

Halo Technology Holdings, Inc.  
Form 10QSB  
February 14, 2007

**Table of Contents**

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-QSB**

**Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the Fiscal Quarter Ended December 31, 2006**

or

**Transition report under Section 13 or 15(d) of the Exchange Act  
Commission File No. 000-33197  
HALO TECHNOLOGY HOLDINGS, INC.  
(Name of Small Business Issuer in its Charter)**

**Nevada  
State or other jurisdiction of  
incorporation or organization**

**88-0467845  
I.R.S. Employer  
Identification Number**

**200 Railroad Avenue, 3rd Floor, Greenwich, CT 06830  
(Address of principal executive office)**

**Issuer's telephone number: (203) 422-2950**

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) been subject to such filing requirements for the past ninety (90) days. Yes  No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.): Yes  No

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: As of February 1, 2007, there were 30,723,185 shares of Common Stock, par value \$.00001 per share, outstanding.

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

---

**TABLE OF CONTENTS**

**PART I**

**ITEM 1. Financial Statements**

**ITEM 2. Management's Discussion And Analysis of Financial Condition and Results of Operations**

**ITEM 3. Controls And Procedures**

**PART II**

**ITEM 1. Legal Proceedings**

**ITEM 2. Unregistered Sales of Equity Securities and use of Proceeds**

**ITEM 3. Defaults Upon Senior Securities**

**ITEM 4. Submission of Matters to a Vote of Security Holders**

**ITEM 5. Other Information**

**ITEM 6. Exhibits And Reports On Form 8-K**

**SIGNATURES**

**EXHIBIT INDEX**

**EX-21.1: SUBSIDIARIES**

**EX-31.1: CERTIFICATION**

**EX-31.2: CERTIFICATION**

**EX-32.1: CERTIFICATION**

**EX-32.2: CERTIFICATION**

**EX-21.1: SUBSIDIARIES OF THE COMPANY**

**EX-31.1: CERTIFICATION**

**EX-31.2: CERTIFICATION**

**EX-32.1: CERTIFICATION**

**EX-32.2: CERTIFICATION**

**Table of Contents**

PART I  
FINANCIAL INFORMATION

Forward-Looking Information

Certain statements in this Form 10-QSB of Halo Technology Holdings, Inc. (the Company) may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the Reform Act). These forward-looking statements are made only as of the date hereof, and we undertake no obligation to update or revise the forward-looking statements, whether as a result of new information, future events or otherwise. The safe harbors for forward-looking statements provided by the Reform Act are unavailable to issuers of penny stock. Our shares may be considered a penny stock and, as a result, the safe harbors may not be available to us. Such forward-looking statements include those relating to future opportunities, the outlook of customers, the reception of new products and technologies, and the success of new initiatives. In addition, such forward-looking statements involve known and unknown risks, uncertainties, and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results expressed or implied by such forward-looking statements. Such factors include: (i) demand for the Company's products; (ii) the actions of current and potential new competitors; (iii) changes in technology; (iv) the nature and amount of the Company's revenues and expenses; and (v) overall economic conditions and other risks detailed from time to time in the Company's periodic earnings releases and reports filed with the Securities and Exchange Commission (SEC) as well as the risks and uncertainties discussed in the Company's Annual Report on Form 10-KSB/A filed with the SEC on October 26, 2006.

**ITEM 1. Financial Statements.**

Table of Contents

|  | <b>Page</b> |
|--|-------------|
| Consolidated Balance Sheets                | 4           |
| Consolidated Statements of Operations      | 6           |
| Consolidated Statements of Cash Flows      | 8           |
| Notes to Consolidated Financial Statements | 10          |

**Table of Contents****Halo Technology Holdings, Inc.  
Consolidated Balance Sheets**

|   | <b>December 31,<br/>2006</b><br>(unaudited) | <b>June 30, 2006</b><br>(audited) |
|---|---|-----------------------------------|
| <b>Assets</b>   |   |                                   |
| Current Assets:   |   |                                   |
| Cash and cash equivalents   | \$ 774,334                                  | \$ 853,901                        |
| Marketable securities   |   | 9,750                             |
| Accounts receivable, net of allowance for doubtful accounts of \$190,875 and \$105,812 respectively | 3,222,239                                   | 2,053,676                         |
| Due from Platinum Equity, LLC   | 330,000                                     | 302,500                           |
| Prepaid expenses and other current assets   | 577,168                                     | 315,444                           |
| Assets held for sale  |   | 18,313,168                        |
| <br>  |   |                                   |
| Total current assets  | 4,903,741                                   | 21,848,439                        |
| <br>  |   |                                   |
| Property and equipment, net   | 641,775                                     | 320,027                           |
| Deferred financing costs, net   | 910,283                                     | 1,492,096                         |
| Intangible assets, net of accumulated amortization of \$1,710,276 and \$980,458 respectively        | 9,513,107                                   | 9,679,925                         |
| Goodwill  | 36,089,724                                  | 26,283,132                        |
| Other assets  | 98,781                                      | 79,919                            |
| <br>  |   |                                   |
| Total assets  | \$ 52,157,411                               | \$ 59,703,538                     |
| <br>  |   |                                   |
| <b>Liabilities and stockholders equity</b>  |   |                                   |
| Current liabilities:  |   |                                   |
| Current portion of senior note payable  | \$ 4,885,314                                | \$ 1,333,126                      |
| Note payable to Tenebril sellers  | 3,529,412                                   |                                   |
| Note payable to Platinum Equity, LLC  | 1,750,000                                   | 1,750,000                         |
| Notes payable   | 588,901                                     | 3,275,000                         |
| Accounts payable  | 2,348,665                                   | 1,609,575                         |
| Accrued expenses  | 6,525,665                                   | 5,062,252                         |
| Deferred revenue  | 8,582,543                                   | 9,477,722                         |
| Due to ISIS   | 1,243,718                                   | 1,243,864                         |
| Liabilities of discontinued operations  |   | 5,945,227                         |
| <br>  |   |                                   |
| Total current liabilities   | 29,454,218                                  | 29,696,766                        |
| <br>  |   |                                   |
| Subordinate notes payable   | 2,349,358                                   | 1,770,833                         |
| Senior notes payable  | 12,752,480                                  | 20,752,493                        |
| Other long term liabilities   | 1,197,839                                   | 453,974                           |
| Series C warrants liabilities   | 1,146,223                                   | 3,720,893                         |

Edgar Filing: Halo Technology Holdings, Inc. - Form 10QSB

|                                     |           |           |
|-------------------------------------|-----------|-----------|
| Senior and Sub warrants liabilities | 1,748,131 | 1,333,942 |
| Other warrants liabilities          | 2,023,735 | 2,566,319 |

**Table of Contents**

|  | <b>December 31,<br/>2006</b><br>(unaudited) | <b>June 30, 2006</b><br>(audited) |
|--|---|-----------------------------------|
| Total liabilities  | 50,671,984                                  | 60,295,220                        |
| Commitments and contingencies  |   |                                   |
| Mandatory redeemable Series D Preferred Stock: \$.00001 par value;<br>8,863,636 shares authorized, 7,045,454 issued and outstanding<br>(Liquidation value \$7,750,000) | 7,750,000                                   | 7,750,000                         |
| Stockholders' equity (deficit):  |   |                                   |
| Preferred stock (Canadian subsidiary)  | 2   | 2                                 |
| Shares of Common Stock to be issued for accrued interest on<br>subordinated debt   | 296,340                                     | 41,667                            |
| Common stock: \$.00001 par value; 150,000,000 shares authorized;<br>31,231,101 and 26,723,247 shares issued and outstanding, respectively                              | 314   | 267                               |
| Additional paid-in-capital   | 97,224,773                                  | 86,265,258                        |
| Treasury stock   | (1,250,000)                                 |                                   |
| Accumulated other comprehensive loss   | (16,973)                                    | (43,528)                          |
| Accumulated deficit  | (102,519,029)                               | (94,605,348)                      |
| <br>   |   |                                   |
| Total stockholders' equity (deficit)   | (6,264,573)                                 | (8,341,682)                       |
| <br>   |   |                                   |
| Total liabilities and stockholders' equity (deficit)   | \$ 52,157,411                               | \$ 59,703,538                     |

See accompanying notes to consolidated financial statements.

**Table of Contents**

**Halo Technology Holdings, Inc.**  
**Consolidated Statements of Operations**  
(Unaudited)

|  | <b>Three Months Ended</b> |              | <b>Six Months Ended</b> |               |
|--|---------------------------|--------------|-------------------------|---------------|
|  | <b>December 31,</b>       |              | <b>December 31,</b>     |               |
|  | <b>2006</b>               | <b>2005</b>  | <b>2006</b>             | <b>2005</b>   |
| Revenue  |                           |              |                         |               |
| Licenses   | \$ 707,320                | \$ 422,335   | \$ 1,344,805            | \$ 507,336    |
| Services   | 6,073,247                 | 2,112,138    | 11,922,908              | 2,314,917     |
| <br>   |                           |              |                         |               |
| Total revenues   | 6,780,567                 | 2,534,473    | 13,267,713              | 2,822,253     |
| <br>   |                           |              |                         |               |
| Cost of revenue  |                           |              |                         |               |
| Cost of license  | 290,564                   | 204,444      | 502,525                 | 211,304       |
| Cost of services   | 1,765,948                 | 580,348      | 3,269,956               | 637,874       |
| <br>   |                           |              |                         |               |
| Total cost of revenues   | 2,056,512                 | 784,792      | 3,772,481               | 849,178       |
| <br>   |                           |              |                         |               |
| Gross Profit   | 4,724,055                 | 1,749,681    | 9,495,232               | 1,973,075     |
| Product development  | 1,461,934                 | 767,257      | 2,677,218               | 853,333       |
| Sales, marketing and business development                      | 1,158,207                 | 630,529      | 2,179,078               | 761,122       |
| General and administrative                                     | 3,532,594                 | 2,440,529    | 7,187,025               | 3,074,515     |
| Loss on extinguishment of debt                                 | 1,957,709                 |              | 1,957,709               |               |
| <br>   |                           |              |                         |               |
| Loss before interest and fair value gain on warrants           | (3,386,389)               | (2,088,634)  | (4,505,798)             | (2,715,895)   |
| Fair value gain on warrants                                    | 1,911,881                 | 7,864,701    | 4,580,222               | 31,671,485    |
| Interest expense and other, net                                | (2,910,888)               | (2,195,871)  | (7,683,679)             | (4,301,982)   |
| <br>   |                           |              |                         |               |
| (Loss) income from continuing operations before income taxes   | (4,385,396)               | 3,580,196    | (7,609,255)             | 24,653,608    |
| Income taxes   | 6,335                     | 1,012        | 15,393                  | 2,230         |
| <br>   |                           |              |                         |               |
| (Loss) income from continuing operations                       | (4,391,731)               | 3,579,184    | (7,624,648)             | 24,651,378    |
| Income (loss) from discontinued operations, net of taxes       | 93,685                    | (827,999)    | 220,288                 | (1,510,547)   |
| <br>   |                           |              |                         |               |
| Net (loss) income  | \$ (4,298,046)            | \$ 2,751,185 | \$ (7,404,360)          | \$ 23,140,831 |
| <br>   |                           |              |                         |               |
| Computation of (loss) income applicable to common shareholders |                           |              |                         |               |



Edgar Filing: Halo Technology Holdings, Inc. - Form 10QSB

|   |                |              |                |               |
|---|----------------|--------------|----------------|---------------|
| Net (loss) income before preferred dividends                  | \$ (4,298,046) | \$ 2,751,185 | \$ (7,404,360) | \$ 23,140,831 |
| Preferred dividends   | (254,674)      | (373,379)    | (509,348)      | (593,558)     |
| <br>  |                |              |                |               |
| (Loss) income attributable to common stockholders             | \$ (4,552,720) | \$ 2,377,806 | \$ (7,913,708) | \$ 22,547,273 |
| <br>  |                |              |                |               |
| Basis income (loss) per share attributable to common stock:   |                |              |                |               |
| (Loss) income from continuing operations                      | \$ (0.15)      | \$ 0.88      | \$ (0.27)      | \$ 7.02       |
| Income (loss) from discontinued operations                    | \$ 0.00        | \$ (0.22)    | \$ 0.01        | \$ (0.44)     |
| Net (loss) income   | \$ (0.15)      | \$ 0.66      | \$ (0.26)      | \$ 6.58       |
| <br>  |                |              |                |               |
| Diluted income (loss) per share attributable to common stock: |                |              |                |               |
| (Loss) income from continuing operations                      | \$ (0.15)      | \$ 0.13      | \$ (0.27)      | \$ 0.99       |
| Income (loss) from discontinued operations                    | \$ 0.00        | \$ (0.03)    | \$ 0.01        | \$ (0.05)     |
| Net (loss) income   | \$ (0.15)      | \$ 0.10      | \$ (0.26)      | \$ 0.94       |
| <br>  |                |              |                |               |
| Weighted-average number common shares basic                   | 30,062,671     | 3,624,747    | 29,732,998     | 3,425,127     |
| <br>  |                |              |                |               |
| Weighted-average number common shares diluted                 | 30,062,671     | 26,834,698   | 29,732,998     | 24,775,324    |

