owned subsidiary, Secured Portal Systems, Inc., Alan J. Risi ("Risi"), GIL Security Systems, Inc. ("GIL"), and Georal International, Ltd., entered into a amended and restated worldwide exclusive distribution agreement covering all security entrance systems created, developed, manufactured and/or distributed or otherwise sold by GIL, Georal or their successors. The restated agreement expanded the Company's exclusivity and gave the Company certain other rights. The agreement provided for certain payments by the Company and, if the payments were not made, GIL, Georal and Risi have the right to terminate the restated agreement, in which event, the relationship among the parties would be governed by the prior agreement.

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On or about April 28, 2004, the Company received a notice from GIL stating that the agreement was terminated for failure of the Company to pay the amount provided in the restated agreement. The notice further stated GIL's position that all agreements between GIL and the Company and its subsidiary are terminated.

The Company is considering its legal rights and believes that its subsidiary will continue to be able to exercise its right to market the security portals in major markets groups; however, the Company can give no assurance as to its ability to protect such rights or, if litigation is necessary, that it will prevail in any legal action it may commence.

As of December 31, 2004, the Company has written-off the value of the license agreement and the value of its investment in the the GIL shares.

The Company also sells from its sale of software programs for device management and smart card applications ("Secured Card Solutions"). The Company has provided Virginia Commonwealth University with two of its Secured Card Solutions - the "Secured Recreational Sports Solution" and "The Secured Card Solution". The Secured Recreational Sports Solution, which currently serves Virginia Commonwealth University ("VCU") from three locations offering a variety of fitness, aquatics and intramurals. The activities are offered to all students, faculty, and university and hospital employees. The Secured Recreational Sports Solution's database is integrated with the VCU card database for single university identification. The Secured Recreational Sports Solution handles all check-in of members, locker assignment and equipment check-in and

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check-out. It also keeps track of member billing and payroll deduction. Further, it handles member suspensions and automatic emailing of special events. The Secured Sports Recreation Solution application is written using the new Microsoft.NET architecture. The Company has also entered into a services and support agreement with Florida International University ("FIU") for the installation, support and use of our Secured Recreational Sports Solution.

Basis of Presentation

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the liquidation of liabilities in the normal course of business. However, the Company has a history of net losses for the two years ended December 31, 2004 and as of December 31, 2004 has a working capital deficiency of \$4.19 million and a capital deficiency of \$9.34 million. During 2004 and 2003 the Company has relied on financial support from its controlling stockholder, Trinity Group-I, Inc. ("Trinity") and other related parties and since September 25, 2001 has compensated its employees and key consultants with stock options of which some were registered on Form S-8. Management is currently seeking additional financing; however no assurances can be made that such financing will be consummated. The continuation of the Company as a going concern is dependent upon its ability to obtain financing, and to use the proceeds from any such financing to increase its business to achieve profitable operations. The accompanying consolidated financial statements do not include any adjustments that would result should the Company be unable to continue as a going concern.

Principles of Consolidation

The consolidated financial statements include the accounts of Secure Technologies and its subsidiaries for which it has direct voting control or effective control. All material intercompany balances and transactions are eliminated in consolidation.

Use of Estimates

In preparing the consolidated financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Some of the more significant estimates include the carrying value of the Company's exclusive license, and patents and their amortization.

Cash

The Company considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents. The Company has no such investment at December 31, 2004.

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Furniture, Fixtures and Equipment

Furniture, fixtures and equipment are recorded at cost. Depreciation is provided on the straight-line basis over the useful lives of the assets, which range from three to seven years. Improvements that extend the useful lives of the assets are capitalized while costs of repairs and maintenance are charged to expense as incurred. As of December 31, 2004, the Company's furniture, fixtures and equipment, having a cost basis of \$90,000 are fully depreciated.

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Impairment

Certain long-term assets of the Company are reviewed when changes in circumstances require as to whether their carrying value has become impaired, pursuant to guidance established in Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Management considers assets to be impaired if the carrying value exceeds the future projected cash flows from related operations [undiscounted and without interest charges]. If impairment is deemed to exist, the asset will be written down to fair value. Management also reevaluates the period of amortization to determine whether subsequent events and circumstances warrant revised estimates of useful lives. As of December 31, 2004, the Company wrote-off the value of its exclusive license and the value of certain restricted securities.

Revenue Recognition

The Company recognizes revenues when a product is shipped, and from services when performed.

Income Taxes

The Company accounts for income taxes using the asset and liability approach. The measurement of deferred tax assets is reduced, if necessary, by the amount of any tax benefits that, based on available evidence, management does not expect to be realized.

Basic and Diluted Loss Per Share

Basic and diluted per share results for all periods presented were computed based on the net earnings or loss allocated to the common stock for the respective periods. The weighted average number of shares of common stock outstanding during the period was used in the calculation of basic earnings (loss) per share. In accordance with FAS 128, "Earnings Per Share," the weighted average number of shares of common stock used in the calculation of diluted per share amounts is adjusted for the dilutive effects of stock options based on the treasury stock method and the assumed conversion of convertible preferred stock only if an entity records earnings from continuing operations (i.e., before discontinued operations), as such adjustments would otherwise be anti-dilutive to earnings per share from continuing operations. As a result of the Company recording a loss from continuing operations for 2004 and 2003, the average number of common shares used in the calculation of diluted loss per share have not been adjusted for the effects of 7,369,440 potential common shares from unexercised stock options and warrants and 7,515,000 potential common shares from unconverted preferred shares. Such warrants, options, and shares of convertible preferred stock may dilute earnings per share in the future.

Fair Value of Financial Instruments

SFAS No. 107, "Disclosure About Fair value of Financial Instruments," requires certain disclosures regarding the fair value of financial instruments. In assessing the fair value of these financial instruments, the Company has used a variety of methods and assumptions, which were based on estimates of market considerations and risks existing at the time. All instruments, including accounts payable and accrued liabilities and amounts due to related parties are reflected at fair value in the financial statements because of the short term maturity of these instruments. The fair value of long-term liabilities also approximate their carrying value.

Concentrations of Credit Risk

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Financial instruments that potentially subject the Company to significant concentrations of credit risk consist of cash. The Company places its cash with high quality financial institutions and as of December 2004 does not have any deposits with financial institutions in excess of federally insured limits.

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2. Notes Payable, Related Party

On April 28, 1999, Trinity acquired voting control of the Company and since that date has been the Company's only significant source of funding. Trinity is owned by Lewis S. Schiller, The Finx Group's Chief Executive Officer and Chairman of the Board. Other related parties who have advanced funds to the Company are Lewis S. Schiller, Grazyna B. Wnuk, The Finx Group's Vice President and Board Secretary, Universal International, Inc., a company owned by Grazyna B. Wnuk, E. Gerald Kay, a former director, and Carol Schiller, the wife of Lewis S. Schiller.

As of May 7, 2001, Trinity had advanced the Company approximately \$3.7 million in order to fund its operations. On May 7, 2001, Trinity exchanged \$1.5 million of such related party debt for 30,000 shares of Common Stock, representing \$50 per share, the fair market value of the Common Stock on May 7, 2001 and exchanged an additional \$2 million of related party debt into 20,000 shares of Series B 8% Voting Redeemable Convertible Preferred Stock (the "Series B Preferred Stock") whereby each share of Series B Preferred Stock represents \$100 of exchanged related party debt and each share of Series B Preferred Stock is convertible into shares of Common Stock as calculated by dividing \$100 by the lowest price that the Company's shares of Common Stock have traded during the period that the Series B Preferred Stock has been outstanding.