See accompanying notes to consolidated financial statements

**Table of Contents**

**Halo Technology Holdings, Inc.**  
**Consolidated Statements of Cash Flows**  
(Unaudited)

|  | <b>Six Months Ended</b> |               |
|--|-------------------------|---------------|
|  | <b>December 31,</b>     |               |
|  | <b>2006</b>             | <b>2005</b>   |
| Operating Activities   |                         |               |
| Net (loss) income  | \$ (7,404,360)          | \$ 23,140,827 |
| (Income) loss from discontinued operations   | (220,288)               | 1,510,547     |
|  |                         |               |
| (Loss) income from continuing operations   | (7,624,648)             | 24,651,374    |
| Adjustments to reconcile (loss) income from continuing operations to net cash used in operating activities of continuing operations: |                         |               |
| Depreciation and amortization  | 846,909                 | 326,655       |
| Provision for doubtful accounts  | 23,799                  |               |
| Loss on extinguishment of debt   | 1,957,709               |               |
| Fair value gain on warrants revaluation  | (4,580,222)             | (31,671,485)  |
| Loss on sales of marketable securities   | 28,429                  |               |
| (Gain) loss on disposal of property and equipment  | (381)                   | 3,270         |
| Non cash compensation  | 975,757                 | 273,226       |
| Non cash interest expense  | 4,743,207               | 3,176,968     |
| Changes in operating assets and liabilities of continuing operations   |                         |               |
| Accounts receivable  | (789,852)               | 178,671       |
| Prepaid expenses and other current assets  | 134,278                 | 601,463       |
| Accounts payable and accrued expenses  | 2,313,186               | 3,073,517     |
| Deferred revenue   | (2,185,023)             | (1,387,168)   |
|  |                         |               |
| Net cash used in operating activities of continuing operations   | (4,156,852)             | (773,509)     |
| Investing activities   |                         |               |
| Purchase of property and equipment   | (198,707)               | (24,661)      |
| Tesseract, Process and Affiliates acquisition, net of cash acquired of \$632,899   |                         | (15,867,102)  |
| Kenosia acquisition, net of cash acquired of \$6,125   |                         | (507,145)     |
| Cash acquired in acquisition of Tenebril, Inc.   | 622,683                 |               |
| Cash acquired in acquisition of RevCast, Inc.  | 500                     |               |
| Cash included on sale of Gupta Technologies, LLC   | (1,009)                 |               |
| Proceeds from sale of Gupta Technologies, LLC  | 6,100,000               |               |
| Proceeds from sale of marketable securities  | 12,149                  |               |
| Proceeds from sales of property and equipment  | 960                     |               |
|  |                         |               |
| Net cash provided by (used in) investing activities of continuing operations   | 6,536,576               | (16,398,908)  |
| Financing activities   |                         |               |
| Repayment of Fortress debt   | (5,140,000)             |               |

Edgar Filing: Halo Technology Holdings, Inc. - Form 10QSB

|   |           |             |
|---|-----------|-------------|
| Repayment of capital lease  | (2,307)   |             |
| Repayment of subordinated notes                                     |           | (1,500,000) |
| Repayment of Senior notes   |           | (6,825,000) |
| Proceeds from new Senior notes, net of issuance cost of \$1,426,486 |           | 23,573,514  |
| Proceeds from promissory note                                       | 1,900,000 | 1,700,000   |

**Table of Contents**

|  | <b>Six Months Ended<br/>December 31,</b> |              |
|--|--|--------------|
|  | <b>2006</b>                              | <b>2005</b>  |
| Net cash (used in) provided by financing activities of continuing operations | (3,242,307)                              | 16,948,514   |
| Effects of exchange rates on cash  | (5,023)                                  | 39,204       |
| Cash flows of discontinued operations  |  |              |
| Net cash provided by operating activities                                    | 788,039                                  | 508,079      |
| Net cash used in investing activities  |  | (27,020)     |
|  | 788,039                                  | 481,059      |
| Net (decrease) increase in cash and cash equivalents                         | (79,567)                                 | 296,360      |
| Cash and cash equivalents beginning of period                                | 853,901                                  | 1,548,013    |
| Cash and cash equivalents end of period                                      | \$ 774,334                               | \$ 1,844,373 |
| Supplemental disclosure of cash flow information:                            |  |              |
| Income tax paid  | \$ 32,240                                | \$ 122,766   |
| Interest paid  | \$ 1,489,824                             | \$ 822,486   |

**Table of Contents****Supplemental schedule of non-cash investing and financing activities:**

For the six months ended December 31, 2006 and 2005, the Company recorded \$509,348 and \$593,558, respectively, in connection with convertible preferred dividends.

On July 6, 2005 the Company purchased Kenosia Corporation ( Kenosia ) for an aggregate purchase price of \$1,800,000, subject to certain adjustments. Prior to the closing, \$800,000 of the Purchase Price was deposited into an escrow account, and subsequently released to the seller at the closing. The remainder of the Purchase Price was paid in two equal payments of \$500,000 each, in cash. The first payment \$447,175 (net of working capital adjustment) was made on September 1, 2005 and the second payment was made on January 31, 2006. The following table summarizes the purchase transaction:

|                      |              |
|----------------------|--------------|
| Purchase price:      |              |
| Cash                 | \$ 1,247,175 |
| Transaction costs    | 24,750       |
| Note payable         | 500,000      |
| <br>                 |              |
| Total purchase price | 1,771,925    |
| Less fair value of:  |              |
| Assets acquired      | 1,611,793    |
| Liability assumed    | 386,024      |
| <br>                 |              |
| Goodwill             | \$ 546,156   |

On August 24, 2006, the Company acquired the stock of Tenebril, Inc.( Tenebril ). In connection with the acquisition of Tenebril, the Company issued a promissory note in the amount of \$3,000,000, which is convertible into the Company's common stock. The conversion price is 85% of the market price determined based on the date of the conversion. The Company recorded a total purchase price of \$3,639,412, which was calculated by dividing the principal amount of the note of \$3,000,000 by 85% and adding the \$110,000 of the Target Broker Promissory Note as a transaction cost (see Note 4). The following table summarizes the purchase transaction:

|                              |              |
|------------------------------|--------------|
| Purchase price:              |              |
| Convertible promissory notes | \$ 3,529,412 |
| Transaction costs            | 110,000      |
| <br>                         |              |
| Total purchase price         | 3,639,412    |
| Fair value of:               |              |
| Assets acquired              | (1,442,551)  |
| Liabilities assumed          | 1,295,253    |
| <br>                         |              |
| Goodwill                     | \$ 3,492,114 |

On September 15, 2006, the Company acquired RevCast, Inc.( RevCast ). In connection with the acquisition of RevCast, the Company agreed to issue 350,000 shares of common stock to the sellers. The total purchase price recorded was \$248,500 based on the Company's common stock average price of 2 days prior to and 2 days after the acquisition date. (see Note 5). The following table summarizes the purchase transaction:

|                           |            |
|---------------------------|------------|
| Purchase price:           |            |
| Common stock to be issued | \$ 248,500 |
| <br>                      |            |
| Total purchase price      | 248,500    |
| Fair value of:            |            |
| Assets acquired           | (500)      |

|                     |            |
|---------------------|------------|
| Liabilities assumed | 12,715     |
| Goodwill            | \$ 260,715 |

On November 20, 2006, the Company completed a transaction in which it acquired the NavRisk business and ViaMode product (as described below), sold Gupta and received \$6,100,000 in cash. The total preliminary purchase price recorded was \$5,699,904, based on the net book value of Gupta on the transaction date(see Note 6). The following table summarizes the purchase transaction:

|                         |               |
|-------------------------|---------------|
| Purchase price:         |               |
| Net book value of Gupta | \$ 11,799,904 |
| Cash Received           | (6,100,000)   |
| Total purchase price    | \$ 5,699,904  |

**Table of Contents**

|                     |              |
|---------------------|--------------|
| Fair value of:      |              |
| Assets acquired     | \$ (550,241) |
| Liabilities assumed | 904,100      |
| Goodwill            | \$ 6,053,763 |

Effective May 15, 2006, the holders of a majority of the warrants issued to holders of Series C Stock ( Series C Warrants ) pursuant to the Subscription Agreement, dated January 31, 2005, have agreed to amend and exercise their warrants under the cashless exercise provision contained in Section 1(c) of the Warrants, resulting in a net issuance of shares of Common Stock representing 50% of the shares these stockholders would have been otherwise entitled to receive under the Warrants had they paid the full exercise price in cash. During the six months ended December 31, 2006, the holders of warrants to acquire 182,494 shares of common stock exercised this right and received 91,247 shares of Common Stock under the net exercise provision.

On July 21, 2006, the Company issued an aggregate of 2,732,392 shares of its common stock in conversion of (1) an aggregate of \$1,850,000 of convertible promissory notes previously issued by the Company in September 2005, October 2005, and January 2006 (and \$126,041.67 of interest on such amount), and (2) an aggregate of \$1,375,000 of convertible promissory notes previously issued by the Company in January 2006 (and \$64,444.44 of interest on such amount).

On July 28, 2006, the Company issued an aggregate of 133,075 shares of its common stock for advisory fees and finders fees related to the raising of capital the Company has received in the past.

On August 10, 2006, the Company issued an aggregate of 496,000 shares of Common Stock for one year of general financial advisory services commencing on that date.

On August 22 and September 14, 2006, an aggregate of 155,000 shares of the Company's Common Stock were issued for general consulting services performed.

On October 12, 2006 the Company issued a Note in the aggregate principal amount of One Million Two Hundred Fifty Thousand Dollars (\$1,250,000) under the Subscription Agreement (see Note 9) in exchange for 1,000,000 shares of the Company's common stock previously held by an investor. The shares bought back are treated as treasury stock and valued at \$1,250,000.

See accompanying notes to consolidated financial statements.

**Table of Contents**

**Halo Technology Holdings, Inc.**

**Notes to Consolidated Financial Statements**

**Note 1. Organization, Merger, Description of Business and Basis of Presentation**

Halo Technology Holdings, Inc. (collectively with its subsidiaries, the Company or Halo ) is a Nevada corporation with its principal executive office in Greenwich, Connecticut.

The Company is a holding company whose subsidiaries operate enterprise software and information technology businesses. In addition to holding its existing subsidiaries, the Company's strategy is to pursue acquisitions of businesses which either complement the Company's existing businesses or expand the industries in which the Company operates.

Warp Solutions, Inc., a wholly owned subsidiary of the Company, produces a series of application acceleration products that improve the speed and efficiency of transactions and information requests that are processed over the internet and intranet network systems. The subsidiary's suite of software products and technologies are designed to accelerate network applications, reduce network congestion, and reduce the cost of expensive server deployments for enterprises engaged in high volume network activities.

On January 31, 2005, the Company completed the acquisition of Gupta Technologies, LLC (together with its subsidiaries, Gupta ).

On November 20, 2006, the Company completed the transactions contemplated by that certain Purchase and Exchange Agreement (the Purchase Agreement ) between the Company and Unify Corporation ( Unify ), as amended by that certain Amendment No. 1 to Purchase and Exchange Agreement (the Amendment ) dated November 20, 2006. At the Closing of the transactions, Halo sold Gupta to Unify in exchange for (i) Unify's risk management software and solution business as conducted by Unify through its Acuitrek, Inc. subsidiary ( Acuitrek ) and its Insurance Risk Management division, including, without limitation, the Acuitrek business and the NavRisk product (the NavRisk Business ), (ii) Unify's ViaMode software product and related intellectual property rights (the ViaMode Product ), (iii) \$6,100,000 in cash, of which Halo had received \$500,000 as a deposit upon the signing of the Purchase Agreement (the Deposit ), and (iv) the amount by which the Gupta Net Working Capital exceeds the NavRisk Net Working Capital (as such terms are defined in the Purchase Agreement, the Working Capital Adjustment ). At present, the Company does not expect any amounts to be received under the Working Capital Adjustment since the Gupta Net Working Capital does not appear to exceed the NavRisk Net Working Capital.

On July 6, 2005 the Company purchased Kenosia Corporation ( Kenosia ). Kenosia is a software company whose products include its DataAlchemy product line. DataAlchemy is a sales and marketing analytics platform that is utilized by global companies to drive retail sales and profits through timely and effective analysis of transactional data. Kenosia's installed customers span a wide range of industries, including consumer packaged goods, entertainment, pharmaceutical, automotive, spirits, wine and beer, brokers and retailers.

On October 26, 2005, the Company completed the acquisition of Tesseract and four other software companies, DAVID Corporation, Process Software, ProfitKey International, and Foresight Software, Inc. (collectively Process and Affiliates ).

Tesseract, headquartered in San Francisco, is a total Human Resource ( HR ) solutions provider offering an integrated Web-enabled Human Resources Management Solutions ( HRMS ) suite. Tesseract's Web-based solution suite allows HR users, employees and external service providers to communicate securely and electronically in real time. The integrated nature of the system allows for easy access to data and a higher level of accuracy for internal reporting, assessment and external data interface. Tesseract's customer base includes corporations operating in a diverse range of industries, including financial services, transportation, utilities, insurance, manufacturing, petroleum, retail, and pharmaceuticals.

DAVID Corporation is a pioneer in Risk Management Information Systems. DAVID Corporation offers client/server-based products to companies that provide their own workers' compensation and liability insurance. Many of DAVID Corporation's clients have been using its products for 10 years or longer.

Process Software develops infrastructure software solutions for mission-critical environments, including industry-leading TCP/IP stacks, an Internet messaging product suite, and an anti-spam software subscription service to large enterprises worldwide. With a loyal customer base of over 5,000 organizations, including Global 2000 and



Fortune 1000 companies.

**Table of Contents**

ProfitKey International ( Profitkey ) develops and markets integrated manufacturing software and information control systems for make-to-order and make-to-stock manufacturers. ProfitKey s offering includes a suite of e-business solutions that includes customer, supplier and sales portals. ProfitKey s highly integrated system emphasizes online scheduling, capacity management, and cost management.

On January 13, 2006, the Company acquired Empagio, Inc. ( Emgagio ). Empagio delivers innovative on-demand human resources information systems through its SymphonyHR platform. SymphonyHR empowers both large and mid-sized organizations to deliver unparalleled HR services to their employees, while decreasing administrative burden. Featuring 100% on-shore service delivery and native web architecture, SymphonyHR is one of the most comprehensive, dependable, and affordable human resources solutions available for automating HR procedures and reducing paperwork, ranging from payroll to benefits administration.

On March 1, 2006, the Company acquired Executive Consultants, Inc. ( ECI ). ECI is an HR professional services firm providing implementation and consulting services for HR, payroll and payroll systems.

Tesseract and ECI have subsequently been merged into Empagio. The combination of the subsidiaries will operate in the HRMS industry, boasting an impressive roster of Fortune 1000 enterprise customers and more than two million customer employees benefited from Empagio s solutions. The merged company is called Empagio, Inc. and is headquartered in Atlanta, Georgia.

On August 24, 2006, the Company purchased Tenebril. Tenebril is a Boston-based software company providing award-winning Internet and spyware protection to consumers and organizations. Tenebril s SpyCatcher(TM) Enterprise is a spyware solution that protects enterprise computers from the most insidious category of evasive threats hyper-mutating and custom-coded spyware. Tenebril s patent-pending Spyware Profiling Engine(TM) differentiates SpyCatcher from its competitors by providing continuous protection that defeats these newly emerging threats.

On September 15, 2006 the Company acquired an Illinois-based software company, RevCast. RevCast provides forecasting and replenishment solutions to some of the largest manufacturers in the world. RevCast s flagship product, Integrated Merchandising Solution (IMS), is being used today by several manufacturers that work with Wal-Mart and other major retailers, which share direct POS information.

**Basis of Presentation**

The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-QSB and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six months ended December 31, 2006 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2007. For further information, refer to the financial statements and footnotes thereto included in the Company s Annual Report on Form 10-KSB/A for the year ended June 30, 2006 filed with the SEC on October 26, 2006.

**Table of Contents**

**Going Concern**

The Company has incurred recurring operating losses since its inception, as of December 31, 2006, had an accumulated deficit of \$102,519,029 and, at December 31, 2006, had insufficient working capital to fund all of its obligations. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments to reflect the possible future effect of the recoverability and classification of assets or the amounts and classifications of liabilities that may result from the outcome of this uncertainty.

The Company's continuation as a going concern is dependant upon receiving additional financing. Given the Company's current cash position, and its expectations of cash flows from operations, the Company anticipates requiring additional working capital of approximately \$4 to \$6 million for the year ending June 30, 2007, of which we have received \$1.5 million in a transaction completed October 12, 2006 (see Note 9 Subordinated Notes Payable ). The Company expects to pursue equity or debt financing, and possibly sale of assets in order to meet these capital needs. There can be no assurance that the Company will be successful in such efforts. In the absence of such further financing, or asset sales, the Company will either be unable to meet its debt obligations or will have to significantly restructure its operations, or a combination of these two actions. Such actions would significantly negatively affect the value of Halo's common stock.

**Note 2. Summary of Significant Accounting Policies**

**Reclassification.**

As a result of the sale of the Gupta business (see Note 6), certain reclassifications have been made to the prior year financial statements to conform to the current year presentation. Gupta's results of operations are shown as income (loss) from discontinued operations on the Consolidated Statements of Operations.

**Segment**

The Company has reviewed the provisions of SFAS 131, Disclosures about Segments of an Enterprise and Related Information with respect to the criteria necessary to evaluate the number of operating segments that exist, based on its review the Company has determined that it operates in one segment.

**Income (Loss) Per Share**

Basic and diluted net income (loss) per share information for all periods is presented under the requirements of SFAS No. 128, Earnings Per Share. Basic income (loss) per share is calculated by dividing the net income (loss) attributable to common stockholders by the weighted-average common shares outstanding during the period. Diluted income (loss) per share is calculated by dividing net loss attributable to common stockholders by the weighted-average common shares outstanding.

**Table of Contents**

The Company computed its basic and diluted net income (loss) per common share as follows:

|  | <b>Three Months Ended</b> |              | <b>Six Months Ended</b> |               |
|--|---------------------------|--------------|-------------------------|---------------|
|  | <b>December 31,</b>       |              | <b>December 31,</b>     |               |
|  | <b>2006</b>               | <b>2005</b>  | <b>2006</b>             | <b>2005</b>   |
| Net (loss) income  | \$ (4,298,046)            | \$ 2,751,185 | \$ (7,404,360)          | \$ 23,140,831 |
| Preferred stock dividends on convertible stock   | (254,674)                 | (373,379)    | (509,348)               | (593,558)     |
| Net (loss) income available to common stockholders for basic net (loss) income per share   | \$ (4,552,720)            | \$ 2,377,806 | \$ (7,913,708)          | \$ 22,547,273 |
| Add back preferred stock dividends on convertible stock                                    |                           | 373,379      |                         | 593,558       |
| Add back interest expense on convertible debt  |                           | 30,417       |                         | 31,806        |
| Net (loss) income available to common stockholders for diluted net (loss) income per share | \$ (4,552,720)            | \$ 2,781,602 | \$ (7,913,708)          | \$ 23,172,637 |
| Weighted average common shares outstanding for basis net (loss) income per share           | 30,062,671                | 3,624,747    | 29,732,998              | 3,425,127     |
| Impact of dilutive stock options   |                           | 372,408      |                         | 318,975       |
| Impact of dilutive warrants  |                           | 2,853,537    |                         | 4,116,211     |
| Impact of assumed convertible debt conversion  |                           | 1,126,522    |                         | 585,000       |
| Impact of assumed convertible preferred stock conversion                                   |                           | 18,857,184   |                         | 16,330,011    |
| Total shares for diluted net (loss) income per common share                                | 30,062,671                | 26,834,398   | 29,732,998              | 24,775,324    |
| Basic net (loss) income per common share   | \$ (0.15)                 | \$ 0.66      | \$ (0.27)               | \$ 6.58       |
| Diluted net (loss) income per common share   | \$ (0.15)                 | \$ 0.10      | \$ (0.27)               | \$ 0.94       |

The dilutive effect of preferred stock, warrants, and options convertible into an aggregate of approximately 22,681,000 of common shares as of December 31, 2006, are not included as the inclusion of such would be anti-dilutive for the three months and six months ended December 31, 2006.

For the three and six months ended December 31, 2005 warrants to purchase 169,576 and 715,030 common shares, respectively, and stock options to purchase 628,453 common shares were not included in the diluted earnings per share computation as the exercise prices were above the average market price. Additionally 1,000,000 stock options were excluded from the diluted earnings per share computation as they are only exercisable if certain contingencies are met.

**Stock-Based Compensation**

Prior to January 1, 2006, the Company used the intrinsic value method to account for stock-based compensation in accordance with Accounting Principles Board Opinion No. 25 ( ABP 25 ), Accounting for Stock Issued to Employees, and had adopted the disclosure-only provisions of SFAS No 123, Accounting for Stock-Based Compensation, as amended by SFAS No 148, Accounting for Stock-Based Compensation-Transition and Disclosure.

Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS 123(R) (revised 2004), Share-Based Payment ( SFAS 123(R) ) which eliminates the use of APB 25 and the intrinsic value method of accounting, and requires entities to recognize the cost of employee services received in exchange for awards of equity instruments, based on the grant-date fair value of those awards, in the financial statements. The Company has adopted the modified prospective method whereby compensation cost is recognized in the financial statements beginning with the effective date based on the requirements of SFAS 123(R) for all share-based payments granted after that date and for all unvested awards granted prior to that date. Accordingly the prior period amounts have not been restated.

The Company's net income would have been decreased for the three months and six months ended December 31, 2005 had compensation costs for the Company's stock option grants been determined based on the fair value at the date of the grant dates for awards under these plans in accordance with SFAS 123(R). The pro forma amounts have been as follows:

**Table of Contents**

|   | <b>Three Months Ended<br/>December 31,</b> |              | <b>Six Months Ended<br/>December 31,</b> |              |
|---|--|--------------|--|--------------|
|   | <b>2006</b>                                | <b>2005</b>  | <b>2006</b>                              | <b>2005</b>  |
| Net (loss) income, as reported  | \$(4,298,046)                              | \$ 2,751,185 | \$(7,404,360)                            | \$23,140,831 |
| Add: Stock-based employee compensation expense included in reported net (loss) income               | 332,262                                    | 82,070       | 666,274                                  | 129,570      |
| Deduct: Stock-based employee compensation expense determined under fair value method for all awards | (332,262)                                  | (1,163,880)  | (666,274)                                | (1,366,120)  |
| Net (loss) income, pro forma  | (4,298,046)                                | 1,669,375    | (7,404,360)                              | 21,904,281   |
| Beneficial conversion and preferred dividends   | (254,674)                                  | (373,379)    | (509,348)                                | (593,558)    |
| Net (loss) income attributable to common stockholders - pro forma                                   | (4,552,720)                                | 1,295,996    | (7,913,708)                              | 21,310,723   |
| Basic net (loss) income per share, as reported  | \$ (0.15)                                  | \$ 0.66      | \$ (0.26)                                | \$ 6.58      |
| Diluted net (loss) income per share, as reported  | \$ (0.15)                                  | \$ 0.10      | \$ (0.26)                                | \$ 0.94      |
| Basic net (loss) income per share, pro forma  | \$ (0.15)                                  | \$ 0.36      | \$ (0.27)                                | \$ 6.23      |
| Diluted net (loss) income per share, pro forma  | \$ (0.15)                                  | \$ 0.05      | \$ (0.27)                                | \$ 0.86      |

The fair value for these options was estimated at the date of grant using the Black-Scholes option-pricing model. Option pricing models require the input of highly subjective assumptions. Because the Company's employee stock has characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

The company used the following weighted-average assumptions in the three months and six months ended December 31, 2006 and 2005:

|                                  | <b>Three Months<br/>Ended<br/>December 31,<br/>2006</b> | <b>Three Months<br/>Ended<br/>December 31,<br/>2005</b> | <b>Six Months<br/>Ended<br/>December 31,<br/>2006</b> | <b>Six Months<br/>Ended<br/>December 31,<br/>2005</b> |
|----------------------------------|---|---|---|---|
| Expected volatility              | 161.16%   | 159.18%   | 161.16%   | 158.68%   |
| Expected dividend yield          | %   | %   | %   | %   |
| Expected risk-free interest rate | 4.10%   | 4.06%   | 4.10%   | 4.01%   |
| Expected term of options         | 3.8 years   | 7 years   | 3.8 years   | 7.2 years   |
| Maximum contractual term         | 7 years   | 7 years   | 7 years   | 7.2 years   |
| Range of estimated forfeitures   | %   | %   | %   | %   |

SFAS 123(R) also requires allocating the stock compensation expense to functions of employees who received these options. Below are the stock compensation expenses included in each line of Consolidated Statements of Operations:

|  | <b>Three Months<br/>Ended<br/>December 31,<br/>2006</b> | <b>Six Months<br/>Ended<br/>December 31,<br/>2006</b> |
|--|---|---|
| Sales, marketing, and business development | \$ 40,361   | \$ 80,790   |
| General and administrative                 | 291,901   | 585,484   |

|  |    |         |    |         |
|--|----|---------|----|---------|
| Total stock-based compensation expense | \$ | 332,262 | \$ | 666,274 |
|--|----|---------|----|---------|

***Recent Accounting Pronouncements***

In December 2004, the FASB issued SFAS No. 123(R), *Share-Based Payment*, which establishes standards for transactions in which an entity exchanges its equity instruments for goods or services. This standard requires an entity to measure the cost of

**Table of Contents**

employee services received in exchange for an award of equity instruments based on the grant date fair value of the award. This eliminates the exception to account for such awards using the intrinsic method previously allowable under APB Opinion No. 25. For the Company, SFAS No. 123 (R) is effective as of January 1, 2006. The Company did not apply this method to prior periods. The impact on this new standard, if it had been in effect prior to January 1, 2006 is disclosed above in Note 2 Summary of Significant Accounting Policies Stock Based Compensation.

On March 29, 2005, the Staff of the Securities and Exchange Commission (SEC or the Staff) issued Staff Accounting Bulletin No. 107, Share-Based Payment (SAB 107). Although not altering any conclusions reached in SFAS 123(R), SAB 107 provides the views of the Staff regarding the interaction between SFAS 123(R) and certain SEC rules and regulations and, among other things, provide the Staff's views regarding the valuation of share-based payment arrangements for public companies. The Company followed the interpretative guidance on share-based payment set forth in SAB 107.

In May 2005, the FASB issued SFAS 154, Accounting Changes and Error Corrections, that applies to all voluntary changes in accounting principle. This statement requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. When it is impracticable to determine the period-specific effects of an accounting change on one or more individual prior periods presented, this statement requires that the new accounting principle be applied to the balances of assets and liabilities as of the beginning of the earliest period for which retrospective application is practicable and that a corresponding adjustment be made to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) for that period rather than being reported in an income statement. When it is impracticable to determine the cumulative effect of applying a change in accounting principle to all prior periods, this statement requires that the new accounting principle be applied as if it were adopted prospectively from the earliest date practicable. SFAS 154 will be effective for us for the fiscal year ended June 30, 2007. We do not anticipate that the adoption of SFAS No. 154 will have an impact on our overall results of operations or financial position.