From April 7, 2003 through August 4, 2003, Trinity entered into four separate loan agreements pursuant to which it received loans of \$335,000 from nonaffiliated lenders. Substantially all of such funds were advanced by Trinity to the Company. Pursuant to the loan agreements, Trinity pledged an aggregate of 5,747 shares of the Company's series B 8% voting redeemable convertible preferred stock owned by Trinity. Each share of Series B preferred stock is convertible into shares of common stock as calculated by dividing \$100 by the lowest price that the Company's shares of Common Stock have traded during the period that the series B preferred stock has been outstanding. As of September 3, 2003 each share of series B preferred stock was convertible into 190 shares of common stock. Trinity defaulted on all of such loans and the 5,747 shares of pledged series B preferred stock held by the lenders were converted into 948,762 shares of common stock and were transferred to the lenders.

At the time of each of the loans to Trinity by the non-affiliated lenders, Trinity lent the Company a substantial portion of the principal amount of the loan at 9% interest. Trinity defaulted on its loans to the lenders as a result of the Company's default on its loan to Trinity. When the lenders called the note and foreclosed on the collateral, Trinity cancelled the Company's note to it in exchange for shares of series B preferred stock equal to the number of such shares as Trinity transferred to the lenders. As a result of the defaults by the Company and Trinity, the Company issued to Trinity 5,747 shares of series B preferred stock, which is the same number of shares as Trinity converted and transferred to the lenders.

In addition, during 2003, Trinity converted an aggregate of 1,560 shares of Series B Preferred Stock into an aggregate of 156,000 shares of common stock.

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On March 17, 2003, the Company issued to Grazyna B. Wnuk, an officer and director, 36,028 shares of its common stock in payment for expenses of \$34,000, which she paid on behalf of the Company, the approximate value of the shares issued.

On July 29, 2004, Lewis S. Schiller and The Trinity Group-I, Inc. converted \$500,000 of debt obligations into 50,000 shares of Series D Convertible Preferred Stock. Each share of Series D Convertible Preferred Stock is convertible into 40 shares of common stock.

Total unpaid and outstanding advances from such related parties as of December 31, 2004 aggregated \$701,000. Interest accrued on all such notes is calculated at 9% (which is the weighted average interest rate at the balance sheet date) and as of December 31, 2004 \$878,000 of such interest remains unpaid. Interest expense on related party notes was \$98,000 and \$107,000 for 2004 and 2003, respectively. The Company's chief executive officer has deferred payment of \$1,000,000 of such amounts until January 1, 2006 and accordingly, such amount is classified as long-term debt as of December 31, 2004.

3. Notes Payable, Other

During 2004, the Company received a loans totaling \$385,000. The loans are demand notes and total payments including principal and imputed interest are \$493,000 as of December 31, 2004. In connection with the issuance of the loans the Company issued to the note holders warrants to purchase an aggregate of 1,020,000 shares of common stock at a price of \$2.50 per share and 8,250 shares of Series D Preferred Stock convertible into 300,000 shares of common stock.

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4. Deferred Executive Salaries

The Company's chief executive officer has agreed to defer his accrued and unpaid salary until January 1, 2006 and as a result \$3,196,000 of such salaries are classified as long-term liability

5. Capital Stock

The Company has authorized 150,000,000 shares of \$.0001 par value Common Stock. As of December 31, 2004, the Company has 2,998,864 shares issued and outstanding. The Company has not declared dividends on its Common Stock.

The Company has authorized 5,000,000 of preferred stock. Dividends accrued on the Company's preferred stock aggregated \$582,000 as of December 31, 2004 of which \$120,000 was accrued during 2004 and \$127,000 was accrued during 2003.

Series A 4% Preferred Stock

In 1999, the Company issued to Trinity 1,000 shares of Series A 4% Preferred Stock (the Series A Preferred Stock"). Each share of the Series A Preferred Stock entitles the holder to annual dividends at the rate of 4%. All of the Series A Preferred Stock is owned by Trinity and such shares give Trinity the right to elect a majority of the Company's Board of Directors. Each share of the Series A Preferred Stock entitles the holder to annual dividends at the rate of 4% per share and votes alongside of Common Stock holders.

Series B 8% Voting Redeemable Convertible Preferred Stock

As of May 7, 2001, Trinity had advanced the Company approximately \$3.7

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million in order to fund its operations. On May 7, 2001, Trinity exchanged \$1.5 million of such related party debt for 30,000 shares of Common Stock, representing \$50 per share, the fair market value of the Common Stock on May 7, 2001 and exchanged an additional \$2 million of related party debt into 20,000 shares of Series B 8% Voting Redeemable Convertible Preferred Stock (the "Series B Preferred Stock") whereby each share of Series B Preferred Stock represents \$100 of exchanged related party debt and each share of Series B Preferred Stock is convertible into shares of Common Stock as calculated by dividing \$100 by the lowest price that the Company's shares of Common Stock have traded during the period that the Series B Preferred Stock has been outstanding.

From April 7, 2003 through August 4, 2003, Trinity entered into four separate loan agreements pursuant to which it received loans of \$335,000 from nonaffiliated lenders. Substantially all of such funds were advanced by Trinity to the Company. Pursuant to the loan agreements, Trinity pledged an aggregate of 5,747 shares of the Company's series B 8% voting redeemable convertible preferred stock owned by Trinity. Each share of Series B preferred stock is convertible into shares of common stock as calculated by dividing \$100 by the lowest price that the Company's shares of Common Stock have traded during the period that the series B preferred stock has been outstanding. As of September 3, 2003 each share of series B preferred stock was convertible into 190 shares of common stock. Trinity defaulted on all of such loans and the 5,747 shares of pledged series B preferred stock held by the lenders were converted into 948,762 shares of common stock and were transferred to the lenders.

At the time of each of the loans to Trinity by the non-affiliated lenders, Trinity lent the Company a substantial portion of the principal amount of the loan at 9% interest. Trinity defaulted on its loans to the lenders as a result of the Company's default on its loan to Trinity. When the lenders called the note and foreclosed on the collateral, Trinity cancelled the Company's note to it in exchange for shares of series B preferred stock equal to the number of such shares as Trinity transferred to the lenders. As a result of the defaults by the Company and Trinity, the Company issued to Trinity 5,747 shares of series B preferred stock, which is the same number of shares as Trinity converted and transferred to the lenders. As of December 31, 2004, 15,540 shares of Series B preferred stock are outstanding which can be converted into an aggregate of 3,885,000 shares of common stock. Each share of Series B Preferred Stock entitles the holder to annual dividends at the rate of 8% of \$100 per share.

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Series D Convertible Preferred Stock

On July 29, 2004, Lewis S. Schiller and The Trinity Group-I, Inc. converted \$500,000 of debt obligations into 50,000 shares of Series D Convertible Preferred Stock. Each share of Series D Convertible Preferred Stock is convertible into 40 shares of common stock. Grazyna B. Wnuk converted \$75,000 of accrued salary into 7,500 shares of Series D Convertible Preferred Stock. In October 2004, in connection with a loan to the Company, the Company issued to the note holder 8,250 shares of shares of Series D Convertible Preferred Stock that are convertible into an aggregate of 300,000 shares of Common Stock. In connection with the transaction, the Company issued shares of Series D Convertible Preferred Stock that are convertible into 30,000 shares of Common Stock in payment of a finder's fee. The Series D Convertible Preferred Stock votes alongside of common stock on an if converted basis regardless of whether there is common shares available for conversion at the time of any vote. As of December 31, 2004 the series D Preferred Stock is convertible into 2,630,000 shares of common stock. The conversion period for the Series D Convertible Preferred stock does not have an expiration date.

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6. Warrants

On November 17, 2003, the Company issued warrants to purchase an aggregate of 5,030,000 shares of Common Stock at an exercise price of \$2.50 per share resulting in stock compensation expense of \$977,000. On July 29, 2004, the Company issued additional warrants to purchase an aggregate of 2,339,440 shares of Common Stock at an exercise price of \$2.50 per share resulting in stock compensation expense of \$594,984. As of December 31, 2004, there are warrants outstanding to purchase an aggregate of 7,369,440 shares of common stock at an exercise price of \$2.50 per share.