In February 2006, the FASB issued SFAS 155, Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140, that allows a preparer to elect fair value measurement at acquisition, at issuance, or when a previously recognized financial instrument is subject to a remeasurement (new basis) event, on an instrument-by-instrument basis, in cases in which a derivative would otherwise have to be bifurcated. It also eliminates the exemption from applying Statement 133 to interests in securitized financial assets so that similar instruments are accounted for similarly regardless of the form of the instruments. This Statement is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The Company does not anticipate that the adoption of SFAS No. 155 will have an impact on the Company's overall results of operations or financial position.

In March 2006, the FASB issued SFAS 156, Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140, that applies to the accounting for separately recognized servicing assets and servicing liabilities. This Statement requires that all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable. An entity should adopt this Statement as of the beginning of its first fiscal year that begins after September 15, 2006. The Company does not anticipate that the adoption of SFAS No. 156 will have an impact on the Company's overall results of operations or financial position.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measures (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This statement applies under other accounting pronouncements that require or permit fair value measurements. However, it does not apply to SFAS 123(R). This statement shall be effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Earlier application is encouraged, provided that the reporting entity has not yet issued financial statements for that fiscal year, including any financial statements for an interim period within that fiscal year. The provisions of this statement should be applied prospectively as of the beginning of the fiscal year in which this Statement is initially applied, except in some circumstances where the statement shall be applied retrospectively. The Company is currently evaluating the effect, if any, of SFAS 157 on its financial statements.



**Note 3. Stockholders' Equity**

***Common and Preferred Stock***

On July 21, 2006, the Company issued an aggregate of 2,732,392 shares of its common stock in conversion of (1) an aggregate of \$1,850,000 of convertible promissory notes previously issued by the Company in September 2005, October 2005, and January 2006 (and \$126,041.67 of interest on such amount) as described in the Company's Current Report on Form 8-K filed January 18, 2006, and

**Table of Contents**

(2) an aggregate of \$1,375,000 of convertible promissory notes previously issued by the Company in January 2006 (and \$64,444.44 of interest on such amount) as described in the Company's Current Report on Form 8-K filed February 2, 2006. The conversion price was \$1.25. Because there was a difference between the conversion price and the fair market value of the converted securities, the Company recognized \$1,522,310 of interest expense for the six months ended December 31, 2006 as a beneficial conversion related to these issuances.

On July 28, 2006, the Company issued an aggregate of 133,075 shares of its common stock for advisory fees and finders fees related to the raising of capital the Company has received in the past. The conversion price was \$1.25. Because there was a difference between the conversion price and the fair market value of the converted securities, the Company recognized \$28,779 of interest expense for the six months ended December 31, 2006 as a beneficial conversion related to these issuances.

On August 10, 2006, the Company issued an aggregate of 496,000 shares of Common Stock for one year of general financial advisory services commencing on the date. The Company recorded \$342,240 for this issuance as a prepaid expense, which will be amortized over the term of the service. For the three months and six months ended December 31, 2006, \$85,560 and \$133,093, respectively, were amortized and charged to expense.

On August 22 and September 14, 2006, an aggregate of 155,000 shares of the Company's Common Stock were issued for general consulting services performed. The Company recorded \$82,300 for this issuance as an expense.

Effective May 15, 2006, the holders of a majority of the warrants issued to holders of Series C Stock ( Series C Warrants ) pursuant to the Subscription Agreement, dated January 31, 2005, have agreed to amend and exercise their warrants under the cashless exercise provision contained in Section 1(c) of the Warrants, resulting in a net issuance of shares of Common Stock representing 50% of the shares these stockholders would have been otherwise entitled to receive under the Warrants had they paid the full exercise price in cash. During the six months ended December 31, 2006, the holders of warrants to acquire 182,494 shares of common stock exercised this right and received 91,247 shares of Common Stock under the net exercise provision (for additional information, see under Warrants below). No additional beneficial conversion was recorded as part of the reduction of the conversion price as all the proceeds were originally allocated to the warrants.

On October 12, 2006, the Company issued \$1,250,000 convertible notes in exchange for 1,000,000 shares of the Company's common stock (see Note 9). These shares are treated as treasury stock, and are shown as a separate line item in the stockholder's equity on the Company's balance sheet.

On October 30, 2006, the Company issued 350,000 shares of the Company's Common Stock as consideration for the acquisition of RevCast, Inc. at a fair value of \$248,500 (see Note 5).

During the six months ended December 31, 2006, the Company issued 162,689 shares of Common Stock to pay \$125,000 of interest on its Subordinated Notes, which covers the interest period of May 1, 2006 to October 31, 2006.

During the six months ended December 31, 2006, the Company issued 387,451 shares of Common Stock to pay \$254,674 of dividends on its Series D Preferred Stock, which covers the dividend period of July 1, 2006 to September 30, 2006.

***Stock Options***

At the Annual Meeting of Stockholders of the Company held on October 21, 2005, the stockholders of the Company approved the Halo Technology Holdings 2005 Equity Incentive Plan (the 2005 Plan ). Subject to adjustment for stock splits and similar events, the total number of shares of common stock that can be delivered under the 2005 Plan is 8,400,000 shares. No employee may receive options, stock appreciation rights, shares or dividend equivalent rights for more than four million shares during any calendar year.

At the Annual Meeting of Stockholders of the Company held on December 6, 2006, the stockholders of the Company approved the Halo Technology Holdings 2006 Equity Incentive Plan (the 2006 Plan ). Subject to adjustment for stock splits and similar events, the total number of shares of common stock that can be delivered under the 2006 Plan is 3,000,000 shares. No employee may receive options, stock appreciation rights, shares or dividend equivalent rights for more than 1,500,000 shares during any calendar year. No incentive stock option will be granted under the 2006 Plan after October 26, 2016.

**Table of Contents**

As of December 31, 2006, the employees and directors of the Company holds an aggregate of 3,617,500 options outstanding under the 2005 Plan. For the three months and six months ended December 31, 2006, the Company recognized \$214,268 and \$430,286, respectively, in compensation expense related to these 2005 Plan options. There were also 570,077 options outstanding from previous plans. For the three months and six months ended December 31, 2006, the Company recognized \$117,994 and \$235,988, respectively, in compensation expense related to these previous plan options. No stock option has been granted under the 2006 Plan.

There was no issuance of stock options during the six months ended December 31, 2006.

**Warrants**

In connection with the July 21, 2006 debt conversion into 2,732,392 shares of common stock described in Common Stock, the investors also received warrants to acquire an aggregate of 2,049,296 shares of common stock of the Company. The warrants have an exercise price of \$1.25 per share and are exercisable over a five-year term, and include a cashless exercise feature. Of the total \$3,415,486 proceeds and accrued interest of the original debt, \$1,151,052 was allocated to these warrants. The Company recognized this amount on the conversion, and expensed it as interest expense for the six months ended December 31, 2006.

In connection with the July 28, 2006 issuance of 133,075 shares of common stocks described in Common Stock, the Company issued warrants to acquire an aggregate of 99,807 shares of common stock of the Company. The warrants have an exercise price of \$1.25 per share and are exercisable over a five-year term, and include a cashless exercise feature. Of the total \$166,343 proceeds and accrued interest of the original debt, \$68,689 was allocated to these warrants. The Company recognized this amount on the conversion, and expensed it as interest expense. This expense was included in the six months ended December 31, 2006.

In accordance with EITF 00-19 Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock, the Company treats warrants with a cashless exercise feature as a derivative. In addition to recognizing the value of the warrants by discounting the related debt and amortizing the discount to interest expense over the life of the debt, the value of the warrants are recognized as liabilities and revalued at the end of each period. The Company grouped series of warrants that are treated as derivative into three categories: 1) warrants to acquire common stock issued in connection with the Series C preferred stock issued by the Company between March and June 2005 ( Series C Warrants ), 2) warrants to acquire common stock issued in connection with senior and subordinated debt issued by the Company in January 2005 ( Senior and Sub Warrants ), 3) warrants to acquire common stock issued under Fortress Credit Agreement (see Note 8) ( Fortress Warrants ), 4) warrants to acquire common stock issued under Subscription Agreement described in Note 9 ( Vision Warrants ), and 5) Other warrants to acquire common stock issued to other investors in various time periods. The following is the summary of the outstanding warrants in each category as of and for the periods ended December 31, 2006:

|                         | Liability    | (Gain) Loss on<br>Warrants<br>Liability<br>Three Months<br>Ended<br>12/31/2006 | (Gain) Loss on<br>Warrants<br>Liability<br>Six Months<br>Ended<br>12/31/2006 | Interest<br>Expense<br>Three Months<br>Ended<br>12/31/2006 | Interest<br>Expense<br>Six Months<br>Ended<br>12/31/2006 |
|-------------------------|--------------|--|--|--|--|
| Series C Warrants       | \$ 1,146,223 | \$ (1,042,021)   | \$ (2,501,497)   | \$   | \$   |
| Senior and Sub Warrants | 556,953      | (208,209)  | (737,861)  | 51,294   | 363,795  |
| Fortress Warrants       | 1,246,200    | (506,119)  | (907,393)  | 218,250  | 436,500  |
| Vision Warrants         | 1,191,177    | 475,491  | 475,491  | 51,944   | 51,944   |
| Other Warrants          | 777,536      | (631,023)  | (908,962)  |  | 1,273,771  |
| Total warrants          | \$ 4,918,089 | \$ (1,911,881)   | \$ (4,580,222)   | \$ 321,488   | \$ 2,126,010   |

**Note 4. Acquisition of Tenebril, Inc.**

On August 24, 2006, the Company completed a purchase of Tenebril, Inc. ( Tenebril ), a privately held Boston based software company providing award-winning Internet and spyware protection to consumers and organizations. The

company's SpyCatcher(TM) Enterprise protects enterprise computers from the most insidious category of evasive threats - hyper-mutating and custom-coded spyware. Tenebril's patent-pending Spyware Profiling Engine(TM) differentiates SpyCatcher from its competitors by providing continuous protection that defeats these newly emerging threats.

**Table of Contents**

Under the terms of the purchase agreement, Tenebril shall be merged with and into the Merger Sub (the Merger ) with Tenebril surviving as a wholly-owned subsidiary of the Company. At the effective time of the Merger, the shares of Target Capital Stock issued and outstanding immediately prior to the effective time were converted into promissory notes issued by the Company (each, a Promissory Note and collectively, the Promissory Notes ). The aggregate original principal amount of all Promissory Notes issued by Company was \$3,000,000.

The Promissory Notes are due February 15, 2007, and accrue interest at a rate equal to eight and one-quarter percent (8.25%) per annum. At the Company's option, the Company may convert some or all of the amount due under the Promissory Notes into shares of Common Stock of the Company. The number of shares issued upon conversion will be the total amount being converted divided by the Conversion Price then in effect. The Conversion Price is 85% of the Market Price as defined in the Promissory Notes. The Company anticipates converting the Promissory Notes into common stock and issuing the common stock to the holders of the Promissory Notes in payment thereof.

At the Closing, the Company also delivered to a certain broker a promissory note (the Target Broker Promissory Note ). The Target Broker Promissory Note was in the original principal amount of \$110,000, plus applicable interest, and is due on February 15, 2007. The Company expects to pay this Broker Promissory Note in cash.

The Company recorded a total purchase price of \$3,639,412, which is calculated by dividing the principal amount of the notes of \$3,000,000 by 85% and adding the \$110,000 of the Target Broker Promissory Note as a transaction cost.

The purchase of Tenebril resulted in approximately \$3,492,000 of goodwill. The Company agreed to a transaction that resulted in a significant amount of goodwill for a number of reasons including: Tenebril's market position and brand; Tenebril's business model which complements the business models of certain of the Company's other businesses; and growth opportunities in the markets in which Tenebril operates. Tenebril was acquired with the plan of merging Tenebril into Process Software, Inc, one of the Company's existing subsidiaries, with complementary products and services. The predominant portion of the consideration paid for Tenebril was based on the expected financial performance of Tenebril and the combined business after the merger. The tax deductibility of the acquired goodwill is to be determined.

The preliminary purchase price allocation, which is subject to adjustment, is as follows:

|                                       |                     |
|---------------------------------------|---------------------|
| Cash                                  | \$ 622,683          |
| Accounts receivable                   | 195,289             |
| Prepays and other assets              | 165,964             |
| Property and equipment                | 218,615             |
| Intangibles                           | 240,000             |
| Goodwill                              | 3,492,114           |
| Accounts payable and accrued expenses | (907,801)           |
| Deferred revenue                      | (330,630)           |
| Long-term liabilities                 | (56,822)            |
|                                       | <b>\$ 3,639,412</b> |

The Company's results include operations of Tenebril since August 25, 2006.

**Note 5. Acquisition of RevCast, Inc.**

On September 15, 2006, the Company acquired RevCast, Inc., ( RevCast ). RevCast provides forecasting and replenishment solutions to some of the largest manufacturers in the world. RevCast's flagship product, Integrated Merchandising Solution (IMS), is being used today by several manufacturers that work with Wal-Mart and other major retailers, which share direct POS information.

The purchase consideration was 350,000 shares of the Halo's common stock, as well as the royalty payments, if and when due under the purchase agreement. The common stock shares were issued in October 2006. The royalty payments are defined in the purchase agreement as twenty percent (20%) of revenues generated by the assets of the acquired company. The royalty payments will be paid in cash quarterly. The maximum royalty payment will be

\$400,000.

The total purchase price recorded was \$248,500 based on the Company's common stock average price of 2 days prior to and 2 days after the acquisition date. The royalty payments will be added to the purchase price as they are incurred.

**Table of Contents**

The purchase of RevCast resulted in approximately \$261,000 of goodwill. The Company agreed to this transaction which resulted in a significant amount of goodwill for a number of reasons including: RevCast's market position and brand; RevCast's business model which complements the business models of certain of the Company's other businesses; and growth opportunities in the markets in which RevCast operates. RevCast was acquired with the plan of merging RevCast into the Company's Kenosia subsidiary since the businesses are related. The predominant portion of the consideration paid for RevCast was based on the expected financial performance of RevCast and the combined business after the merger. The tax deductibility of the acquired goodwill is to be determined.

The preliminary purchase price allocation, which is subject to adjustment, is as follows:

|                                       |            |
|---------------------------------------|------------|
| Cash and cash equivalents             | \$ 500     |
| Goodwill                              | 260,715    |
| Accounts payable and accrued expenses | (12,715)   |
|                                       | \$ 248,500 |

The Company's results include operations of RevCast since September 16, 2006.

**Note 6. Purchase and Exchange Agreement with Unify and Discontinued Operations**

On November 20, 2006, the Company completed the transactions contemplated by that certain Purchase and Exchange Agreement (the "Purchase Agreement") between the Company and Unify Corporation ("Unify"), as amended by that certain Amendment No. 1 to Purchase and Exchange Agreement (the "Amendment") dated November 20, 2006. At the Closing of the transactions, Halo sold its Gupta Technologies, LLC subsidiary ("Gupta") to Unify in exchange for (i) Unify's risk management software and solution business as conducted by Unify through its Acuitrek, Inc. subsidiary ("Acuitrek") and its Insurance Risk Management division, including, without limitation, the Acuitrek business and the NavRisk product (the "NavRisk Business"), (ii) Unify's ViaMode software product and related intellectual property rights (the "ViaMode Product"), (iii) \$6,100,000 in cash, of which Halo had received \$500,000 as a deposit upon the signing of the Purchase Agreement (the "Deposit"), and (iv) the amount by which the Gupta Net Working Capital exceeds the NavRisk Net Working Capital (as such terms are defined in the Purchase Agreement, the "Working Capital Adjustment"). At present, the Company does not expect any amounts to be received under the Working Capital Adjustment since the Gupta Net Working Capital does not appear to exceed the NavRisk Net Working Capital.

The total preliminary purchase price recorded for the NavRisk business and ViaMode product was \$5,699,904, calculated as the difference between the net book value of Gupta on the transaction date and the cash proceeds of \$6,100,000. The company is in the process of obtaining a formal valuation. The purchase price will be adjusted when the valuation is completed.

The purchase price resulted in approximately \$6,054,000 of goodwill. The Company agreed to this transaction which resulted in a significant amount of goodwill for a number of reasons including: NavRisk's market position and brand; NavRisk's business model which complements the business models of certain of the Company's other businesses; and growth opportunities in the markets in which NavRisk operates. The NavRisk business was acquired with the plan of integrating it into the Company's David Corporation subsidiary since the businesses are related. The predominant portion of the consideration paid was based on the expected financial performance of the NavRisk business and the combined business after the integration. The tax deductibility of the acquired goodwill is to be determined.

The preliminary purchase price allocation, which is subject to adjustment, is as follows:

|                                       |            |
|---------------------------------------|------------|
| Accounts receivable                   | \$ 207,221 |
| Property and equipment                | 20,020     |
| Intangibles                           | 323,000    |
| Goodwill                              | 6,053,763  |
| Accounts payable and accrued expenses | (169,027)  |
| Deferred revenue                      | (221,027)  |

|                       |              |
|-----------------------|--------------|
| Long-term liabilities | (514,046)    |
|                       | \$ 5,699,904 |

The Company's results include operations of NavRisk business since November 21, 2006.



**Table of Contents**

Pursuant to Statement of Financial Accounting Standards No. 144 Accounting for the Impairment or Disposal of Long-Lived Assets ( SFAS 144 ), Gupta's assets and liabilities were shown as Assets held for sale and liabilities of discontinued operations, respectively, on the Company's Consolidated Balance Sheet as of June 30, 2006. Since Gupta's sale completed on November 20, 2006, these assets and liabilities were removed. The final gain or loss on the sale of Gupta has not been determined as the Company is in the process of obtaining a formal valuation for the entity acquired. Similarly, Gupta's results of operations are shown as income (loss) from discontinued operations on the Consolidated Statements of Operations. Gupta's operations up to November 20, 2006 were included in the results for the six months ended December 31, 2006.

Assets and liabilities of the discontinued operations are comprised of the following:

|   | <b>December 31,<br/>2006</b> | <b>June 30, 2006</b> |
|---|------------------------------|----------------------|
| <b>Assets held for sale:</b>                  |                              |                      |
| Accounts receivable                           | \$                           | \$ 2,033,096         |
| Property and equipment, net                   |                              | 112,882              |
| Intangible assets, net                        |                              | 13,864,183           |
| Goodwill                                      |                              | 1,855,264            |
| Other assets                                  |                              | 447,743              |
| Total assets held for sale                    | \$                           | \$ 18,313,168        |
| <b>Liabilities of discontinued operations</b> |                              |                      |
| Accounts payable                              | \$                           | \$ 646,122           |
| Accrued expenses                              |                              | 819,239              |
| Deferred revenue                              |                              | 4,435,131            |
| Other liabilities                             |                              | 44,735               |
| Total liabilities                             | \$                           | \$ 5,945,227         |

Condensed financial information related to these discontinued operations is as follows:

|  | <b>Three Months Ended<br/>December 31,</b> |              | <b>Six Months Ended<br/>December 31,</b> |                |
|--|--|--------------|--|----------------|
|  | <b>2006</b>                                | <b>2005</b>  | <b>2006</b>                              | <b>2005</b>    |
| Total revenues                                 | \$ 1,659,400                               | \$ 2,836,237 | \$ 4,388,266                             | \$ 5,756,788   |
| Income (loss) before taxes                     | 160,199                                    | (794,685)    | 317,336                                  | (1,426,288)    |
| Income taxes                                   | 66,514                                     | 33,313       | 97,048                                   | 84,258         |
| Net income (loss) from discontinued operations | \$ 93,685                                  | \$ (827,998) | \$ 220,288                               | \$ (1,510,546) |

**Note 7. Unaudited Pro Forma Financial Information**

The following unaudited pro forma financial information includes David, Profitkey, Process, Empagio, Tenebril, RevCast, and NavRisk, and excludes Gupta. The pro forma consolidated operations of the Company for the three and six months ended December 31, 2006 and December 31, 2005 assume that the acquisitions and sale had occurred as of July 1, 2006 and July 1, 2005, respectively. This financial information is provided for informational purposes only and should not be construed to be indicative of the Company's consolidated results of operations had the acquisitions of David, ProfitKey, Process, Empagio, Tenebril, RevCast, and NavRisk been consummated on the dates assumed and does not project the Company's results of operations for any future period:

|                       | <b>Three Months Ended<br/>December 31,</b> |              | <b>Six Months Ended<br/>December 31,</b> |               |
|-----------------------|--|--------------|--|---------------|
|                       | <b>2006</b>                                | <b>2005</b>  | <b>2006</b>                              | <b>2005</b>   |
| Revenue               | \$ 6,985,216                               | \$ 6,121,238 | \$ 13,846,690                            | \$ 14,421,399 |
| Net (loss) income (1) | (4,624,482)                                | 1,698,177    | (7,761,708)                              | 21,594,331    |

---

**Table of Contents**

|   | <b>Three Months Ended</b> |              | <b>Six Months Ended</b> |               |
|---|---------------------------|--------------|-------------------------|---------------|
|   | <b>December 31,</b>       |              | <b>December 31,</b>     |               |
|   | <b>2006</b>               | <b>2005</b>  | <b>2006</b>             | <b>2005</b>   |
| Preferred dividends                               | (254,674)                 | (373,379)    | (509,348)               | (593,558)     |
| (Loss) income attributable to common stockholders | \$ (4,879,156)            | \$ 1,324,798 | \$ (8,271,056)          | \$ 21,000,773 |
| (Loss) income per share basic                     | \$ (0.16)                 | \$ 0.23      | \$ (0.28)               | \$ 3.79       |
| (Loss) income per share diluted                   | \$ (0.16)                 | \$ 0.06      | \$ (0.28)               | \$ 0.80       |
| Weighted-average number of common shares basic    | 30,172,997                | 5,743,890    | 29,963,161              | 5,544,270     |
| Weighted-average number of common shares diluted  | 30,172,997                | 28,953,841   | 29,963,161              | 26,894,467    |

(1) Net (loss) income includes fair value gains on warrants of \$1,911,881, \$7,864,701, \$4,580,222, and \$31,671,485 for the three months ended December 31, 2006 and 2005, and for the six months ended December 31, 2006 and 2005, respectively.

**Note 8. Credit Agreement**

On August 2, 2005, the Company entered a Credit Agreement (the "Credit Agreement"), with Fortress Credit Corp. as original lender (together with any additional lenders, the "Lenders"), and Fortress Credit Corp. as Agent (the "Agent"). In addition, the Company entered into a \$10,000,000 Promissory Note (the "Note") with the Lenders, an Intercreditor Agreement with the Lenders, the Agent and certain subordinated lenders (the "Intercreditor Agreement"), a security agreement with the Agent (the "Security Agreement"), Pledge Agreements with the Lender (the "Pledge Agreements"), and a Warrant Agreement with the Agent (the "Warrant Agreement").

Collectively the Credit Agreement, such other agreements and the subsidiary security agreements referenced below are referred to as the "Financing Documents".

The Credit Agreement and the other Financing Documents have the following material terms:

Subject to the terms and conditions of the Credit Agreement, the Lenders agreed to make available to the Company a term loan facility in three Tranches, Tranches A, B and C, in an aggregate amount equal to \$50,000,000.

The maximum amount of loans under Tranche A of the credit facility is \$10,000,000. The purpose of amounts borrowed under Tranche A is to refinance certain of the Company's existing debt and to pay certain costs and expenses incurred in connection with the closing under the Credit Agreement.

The maximum amount of loans under Tranche B of the credit facility is \$15,000,000. Amounts borrowed under Tranche B may be used only to partially fund the acquisition by the Company of one or more companies, the acquisition costs related thereto, and other costs and expenses incurred in connection with the Credit Agreement and to finance an agreed amount of working capital for the companies being acquired.

The maximum amount of loans under Tranche C of the credit facility is \$25,000,000. Amounts borrowed under Tranche C may be used only to partially fund the acquisition by the Company of one or more publicly-traded companies, the acquisition costs related thereto, and other costs and expenses incurred in connection with the Credit Agreement and to finance an agreed amount of working capital for the companies being acquired.

The Company has borrowed \$10,000,000 under Tranche A of the credit facility to pay-off its existing senior indebtedness, in the aggregate principal amount of \$6,825,000, plus accrued interest thereon, as well as certain existing subordinated indebtedness, in the aggregate principal amount of \$1,500,000. In addition, amounts borrowed under this Tranche A were used to pay certain closing costs, including the Lender's legal fees, commitment fees, and other costs and expenses under the Credit Agreement amounting to \$1,431,393. In addition, the Company paid \$295,094 in consulting and other fees in connection with the credit facility and in connection with the Tranche B described below. These closing costs have been deferred, and will be amortized over 4 years. For the three months and six months ended December 31, 2006, \$366,509 and \$474,414, respectively, were amortized. The remaining funds of \$664,003 was used for working capital needs.

The obligation to repay the \$10,000,000 principal amount borrowed at the closing, along with interest as described below, is further evidenced by the Note.

**Table of Contents**

Advances under Tranche B and Tranche C must be approved by the Lenders, and are subject to the satisfaction of all conditions precedent required by the Lenders including the condition that a default not occur under the loans as a result of the advance.

The rate of interest (the Interest Rate ) payable on the Loan for each calendar month (an Interest Period ) is a floating percentage rate per annum equal to the sum of the LIBOR for that period plus the Margin . For these purposes, LIBOR means for any Interest Period the rate offered in the London interbank market for U.S. Dollar deposits for the relevant Interest Period; provided, however, that for purposes of calculating the Interest Rate, LIBOR shall at no time be less than a rate equal to 2.65%. For these purposes, Margin means 9% per annum. Interest is due and payable monthly in arrears. The interest rate as of December 31, 2006 was 10.32%.

Provided there has been no event of default under the Loan, an amount of interest equal to 4% per annum that would otherwise be paid in cash instead may be paid in kind ( PIK ) by such amount being added to the principal balance of the Loan on the last day of each month. Such PIK amount will then accrue interest and be due and payable on the same terms and conditions as the Loan. The Company may, at its option, elect to terminate the PIK interest arrangement and instead pay such amount in cash. As of December 31, 2006, the Company accrued and expensed \$1,295,333 in relation to the PIK interest.

If any sum due and payable under the credit facility is not paid on the due date therefore, the Company shall be liable to pay interest on such overdue amount at a rate equal to the then current Interest Rate plus 3% per annum.