The Company has elected to use the intrinsic value method of accounting for stock options in accordance with APB Opinion No. 25 and related interpretations issued to employees under its stock option plans whereby the amount of stock-based compensation expense is calculated as the difference between the fair market value and the exercise price on the date of issuance. For purposes of pro forma disclosures the amount of stock-based compensation as calculated using the fair value method of accounting for stock options issued to employees is amortized over the options' vesting period.

For purposes of calculating the pro forma expense under SFAS No. 123, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. The following assumptions were used to estimate the fair value of options granted:

	2004	2003
Dividend yield	0.0%	0.0%
Expected volatility	144.34%	144.34%
Risk-free interest rate	6.0%	6.0%
Expected life of options	3 years	3 years

The Company's pro forma information for the years ended December 31, 2004 and 2003 is as follows:

	2004	
Net loss as reported	\$ (5,352,000)	\$ (6,000,000)
Deduct: Amount by which stock-based employee compensation as determined under fair value based method for all awards exceeds the compensation as determined under the intrinsic value method	-	(1,000,000)
Pro forma net loss under FAS No. 123	\$ (5,352,000)	\$ (6,000,000)

Basic and diluted net loss per common share:

As reported	(1.78)
Pro forma under SFAS No. 123	(1.78)

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The following table summarizes the Company's fixed stock purchase warrants and options for 2004 and 2003.

	2004 Shares	2004 Weighted Average Exercise Price	2003 Shares
Outstanding at beginning of year	5,030,000	\$2.50	179,4
Granted	2,339,440	\$2.50	6,912,4
Exercised	-	-	(1,242,41
Forfeited/Expired	-	-	(20
Outstanding at end of year	7,369,440	\$2.50	5,849,2
Options exercisable at year end	7,369,440	\$2.50	5,849,2
Weighted-average fair value of options granted during the year	\$0.25		\$

As of December 31, 2004, the Company has outstanding warrants to purchase 7,369,440 shares of Common Stock at a price of \$2.50 per share having a weighted-average remaining contractual life of 3.176 years.

7. Related Party Transactions

The Company and its subsidiaries incur interest expense on advances from Lewis S. Schiller advances from The Trinity Group-I, Inc., advances from Universal International, Inc., a company owned by Grazyna B. Wnuk, advances from Grazyna B. Wnuk, a loan from E. Gerald Kay, a former director, and advances from Carol Schiller, the wife of Lewis S. Schiller. Total unpaid and outstanding advances from such related parties as of December 31, 2004 aggregated approximately \$701,000. Interest accrued on such notes is generally calculated at 9% (which is the weighted average interest rate at the balance sheet date) and as of December 31, 2004 \$878,000 of such interest remains unpaid. Interest expense on related party notes was \$98,000 for 2004 and \$107,000 for 2003.

As of May 7, 2001, Trinity had advanced the Company approximately \$3.7 million in order to fund its operations. On May 7, 2001, Trinity exchanged \$1.5 million of such related party debt for 30,000 shares of Common Stock, representing \$50 per share, the fair market value of the Common Stock on May 7, 2001 and exchanged an additional \$2 million of related party debt into 20,000 shares of Series B 8% Voting Redeemable Convertible Preferred Stock (the "Series B Preferred Stock") whereby each share of Series B Preferred Stock represents \$100 of exchanged related party debt and each share of Series B Preferred Stock is convertible into shares of Common Stock as calculated by dividing \$100 by the lowest price that the Company's shares of Common Stock have traded during the period that the Series B Preferred Stock has been outstanding.

From April 7, 2003 through August 4, 2003, Trinity entered into four separate loan agreements pursuant to which it received loans of \$335,000 from nonaffiliated lenders. Substantially all of such funds were advanced by Trinity

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to the Company. Pursuant to the loan agreements, Trinity pledged an aggregate of 5,747 shares of the Company's series B 8% voting redeemable convertible preferred stock owned by Trinity. Each share of Series B preferred stock is convertible into shares of common stock as calculated by dividing \$100 by the lowest price that the Company's shares of Common Stock have traded during the period that the series B preferred stock has been outstanding. As of September 3, 2003 each share of series B preferred stock was convertible into 190 shares of common stock. Trinity defaulted on all of such loans and the 5,747 shares of pledged series B preferred stock held by the lenders were converted into 948,762 shares of common stock and were transferred to the lenders.