Principal amounts due under the Loans begin to be amortized on August 2, 2006, with the complete Loan to be repaid in full no later than the Maturity Date which is four years after the closing. The repayment due by December 31, 2007 is \$5,332,252 as of December 31, 2006, which includes the accelerated principal payment of \$2,000,000 under Amendment No. 3 (see below). The discount remaining as of December 31, 2006 of \$447,000 for the fair value of the warrants issued in connection with this loan will also be amortized within one year. The discount amortization is also accelerated to correlate to the outstanding balance that is reduced by the accelerated principal payments. Net of these two amounts, \$4,885,314, is classified under Current portion of senior notes payable on the Consolidated Balance Sheet. At December 31, 2006, maturities for the Credit Agreement are as follows:

|                      |               |
|----------------------|---------------|
| Years ended June 30, |               |
| 2007 - remainder     | \$ 3,666,000  |
| 2008                 | 3,332,000     |
| 2009                 | 3,332,000     |
| 2010                 | 10,711,000    |
| Total                | \$ 21,041,000 |

A mandatory prepayment is required if, prior to the date which is 9 months after the Closing Date, (i) the Company has not borrowed under Tranche B, and (ii) the Company has not acquired (without the inurrence of any indebtedness) 100% of the equity interests of any new subsidiary which at the time of acquisition had a twelve month trailing EBITDA of greater than \$1,000,000. If prepayments are required due to this reason, the amount of the prepayment is 85% of the Excess Cash Flow which means, cash provided by operations by the Company and its subsidiaries determined quarterly less capital expenditures for such period, provided that the Company shall at all times be allowed to retain a minimum of \$1,500,000 of cash for operating purposes. In addition, the Company must prepay the loan in full no later than the date which is 21 months after the Closing Date.

The Credit Agreement contains certain financial covenants usual and customary for facilities and transactions of this type. These financial covenants include Total Debt to EBITDA, Cash Interest Coverage Ratio, and Fixed Charge Covenant Ratio as defined. In the event the Company completes further acquisitions, the Company and the Agent and lenders will agree upon modifications to the financial covenants to reflect the changes to the Company's consolidated assets, liabilities, and expected results of operations in amounts to be mutually agreed to by the parties. On October 12, 2006 Company entered into Amendment Agreement No. 2 ( Amendment No. 2 ) Pursuant to this Amendment No. 2, certain financial covenants were amended or replaced to reflect the changes to the Company's current consolidated assets, liabilities, and expected results of operations. The Company is in compliance with all covenants under the Credit Agreement, Amendment No. 1, Amendment No. 2, and Amendment No. 3. The Company anticipates that due to recent transactions, certain of the covenants under the Credit Agreement may have to be further modified in the future in order for the Company to continue to comply for future periods. The Company has engaged in discussions with Fortress, and anticipates negotiating appropriate modifications to the covenants to reflect these changes in the Company's business as they occur. In the event the Company completes further acquisitions, the Company and the Lenders will be

**Table of Contents**

required to agree upon modifications to the financial covenants to reflect the changes to the Company's consolidated assets, liabilities, and expected results of operations in amounts to be mutually agreed to by the parties. If the Company were to fail to comply with the financial covenants under the Credit Agreement and the Lenders failed to agree to amend or waive compliance with the covenants that Halo did not meet, Halo would be in default under the Credit Agreement. Any default under the Credit Agreement would result in a default under most or all of Halo's other financing arrangements. The Lenders could foreclose on all of Halo's assets, including the stock in its subsidiaries, and could cause Halo to cease operating.

The Company's obligations are guaranteed by the direct and indirect subsidiaries of the Company, including, without limitation, Gupta Technologies, LLC, Kenosia Corporation, and Warp Solutions, Inc. The amendment agreements described below added TAC/Halo, LLC, Process Software, LLC, David Corporation, Profitkey International, LLC, Foresight Software, Inc, Empagio, Inc, Tenebril, Inc, RevCast, Inc, and NavRisk to this guarantee. The amendments also removed Gupta Technologies, LLC and Foresight Software, Inc since these companies have been sold.

The Company and its subsidiaries granted first priority security interests in their assets, and pledged the stock or equity interests in their respective subsidiaries, to the Agent as security for the financial obligations under the Credit Agreement and the Financing Documents. In addition, the Company has undertaken to complete certain matters, including the delivery of stock certificates in subsidiaries, and the completion of financing statements perfecting the security interests granted under the applicable state or foreign jurisdictions concerning the security interests and rights granted to the Lenders and the Agent.

As additional security for the lenders making the loans under the Credit Agreement, certain subsidiaries of the Company have entered into Security Agreements with Fortress Credit Corp. relating to their assets in the U.K., and have pledged their interests in the subsidiaries organized under English law, Gupta Technologies Limited and Warp Solutions Limited, by entering into a Mortgage of Shares with Fortress. Also, the Company's subsidiary, Gupta Technologies, LLC (Gupta) and its German subsidiary, Gupta Technologies GmbH, have entered into a Security Trust Agreement with Fortress Credit Corp. granting a security interest in the assets of such entities located in Germany. Gupta has also pledged its interests in the German subsidiary under a Share Pledge Agreement with Fortress Credit Corp. Subsequently, Gupta Technologies, LLC, Gupta Technologies, Limited, and Gupta Technologies, GmbH were removed from these pledges pursuant to Amendment No. 3 (see below).

Under the Intercreditor Agreement, the holders of the Company's outstanding subordinated notes which were issued pursuant to that certain Subordinated Note and Warrant Purchase Agreement dated January 31, 2005, agreed to subordinate the payment terms and security interests of the subordinated notes to the payment terms and security interests of the senior lenders under the Credit Agreement.

Pursuant to the Warrant Agreement, the Company agreed to issue warrants to acquire up to an aggregate of 7% of the fully diluted stock of the Company (as of the date of the Warrant Agreement) if the Lenders make all the advances under the total commitments of the credit facility. All warrants will have an exercise price of \$0.01 per share. The exercise price and number of shares issuable upon exercise of each warrant are subject to adjustment as provided in the Warrant Agreement, including weighted average anti-dilution protection. Warrants to acquire an aggregate of 5% of the fully diluted stock of the Company (2,109,042 shares of Common Stock, par value \$.00001 per share) are issuable upon the Company receiving advances under Tranche A or B of the credit facility (Tranche A/B Available Shares) in proportion to the amount of the advance compared with the total \$25,000,000 in commitments under Tranche A and B.

Since the Company borrowed \$10,000,000 under Tranche A at the closing, warrants to acquire 40% of the Available Tranche A/B Shares (843,617 shares of the Company's Common Stock) were issued at closing to the Lenders. The warrants have an exercise price of \$.01 per share, have a cashless exercise feature, and are exercisable

until December 10, 2010. As further advances are made to the Company under Tranche B, the Company will issue additional warrants in proportion to the advances received. Additionally, if the unused total commitments attributable to Tranche A and Tranche B are cancelled in accordance with the Credit Agreement, warrants shall be used for the number of shares based on the Pro Rata Portion of the Total Commitments attributable to Tranche A or Tranche B which are cancelled. The proceeds from the Tranche A were allocated to the fair value of the warrants and Tranche A. Based on the fair market value, \$1,599,615 was allocated to the warrants and the remainder of \$8,400,385 was allocated to Tranche A. The fair value of the warrants was determined by utilizing Black-Scholes method. The discount to Tranche A will be amortized over 48 months. For the three months and six months ended December 31, 2006, \$355,650 and \$455,625, respectively, were amortized and charged to interest expense.



**Table of Contents**

On October 26, 2005, in connection with the acquisition of Tesseract, Process and Affiliates, the Company entered into Amendment Agreement No. 1 ( Amendment No. 1 ) between the Company, Fortress Credit Opportunities I LP ( Lender ) and Fortress Credit Corp., as Agent (the Agent ) relating to the Credit Agreement dated August 2, 2005 between the Company, Fortress Credit Corp., as original lender (together with any additional lenders, the Original Lenders ), and the Agent. Pursuant to this Amendment No. 1, the Lender made a loan of \$15,000,000 under Tranche B of the credit facility under the Credit Agreement.

Since the Company borrowed \$15,000,000 under Tranche B on October 26, 2005, warrants to acquire 60% of the Available Tranche A/B Shares (1,265,425 shares of the Company s Common Stock) were issued to the Lenders. The warrants have an exercise price of \$.01 per share, have a cashless exercise feature, and are exercisable until December 10, 2010. Based on the fair market value, \$1,892,415 was allocated to the warrants and the remainder of \$13,107,585 was allocated to Tranche B. The fair value of the warrants was determined by utilizing Black-Scholes method. The discount to Tranche B will be amortized over 45 months. For the three months and six months ended December 31, 2006, \$118,275 and \$236,550, respectively, were amortized and charged to interest expense.

Warrants to acquire an aggregate of 2% of the fully diluted stock of the Company (843,617 shares of Common Stock) are issuable upon the Company receiving advances under Tranche C of the credit facility ( Tranche C Available Shares ) in proportion to the amount of the Tranche C advance compared with the total \$25,000,000 in commitments under Tranche C.

On October 12, 2006 Company entered into Amendment Agreement No. 2 ( Amendment No. 2 ). Pursuant to this Amendment No. 2, certain covenants were amended. The covenants amended related to the financial ratios between the earnings of the Company s operating subsidiaries and the Company s debt, to reflect the changes to the Company since the first amendment to the Credit Agreement, in October of 2005, primarily the addition of Empagio, Tenebril and RevCast as subsidiaries of the Company, the sale of Foresight and the then anticipated sale of Gupta.

On November 20, 2006, the Company entered into Amendment Agreement No. 3 ( Amendment No. 3 ). Pursuant to the Amendment No. 3, (i) the Company paid, as a partial prepayment of the Loan, \$4,600,000 simultaneously with the closing of the sale of Gupta, and (ii) the Company agreed to pay, as partial prepayments of the Loan, \$2,000,000 payable in three installments, with the first installment of \$500,000 payable on January 31, 2007, the second installment of \$500,000 payable on February 28, 2007 and the third installment of \$1,000,000 payable on March 30, 2007. The Company also paid Fortress an amount equal to \$500,000 simultaneously with the closing of the sale of Gupta, \$270,000 of which was applied towards the November 2nd principal payment due under the Loan, \$100,000 of which was applied towards the Outstanding Amendment Fee (due pursuant to the prior Amendment No. 2 of the Credit Agreement) and \$130,000 of which shall be applied (i) as a credit against future payment of accrued interest by the Company under the Credit Agreement, and (ii) towards the payment of Fortress s legal fees relating to the Amendment No. 3. Further, the Company agreed to pay Fortress a reorganization success fee of \$200,000 no later than March 30, 2007, and an amendment fee of \$300,000 as consideration for entering into the Amendment Agreement. Fortress also agreed to release Gupta from its obligations under the Credit Agreement and related agreements, and to release its liens on Gupta s assets.

**Note 9. Subordinated Notes Payable and Extinguishment of Debt**

On October 12, 2006, the Company entered into that certain Subscription Agreement (the Subscription Agreement ) for the sale of certain convertible promissory notes (each a Note and collectively, the Notes ) and warrants (the Warrants ) to acquire common stock in the Company. In connection with these transactions, the Company and the investors entered into certain subordination agreements concerning the priority of the Company s debt, and certain ancillary agreements, which are all described below.

The Company sold Notes in the aggregate principal amount of One Million Five Hundred Thousand Dollars (\$1,500,000) under the Subscription Agreement. The Company received \$1,500,000 in cash from the Investor. The Notes are convertible into common stock at any time at the option of the holder. The maturity date of the Notes is

three years after the date of issuance. In the event that the Notes are not converted by the maturity dates of the Notes, any principal outstanding will then be due and payable. Interest on outstanding principal amounts accrues at the rate of ten percent (10%) per annum and is payable in shares of the Company's common stock. The Company may prepay the amount due under the Notes at any time, provided that the Company make a proportional prepayment on any other Notes sold under the Subscription Agreement. If the holder of the Notes elects to convert the Note into common stock, the holder will receive a number of shares equal to the amount of principal being converted, divided by the conversion price, which is \$0.68, subject to change as provided in the Note.

**Table of Contents**

The Company also issued Warrants to purchase a number of shares of the Company's common stock equal to 50% of the number of shares which would be issued upon conversion of the Notes. Accordingly, the Company issued warrants to acquire 1,102,942 shares of common stock in connection with the issuance of Notes in the aggregate principal amount of \$1,500,000. The warrants have a conversion price of \$.80 per share (subject to certain anti-dilution adjustments as provided in the Warrant) and are exercisable for a period of 5 years.

Pursuant to EITF 98-5 *Accounting for Convertible Securities with Beneficial Conversion Features* and EITF 00-27 *Application of Issue No. 98-4 to Certain Convertible Instruments*, the Company determined the value of the beneficial conversion feature of this convertible Note because the conversion price was lower than the market price of the Company's common stock on the issuance date. In order to determine the proceed to allocate to this feature, this fair market value was prorated with the fair market value of the Warrants (as determined by Black-Scholes method), and further capped by the total proceeds ( *Relative Fair Market Value Method* ). The proceeds allocated to the beneficial conversion feature and the Warrants were \$784,314 and \$715,686, respectively. Both of these amounts will discount the face value of the note and will be amortized to interest expense over the life of the Note, which is thirty-six months. The interest expense from the amortization of the beneficial conversion feature was \$56,927 for both the three months and six months ended December 31, 2006. The interest expense from the amortization of the Warrant discount was \$51,944 for both the three months and six months ended December 31, 2006.