At the time of each of the loans to Trinity by the non-affiliated lenders, Trinity lent the Company a substantial portion of the principal amount of the loan at 9% interest. Trinity defaulted on its loans to the lenders as a result of the Company's default on its loan to Trinity. When the lenders called the note and foreclosed on the collateral, Trinity cancelled the Company's note to it in exchange for shares of series B preferred stock equal to the number of such shares as Trinity transferred to the lenders. As a result of the defaults by the Company and Trinity, the Company issued to Trinity 5,747 shares of series B preferred stock, which is the same number of shares as Trinity converted and transferred to the lenders.

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In addition, during 2003, Trinity converted an aggregate of 1,560 shares of Series B Preferred Stock into an aggregate of 156,000 shares of common stock.

On March 17, 2003, the Company issued to Grazyna B. Wnuk, an officer and director, 36,028 shares of its common stock in payment for expenses of \$34,000, which she paid on behalf of the Company, the approximate value of the shares issued.

On July 29, 2004, Lewis S. Schiller and The Trinity Group-I, Inc. converted \$500,000 of debt obligations into 50,000 shares of Series D Convertible Preferred Stock. Each share of Series D Convertible Preferred Stock is convertible into 40 shares of common stock. Grazyna B. Wnuk converted \$75,000 of accrued salary into 7,500 shares of Series D Convertible Preferred Stock.

8. Income Taxes

The Company, as of December 31, 2004, has available approximately \$55.1 million of net operating loss carry forwards to reduce future Federal and state income taxes, representing a net deferred tax asset of approximately \$19.3 million. Based upon the level of historical tax losses, the Company has established a valuation allowance against the entire net deferred tax asset. This represents a decrease in the valuation allowance of approximately \$100,000 from December 31, 2003. In addition, the Company has available investment tax credit and research tax credit carry forwards in excess of \$500,000. However, it is not currently probable that the related deferred tax assets will be realized by reducing future taxable income during the carry forward period and as such, a valuation allowance has been computed to offset in its entirety the deferred tax asset attributable to the net operating loss and tax credits. The net operating loss carry forwards expire as follows:

Year of expiration	Net operating loss carry forward
2005	2,207,000
2006	3,144,000

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2007	3,023,000
2008	2,044,000
2009	1,851,000
2010	2,050,000
2011	3,171,000
2012	194,000
2018	1,080,000
2019	1,319,000
2020	8,261,000
2021	11,176,000
2022	4,177,000
2023	6,152,000
2024	5,232,000

	\$55,081,000

Pursuant to section 382 of the Internal Revenue Code, the annual utilization of these loss carry forwards is limited as a result of the changes in stock ownership, which have occurred during 2004 and 2003, and may be further limited if substantial changes in the Company ownership were to occur.

9. Commitments and Contingencies

Operating Leases

As of December 31, 2004, the Company does not have any operating leases with firm commitments extending beyond one year. All of its current premises are leased on a month to month basis and as of December 31, 2004 such monthly lease payments approximated \$500 per month.

Employment Agreements

Lewis S. Schiller has an employment agreement with the Company whereby he is employed as the Company's chief executive officer. Mr. Schiller's contract is for an initial term commencing April 29, 1999 through April 28, 2009 and provides for annual compensation of \$500,000. Mr. Schiller's contract may be extended an additional five years and also provides for an annual increase as calculated as the greater of 5% or the increase in the cost of living index. Mr. Schiller's contract provides him with a bonus for each year of the term equal to 10% of the amount by which the greater of consolidated net income before income taxes or consolidated net operating cash flow

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exceeds \$600,000. Mr. Schiller's contract entitles him to 20% of the gross profit on the sale of any of the Company's, or its subsidiaries, investments securities. Mr. Schiller's contract provides him the opportunity to participate in the future expansion of the Company whereby he is entitled, at his option, to purchase up to 25% of the authorized securities of any subsidiary which is organized for any purpose. Mr. Schiller's contract provides him with certain fringe benefits including a vehicle, health insurance and life insurance. In the event of a change of control, Mr. Schiller's contract provides him with severance equal to all amounts owed to him for the full term of the employment agreement.