In addition, the Company issued a Note in the aggregate principal amount of One Million Two Hundred Fifty Thousand Dollars (\$1,250,000) under the Subscription Agreement in exchange for 1,000,000 shares of the Company's common stock previously held by the investor. This Note has the same terms as the \$1,500,000 Note described above, except that the Company did not issue Warrants in connection with this Note. The shares bought back are treated as treasury stock and valued at \$1,250,000. The beneficial conversion feature of the Note was determined to be \$220,589, which will also be amortized to interest expense over thirty-six months. The interest expense was \$16,010 for the three months and six months ended December 31, 2006.

The material terms of the Subscription Agreements are as follows. The Company and the investors (the *Investors* ) under the Subscription Agreements made certain representations and warranties customary in private financings, including representations from the Investors that they are accredited investors as defined in Rule 501(a) of Regulation D ( *Regulation D* ) under the Securities Act of 1933, as amended.

The Company undertakes to register the shares of Common Stock issuable upon conversion of the Notes, and upon conversion of the Warrants (together, the *Registrable Shares* ) via a suitable registration statement pursuant to the registration rights set forth in the Subscription Agreement. Since the registration statement covering the Registrable Shares has not been declared effective no later than 120 days from the closing, the Investors will receive certain penalties either in cash or in additional shares of common stock as set forth in the Subscription Agreement (unless the Investors waive such penalties). The Investors will also have rights to participate in up to \$5,000,000 of any future equity or convertible debt offerings by the Company.

On October 12, 2006, the Company also entered into that certain letter agreement (the *Vision Agreement* ) with Vision Opportunity Master Fund, Ltd. ( *Vision* ). In consideration for Vision's entering into the Subscription Agreement and acting as lead investor, in addition to the Notes and Warrants that were issued pursuant to the Subscription Agreement, the Company also issued to Vision warrants to purchase a number of shares of the Company's common stock equal to 50% of the number of shares which would be issued upon conversion of the Notes purchased by Vision. Accordingly, the Company issued to Vision additional warrants (the *Additional Warrants* ) to acquire 1,102,942 shares of common stock in connection with the issuance of Notes in the aggregate principal amount of \$1,500,000.

Furthermore, the Company agreed that, for as long as Vision is a holder of at least 25% of the Notes or Warrants purchased under the Subscription Agreement (or the shares of Common Stock issuable upon the conversion or exercise thereof), Vision will have the right to nominate one director to the Company's board of directors. The Company shall recommend that its shareholders approve such nomination at any shareholders' meeting for the election of directors or in connection with any written consent of shareholders of the election of directors.

Under the Vision Agreement, the Company agreed to reduce its parent company overhead by a minimum of 25% within six (6) months of the Closing and represented that it shall use at least \$5 million of the estimated \$6 million in proceeds from the sale of its Gupta subsidiary to reduce the amount of its indebtedness to Fortress Credit Corp. The

Company is taking measures to reduce parent company overhead costs, and expects to meet the first requirement under the Vision Agreement. The Company paid \$4.6 million to Fortress at the closing of the Gupta sale, and has paid an additional \$500,000 on January 31, 2007; accordingly, the Company has fulfilled the second requirement of the Vision Agreement.

**Table of Contents**

On October 12, 2006, the Company also entered into that certain Subordination Agreement (the Subordination Agreement ) with the Investor under the Subscription Agreement and Fortress Credit Corp. ( Fortress ), Halo s senior creditor pursuant to which the Investor agreed that the Notes are expressly subordinate and junior in right of payment to all senior obligations owed by the Company to Fortress or another senior lender under Halo s existing senior credit facility with Fortress. Also under this Subordination Agreement, Fortress consented to the issuance of the Notes and the other transactions set forth in the Subscription Agreement.

The Company also entered into that certain Intercreditor and Subordination Agreement (the Intercreditor Agreement ) with the Investor under the Subscription Agreement and Halo s existing subordinated debt lenders (the Existing Lenders ), Crestview Capital Master, LLC ( Crestview ) and CAMOFI Master LDC ( CAMOFI ). Under the Intercreditor Agreement the Investor agreed that the Notes are expressly subordinate and junior in right of payment to all senior obligations owed by the Company to the Existing Lenders under Halo s existing subordinated notes purchased by the Existing Lenders under that certain Subordinated Note and Warrant Purchase Agreement dated January 31, 2005.

The Company, the Investor, the Existing Lenders, and Fortress also entered into a letter agreement (the Fortress Letter Agreement ) whereby the parties agreed not to amend or modify the Intercreditor Agreement without the prior written consent of Fortress.

Also on October 12, 2006, the Company, Crestview and CAMOFI entered into a Consent Agreement (the Consent ) whereby Crestview and CAMOFI consented to the transactions contemplated by the Subscription Agreement in consideration of: (i) the Company adjusting the Conversion Price set forth in the Subordinated Notes held by Crestview and CAMOFI to be modified from \$1.00 to \$0.68, and (ii) the Warrant Price set forth in the existing warrants held by those entities to be modified from \$1.25 to \$0.68. Subsequently, pursuant to the Consent, the Conversion Price and the Warrant Price were modified to \$0.55.

Under EITF 96-19 *Debtor s Accounting for a Modification or Exchange of Debt Instruments*, and EITF 05-7 *Accounting for Modifications to Conversion Options Embedded in Debt Instruments and Related Issues*, if a change involving the same lender, regardless of the legal form, is substantial, then for accounting purposes the old debt instrument is considered extinguished, and a new debt instrument should be recorded. The Company determined that the changes in the Conversion Price and Warrant Price extended to the Existing Lenders were substantial, and therefore recorded a loss on extinguishment of debt. The loss was determined as the difference between the fair market values of the common stock on an as-converted basis before and after the conversion price change. The unamortized portion of the debt discount was added to the loss. The difference in the fair market value of the warrants held by the Existing Lenders before and after the modifications was also added to the loss. The total loss on extinguishment of this debt was \$1,957,709. This debt with the new Conversion Price was recorded as a new debt. Using Relative Fair Market Value Method, the fair market values of the beneficial conversion feature and the warrants were determined to be \$1,248,218 and \$160,873, respectively. Both of these amounts will discount the face value of the Subordinated Notes held by the Existing Lenders and will be amortized to interest expense over the remaining life of the this debt, which is thirty-five months. The interest expense from the amortization of the beneficial conversion feature was \$93,184 for both the three months and six months ended December 31, 2006. The interest expense from the amortization of the warrant discount was \$10,971 for both the three months and six months ended December 31, 2006.

**Note 10. Notes Payable***Notes Payable to Platinum Equity, LLC*

On October 26, 2005, as part of the Merger Consideration under the Tesseract Merger Agreement, the Company issued a Promissory Note in the amount of \$1,750,000 to Platinum. The principal under the Promissory Note accrues interest at a rate of 9.0% per annum. The principal and accrued interest under the Promissory Note are due on March 31, 2006. Interest is payable in registered shares of common stock of the Company, provided that until such shares are registered, interest shall be paid in cash. The Promissory Note contains certain negative covenants including that the Company will not incur additional indebtedness, other than permitted indebtedness under the Promissory Note. Under the Promissory Note, the following constitute an Event of Default: (a) the Company shall fail to pay the principal and interest when due and payable: (b) the Company fails to pay any other amount under the Promissory

Note when due and payable: (c) any representation or warranty of the Company was untrue or misleading in any material respect when made; (d) there shall have occurred an acceleration of the state maturity of any indebtedness for borrowed money of the Company or any Subsidiary of \$50,000 or more in aggregate principal amount; (e) the Company shall sell, transfer, lease or otherwise dispose of all or any substantial portion of its assets in one transaction or a series of related transactions, participate in any share exchange, consummate any recapitalization, reclassification, reorganization or other business combination transaction or adopt a plan

**Table of Contents**

of liquidation or dissolution or agree to do any of the foregoing; (f) one or more judgments in an aggregate amount in excess of \$50,000 shall have been rendered against the Company or any subsidiary; (g) the Company breaches any covenant set forth in Section 4 of the Promissory Note; or (h) an Insolvency Event (as defined in the Promissory Note) occurs with respect to the Company or a subsidiary. Upon an Event of Default, the Holder may, at its option, declare all amounts owed under the Promissory Note to be due and payable.

On March 31, 2006, the Company and Platinum entered into an Amendment and Consent, (the Amendment ). Pursuant to the Amendment, the maturity of the Note was modified such that the aggregate principal amount of the Note and all accrued interest thereon shall be due and payable as follows: (i) \$1,000,000 on March 31, 2006; and (ii) the remaining \$750,000 in principal, plus all accrued but unpaid interest on the earliest of (a) the second business day following the closing of the acquisition of Unify Corporation ( Unify ) by the Company, (b) the second business day following termination of the merger agreement pursuant to which Unify is to be acquired by the Company, (c) the second business day after the Company closes an equity financing of at least \$2.0 million subsequent to the date of the Amendment or (d) July 31, 2006. In accordance with the Amendment, \$1,000,000 was paid to Platinum on March 31, 2006. Subsequently, the parties have engaged in discussions to further modify the terms of the amounts owed to Platinum. Platinum has indicated it will waive any current breaches of these obligations, but the parties have not yet entered into any definitive agreement. However, in the event Platinum does not agree to modify such terms, the Company would be in breach of such agreements. During the three months and six months ended December 31, 2006, interest of \$17,250 and \$34,500, respectively, and was accrued and charged to interest expense. The accrued interest balance related to this loan is \$119,813. The Company expects to offset the amounts owed to Platinum by the approximately \$330,000 paid by the Company to employees of the companies acquired from Platinum, which amount is to be reimbursed by Platinum.

The Tesseract Merger Agreement also provided for a Working Capital Adjustment of \$1,000,000 to be paid no later than November 30, 2005. Since the Working Capital Adjustment was not paid by such date, at the option of Platinum, the Working Capital Adjustment may be converted into up to 1,818,181 shares of Series D Preferred Stock. Additionally, since the Working Capital Adjustment was not paid on or before November 30, 2005, the Company must pay Platinum a monthly transaction advisory fee of \$50,000 per month, commencing December 1, 2005. As of December 31, 2006, the Working Capital Adjustment has not been paid or converted to Series D Preferred Stock. As such, the Company accrued \$150,000 and \$300,000 for the advisory fee for the three months and six months ended December 31, 2006, respectively. The accrued advisory fee balance is \$650,000 as of December 31, 2006.

*Notes payable to Tenebril sellers*

On August 24, 2006, the Company completed a purchase of Tenebril, Inc.( Tenebril ), a privately held Boston based software company providing award-winning Internet and spyware protection to consumers and organizations (See Note 4). The aggregate principal amount of all promissory notes issued as the purchase consideration by Company was \$3,000,000.

The Promissory Notes are due February 15, 2007, and accrued interest at a rate equal to eight and one-quarter percent (8.25%) per annum. At the Company's option, the Company may convert some or all of the amount due under the Promissory Notes into shares of Common Stock of the Company. The number of shares issued upon conversion will be the total amount being converted divided by the conversion price then in effect. The conversion price is 85% of the market price of the Company's common stock as defined in the promissory notes. The Company anticipates converting the Promissory Notes into common stock and issuing the common stock to the holders of the Promissory Notes in payment thereof. At the Closing, the Company also delivered to a certain broker a promissory note (the Target Broker Promissory Note ). The Target Broker Promissory Note was in the original principal amount of \$110,000, plus applicable interest, and is due on February 15, 2007. The Company expects to pay this Broker Promissory Note in cash. For the three months and six months ended December 31, 2006, the Company recorded \$65,569 and \$91,939 in accrued interest expense for these notes.

*Short-term Loans*

During November 2006, the Company received an aggregate of \$400,000 as short-term loans from various investors.

**Note 11. Commitments and Contingencies*****Legal Proceedings.***





**Table of Contents**

From time to time, Halo may be involved in litigation that arises in the normal course of its business operations. As of the date of this report, Halo is not a party to any litigation that it believes could reasonably be expected to have a material adverse effect on its business or results of operations.

**Note 12. Subsequent Events**

None.

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

The following discussion and analysis provides information that the Company's management believes is relevant to an assessment and understanding of the Company's results of operations and financial condition. This discussion is based on, and should be read together with, the Company's accompanying unaudited consolidated financial statements, and the notes to such financial statements, which are included in this report, and with the Company's Form 10-KSB/A for the year ended June 30, 2006, which was filed with the SEC on October 26, 2006.

***Description of Business***

Halo Technology Holdings, Inc. is a Nevada corporation with its principal executive office in Greenwich, Connecticut.

The Company is a holding company whose subsidiaries operate enterprise software and information technology businesses. In addition to holding its existing subsidiaries, the Company's strategy is to pursue acquisitions of businesses which either complement the Company's existing businesses or expand the industries in which the Company operates.

**Historical Background**

Halo Technology Holdings, Inc. (the Company) was incorporated in the State of Nevada on June 26, 2000 under the name Abbott Mines, Ltd. to engage in the acquisition and exploration of mining properties. The Company obtained an interest in one mining property with mining claims on land located near Vancouver in British Columbia, Canada. To finance its exploration activities, the Company completed a public offering of its common stock, par value \$.00001 per share, on March 14, 2001 and listed its common stock on the OTC Bulletin Board on July 3, 2001. The Company conducted its exploration program on the mining property and the results did not warrant further mining activity. Halo then attempted to locate other properties for exploration but was unable to do so.