Grazyna B. Wnuk has an employment agreement with the Company whereby she is employed as the Company's vice-president. Ms. Wnuk's contract was executed in 2002. Ms. Wnuk's contract's initial expiration is April 28, 2009 and provides for annual compensation of \$200,000 per year. Ms. Wnuk's contract may

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be extended an additional five years and for an annual increase as calculated as the greater of 5% or the increase in the cost of living index. Ms. Wnuk's contract provides her with a bonus for each year of the term equal to 1% of the amount by which the greater of consolidated net income before income taxes or consolidated net operating cash flow exceeds \$600,000. Ms. Wnuk's contract entitles her to 1% of the gross profit on the sale of any of the Company's, or its subsidiaries, investments securities. Ms. Wnuk's contract provides her the opportunity to participate in the future expansion of the Company whereby she is entitled, at her option, to purchase up to 1% of the authorized securities of any subsidiary which is organized for any purpose. Ms. Wnuk's contract provides her with certain fringe benefits including a vehicle, health insurance and life insurance. In the event of a change of control, Ms. Wnuk's contract provides her with severance equal to all amounts owed to her for the full term of the employment agreement.

Indemnifications

Pursuant to the terms of the stock purchase agreement to sell Sequential and S-Tech, the Company agreed to indemnify Lewis S. Schiller for any claims made against him regarding \$1.1 million of delinquent payroll taxes owed by Sequential and S-Tech at the time of their disposal and as of September 30, 2003, the Company has reserved \$550,000 against such potential claims. In addition, pursuant to separate indemnification agreements, the Company has agreed to indemnify Grazyna B. Wnuk and the former president of S-Tech for any claims made against them regarding the delinquent payroll taxes.

Legal Proceedings

Although the Company is a party to certain legal proceedings that have occurred in the ordinary course of business, it does not believe such proceedings to be of a material nature with the exception of the following item. On or about April 8, 2002, a complaint styled "Law Offices of Jerold K. Levien, against The Finx Group, Inc. f/k/a Fingermatrix, Inc., The Trinity Group-I, Inc." was filed in the Supreme Court of the State of New York County of New York, and the plaintiff has received a judgment for \$334,595, such amount having been accrued on the Company's books, plus interest.

10. Discontinued Operations

On June 30, 2003, the Company transferred its 51.1% ownership in FMX Corp. ("FMX") to Michael Schiller, who owned the remaining 49.9% of FMX. Michael Schiller is the brother of Lewis S. Schiller; however, Lewis S. Schiller has no direct or indirect equity interest in FMX. Since its inception, FMX has had no operating activities and all but \$25,000 of its liabilities was a note payable to the Company. As a result of the disposal of FMX, the Company recorded a loss on disposal of \$9,000 during 2003. The Company continues to have contingent obligations relating to the discontinued operations, principally withholding tax liabilities of an aggregate of \$1,211,000, of which \$550,000 related to the operations of Sequential and S-Tech which were sold in 2002.. In certain cases, the Company retained intellectual property rights; however, those rights have been fully expensed.

11. New Authoritative Pronouncements

In January 2003, the FASB issued Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51." FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional financial support from other parties. FIN 46 is effective for all new variable interest entities created or acquired after January 31, 2003. For

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variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period beginning after December 15, 2003. In December 2003, the FASB issued Interpretation No. 46(R) ("FIN 46R") which revised certain provisions of FIN 46. Publicly reporting entities that are small business issuers must apply FIN 46R to all entities subject to FIN 46R no later than the end of the first reporting period that ends after December 15, 2004 (as of December 31, 2004, for a

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calendar year enterprise). The effective date includes those entities to which FIN 46 had previously been applied. However, prior to the application of FIN 46R, a public entity that is a small business issuer shall apply FIN 46 or FIN 46R to those entities that are considered special-purpose entities no later than as of the end of the first reporting period that ends after December 15, 2003 (as of December 31, 2003 for a calendar year enterprise). The adoption of FIN 46 or FIN 46R did not have a material effect on the Company's consolidated financial position or results of operations.

In April 2003, SFAS 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" ("SFAS 149") was issued. SFAS 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under FASB Statement No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities". This statement is effective for contracts entered into or modified after June 30, 2003. The adoption of SFAS 149 did not have a material effect on the Company's consolidated financial position or results of operations.

During 2003, SFAS 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" ("SFAS 150") was issued. SFAS 150 establishes standards for classification and measurement of certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in certain cases). The provisions of SFAS 150 are effective for instruments entered into or modified after May 31, 2003 and pre-existing instruments as of July 1, 2003. On October 29, 2003, the FASB voted to indefinitely defer the effective date of SFAS 150 for mandatorily redeemable instruments as they relate to minority interests in consolidated finite-lived entities through the issuance of FASB Staff Position 150-3.

In December 2003, a revision of SFAS 132 "Employers' Disclosures about Pensions and Other Postretirement Benefits" was issued, revising disclosures about pension plans and other post retirements benefits plans and requiring additional disclosures about the assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans.

In November 2004, the FASB issued SFAS No. 151 "Inventory Costs, an amendment of Accounting Research Bulletin No. 43, Chapter 4 - Inventory Pricing". The amendments made by Statement 151 clarify that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges and require the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. The guidance is effective for inventory costs incurred during fiscal years beginning after June 15, 2005.

In December 2004, the FASB issued SFAS No.153, "Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29, Accounting for

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Nonmonetary Transactions" ("SFAS 153"). The amendments made by SFAS 153 are based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. Further, the amendments eliminate the narrow exception for nonmonetary exchanges of similar productive assets and replace it with a broader exception for exchanges of nonmonetary assets that do not have commercial substance. Previously, Opinion 29 required that the accounting for an exchange of a productive asset for a similar productive asset or an equivalent interest in the same or similar productive asset should be based on the recorded amount of the asset relinquished. Opinion 29 provided an exception to its basic measurement principle (fair value) for exchanges of similar productive assets. The Board believes that exception required that some nonmonetary exchanges, although commercially substantive, be recorded on a carryover basis. By focusing the exception on exchanges that lack commercial substance, the Board believes this Statement produces financial reporting that more faithfully represents the economics of the transactions. The Statement is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Earlier application is permitted for nonmonetary asset exchanges occurring in fiscal periods beginning after the date of issuance. The provisions of this Statement shall be applied prospectively.

The Company expects that the adoption of the new statements will not have a significant impact on its financial statements.

In December 2004, the FASB issued SFAS No.123 (revised 2004), "Share-Based Payment" Statement 123(R) will provide investors and other users of financial statements with more complete financial information by requiring that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. Statement 123(R) covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. Statement 123(R) replaces FASB Statement No. 123, Accounting for Stock-Based Compensation, and supersedes APB

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Opinion No. 25, Accounting for Stock Issued to Employees. Statement 123, as originally issued in 1995, established as preferable a fair-value-based method of accounting for share-based payment transactions with employees. However, that Statement permitted entities the option of continuing to apply the guidance in Opinion 25, as long as the footnotes to financial statements disclosed what net income would have been had the preferable fair-value-based method been used. Public entities that are small business issuers will be required to apply Statement 123(R) as of the first interim or annual reporting period that begins after December 15, 2005. Currently the Company recognizes the expense of options, or similar instruments, issued to employees using the intrinsic value based method. The Company is evaluating the impact this statement may have on its financial statements.

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