**The Acquisition of WARP Solutions, Inc.**

On May 24, 2002, the Company and WARP Solutions, Inc. (WARP Solutions) closed a share exchange transaction (the Share Exchange) pursuant to a Share Exchange Agreement (the Exchange Agreement) dated as of May 16, 2002, by and among the Company, Carlo Civelli, Mike Muzykowski, WARP Solutions, Karl Douglas, John Gnip and related Sellers. Following the closing of the Share Exchange, WARP Solutions became a subsidiary of the Company and the operations of WARP Solutions became the sole operations of the Company.

Subsequent to the closing of the Share Exchange, the Company ceased all mineral exploration activities and the sole operations of the Company were the operations of its subsidiary, WARP Solutions.

**Name Changes**

On August 19, 2002, the Board of Directors of the Company authorized and approved the upstream merger of WARP Technology Holdings, Inc., a wholly owned subsidiary of the Company which had no operations, with and into the Company pursuant to Chapter 92A of the Nevada Revised Statutes (the Upstream Merger). The Upstream Merger became effective on August 21, 2002, when the Company filed Articles of Merger with the Nevada Secretary of State. In connection with the Upstream Merger, and as authorized by Section 92A.180 of the Nevada Revised Statutes, the Company changed its name from Abbott Mines Ltd. to WARP Technology Holdings, Inc.

**Table of Contents**

In February, 2006, Halo's board of directors approved resolutions to change the Company's name from Warp Technology Holdings, Inc. to Halo Technology Holdings, Inc. by amending our Articles of Incorporation. We received the consent of holders of a majority of the outstanding votes entitled to be cast approving the amendment. Accordingly, effective April 2, 2006, our name changed to Halo Technology Holdings, Inc.

**The Acquisition of Spider Software, Inc.**

On January 10, 2003, the Company, through its wholly-owned subsidiary 6043577 Canada Inc., acquired one hundred percent (100%) of the issued and outstanding capital stock of Spider Software, Inc. ( Spider ), a privately held Canadian corporation, through a share exchange transaction pursuant to a Share Exchange Agreement (the Spider Exchange Agreement ) dated as of December 13, 2002. Pursuant to the Spider Exchange Agreement the Spider shareholders were issued 1,500,000 shares of the preferred stock of 6043577 Canada Inc., and the Company forgave outstanding Spider promissory notes of approximately \$262,000, all in exchange for one hundred percent (100%) of the issued and outstanding capital stock of Spider. The Company owns 100% of the voting common stock of 6043577 Canada Inc. The preferred stock of 6043577 Canada Inc. has no voting rights or other preferences but is convertible on a 100 for 1 basis into the common stock of the Company. As a result, following the closing, Spider became a wholly-owned subsidiary of 6043577 Canada Inc. and thereby an indirect, wholly-owned subsidiary of the Company.

**Acquisition of Gupta Technologies, LLC**

On January 31, 2005, the Company completed the acquisition of Gupta Technologies, LLC and its wholly-owned subsidiaries Gupta Technologies GmbH, a German company, Gupta Technologies Ltd., a U.K. company, and Gupta Technologies S.A. de C.V., a Mexican company (collectively referred to herein as Gupta ). The acquisition of Gupta (the Gupta Acquisition ) was made pursuant to a Membership Interest Purchase Agreement (as amended, the Gupta Agreement ) between the Company and Gupta Holdings, LLC (the Gupta Seller ).

On November 20, 2006, the Company completed the transactions contemplated by that certain Purchase and Exchange Agreement (the Purchase Agreement ) between the Company and Unify Corporation ( Unify ), as amended by that certain Amendment No. 1 to Purchase and Exchange Agreement (the Amendment ) dated November 20, 2006. At the Closing of the transactions, Halo sold its Gupta Technologies, LLC subsidiary to Unify in exchange for (i) Unify's risk management software and solution business as conducted by Unify through its Acuitrek, Inc. subsidiary ( Acuitrek ) and its Insurance Risk Management division, including, without limitation, the Acuitrek business and the NavRisk product (the NavRisk Business ), (ii) Unify's ViaMode software product and related intellectual property rights (the ViaMode Product ), (iii) \$6,100,000 in cash, of which Halo had received \$500,000 as a deposit upon the signing of the Purchase Agreement (the Deposit ), and (iv) the amount by which the Gupta Net Working Capital exceeds the NavRisk Net Working Capital (as such terms are defined in the Purchase Agreement, the Working Capital Adjustment ). Accordingly, the Company disposed of a significant amount of assets, its Gupta subsidiary, and acquired a significant amount of assets, the NavRisk Business.

**Acquisition of Kenosia Corporation**

On July 6, 2005, the Company completed the acquisition of Kenosia Corporation ( Kenosia ) pursuant to a Stock Purchase Agreement ( The Kenosia Agreement ) with Bristol Technology, Inc. ( Bristol ) and Kenosia. Under the Kenosia Agreement (the Kenosia Agreement ) the Company purchased all of the stock of Kenosia from Bristol for a purchase price of \$1,800,000 (net of a working capital adjustment). Kenosia is now a wholly-owned subsidiary of the Company, but as it was acquired after the end of our fiscal year, its results are not included in the financial results reported herein.

**Acquisition of Five Enterprise Software Companies**

On October 26, 2005, Halo completed the acquisition of Tesseract and four other companies; DAVID Corporation, Process Software, ProfitKey International, and Foresight Software, Inc. (collectively Process and Affiliates ). These transactions were related party transactions.

Tesseract, headquartered in San Francisco, is a total HR solutions provider offering an integrated Web-enabled HRMS suite. Tesseract's Web-based solution suite allows HR users, employees and external service providers to communicate securely and electronically in real time. The integrated nature of the system allows for easy access to data and a higher level of accuracy for internal



**Table of Contents**

reporting, assessment and external data interface. Tesseract's customer base includes corporations operating in a diverse range of industries, including financial services, transportation, utilities, insurance, manufacturing, petroleum, retail, and pharmaceuticals.

DAVID Corporation is a pioneer in Risk Management Information Systems. DAVID Corporation offers client/server-based products to companies that provide their own workers' compensation and liability insurance. Many of DAVID Corporation's clients have been using its products for 10 years or longer.

Process Software develops infrastructure software solutions for mission-critical environments, including industry-leading TCP/IP stacks, an Internet messaging product suite, and an anti-spam software subscription service to large enterprises worldwide. With a loyal customer base of over 5,000 organizations, including Global 2000 and Fortune 1000 companies, Process Software has earned a strong reputation for meeting the stringent reliability and performance requirements of enterprise networks.

ProfitKey International develops and markets integrated manufacturing software and information control systems for make-to-order and make-to-stock manufacturers. ProfitKey's offering includes a suite of e-business solutions that includes customer, supplier and sales portals. ProfitKey's highly integrated system emphasizes online scheduling, capacity management, and cost management.

Foresight Software, Inc., a client/server Enterprise Resource Planning and Customer Relationship Management software company, was acquired as part of the acquisition of these five enterprise software companies. Foresight Software, Inc. was sold to a third-party on May 23, 2006 and is no longer a subsidiary of Halo.

The purchase price for the acquisition of DAVID Corporation, Process Software, ProfitKey International, and Foresight Software was an aggregate of \$12,000,000, which Halo paid in cash. Under the merger agreement for the acquisition of Tesseract (the Tesseract Merger Agreement), the merger consideration consisted of (i) \$4,500,000 in cash which was paid at closing, (ii) 7,045,454 shares of Series D Preferred Stock of Halo, and (iii) \$1,750,000 originally due no later than March 31, 2006 and evidenced by a promissory note to Platinum Equity, LLC (the

Platinum Note). Additionally, Halo was required to pay a working capital adjustment of \$1,000,000. Since this amount was not paid by November 30, 2005, Platinum Equity, LLC (Platinum), the seller of Tesseract, has the option to convert the working capital adjustment into up to 1,818,182 shares of Series D Preferred Stock. To date, the Platinum has not elected to do so. Furthermore, since the working capital adjustment was not paid by November 30, 2005, Halo must pay Platinum a monthly transaction advisory fee of \$50,000 per month, commencing December 1, 2005. As of December 31, 2006, Halo has accrued and expensed approximately \$500,000 for such fees.

On March 31, 2006, the Company and Platinum entered into an Amendment and Consent (the Amendment and Consent) to the Platinum Note. Pursuant to the Amendment and Consent, the maturity of the Platinum Note was modified such that the aggregate principal amount of the Platinum Note and all accrued interest thereon shall be due and payable as follows: (i) \$1,000,000 on March 31, 2006; and (ii) the remaining \$750,000 in principal, plus all accrued but unpaid interest shall be paid on the earliest of (w) the second business day following the closing of the acquisition of Unify by the Company, (x) the second business day following termination of the merger agreement pursuant to which Unify is to be acquired by the Company, (y) the second business day after the Company closes an equity financing of at least \$2.0 million subsequent to the date of the Amendment and Consent or (z) July 31, 2006. In accordance with the Amendment and Consent, \$1,000,000 was paid to Platinum on March 31, 2006. Since the entire amount of the Platinum Note was not paid on or before March 31, 2006, Platinum retained 909,091 shares of Series D Preferred Stock of the Company, which had been previously issued to Platinum as part of the consideration under the Tesseract Merger Agreement. These shares would have been canceled if the Platinum Note had been paid in full by that date. Subsequently, the parties have engaged in discussions to further modify the terms of the amounts owed to Platinum. Platinum has indicated it will waive any current breaches of these obligations, but the parties have not yet entered into any definitive agreement. However, in the event Platinum does not agree to modify such terms, the Company would be in breach of such agreements.

The Tesseract Merger Agreement further provides that the rights, preferences and privileges of the Series D Preferred Stock will adjust to equal the rights, preferences and privileges of the next round of financing if such financing is a Qualified Equity Offering. Under the Tesseract Merger Agreement, a Qualified Equity Offering is defined as an equity financing (i) greater than \$5,000,000, (ii) not consummated with any affiliate of Halo, and

(iii) the securities issued in such equity financing are equal or senior in liquidation and dividend preference to the Series D Preferred Stock. If Halo's next round of equity financing is not a Qualified Equity Offering, the shares of the Series D Preferred Stock will convert at the option of Platinum into the terms of the offering, or maintain the terms of the Series D Preferred Stock. In addition, the Series D Stock may be converted into common stock at the election of the holder.

On April 3, 2006, the Company filed a Registration Statement on Form SB-2, File No. 333-132962, registering for resale the shares of common stock of the Company issuable upon conversion of the Series D Preferred Stock issued to Platinum in connection

**Table of Contents**

with the Tesseract Merger and as payment of dividends on such stock. This Registration Statement is currently pending before the Securities and Exchange Commission and is not yet effective. The Company will not receive any proceeds from the resale of the shares nor will the Company control the timing, manner and size of each sale pursuant to this Registration Statement. If this Registration Statement becomes effective, the holder of the Series D Preferred Stock will be permitted to convert its shares of Series D Preferred Stock to common stock and to resell such shares of common stock, subject to securities law restrictions as a result of Platinum being an affiliate of Halo. Since the average daily trading volume of Halo's common stock is relatively low (approximately 11,000 shares per day during the fiscal year ended June 30, 2006), attempts by the holder of the Series D Preferred Stock to resell any substantial portion of its shares could result in their being more shares offered for sale than buyers wishing to purchase shares of Halo common stock. This could limit the ability of shareholders to sell their shares in the manner or at the price that might be attainable if Halo's common stock were more actively traded or if the Series D Preferred Stock was not able to be resold pursuant to the Registration Statement on Form SB-2, File No. 333-132962.

**Acquisition of Empagio**

Halo entered into a merger agreement dated December 19, 2005, to acquire Empagio. On January 13, 2006, the closing occurred under the merger agreement and Empagio is now a wholly-owned subsidiary of Halo. The merger consideration consisted of 1,438,455 shares of common stock. Based on the closing price of Halo's Common Stock on the day of the closing, the total purchase price was \$1,869,992, subject to adjustment.

Empagio is a human resources management software company. Its signature product is its SymphonyHR hosted software solution which automates HR procedures and reduces paperwork, ranging from payroll to benefits administration. Halo intends to integrate Empagio with additional HR solutions already within its portfolio to create a premier human resources management solutions provider. Empagio's operations have been consolidated with the operations of Tesseract and the consolidated entity operates under the name Empagio.

**Acquisition of ECI**

On January 30, 2006, Halo entered into a merger agreement with ECI (the ECI Merger Agreement). On March 1, 2006, the closing occurred under the ECI Merger Agreement, and ECI became a wholly owned subsidiary of Halo. The total merger consideration for all of the equity interests in ECI was \$578,571 in cash and cash equivalents and 330,688 shares of Halo's common stock (with a value of \$558,863 at the closing price of Halo's common stock), subject to adjustment based on the Net Working Capital (as defined in the ECI Merger Agreement) on the closing date. The acquisition of ECI's clients will enhance Empagio's human resources software offerings. ECI's operations will be consolidated with the operations of Empagio.

**Foresight Sale**

On May 23, 2006, the Company and Foresight Acquisition Company, LLC ( Buyer ) entered into a Merger Agreement pursuant to which Buyer acquired 100% of the outstanding common stock of Foresight Software, Inc., a wholly-owned subsidiary of Halo in exchange for a cash payment to Halo. The Company received \$266,402 for this sale, of which \$114,500 was applied to the principal of the outstanding Fortress debt. The Company recorded a gain of \$12,072 on this sale.

**Acquisition of Tenebril**

On August 24, 2006, the Company purchased Tenebril. Tenebril is a Boston-based software company providing award-winning Internet and spyware protection to consumers and organizations. Tenebril's SpyCatcher(TM) Enterprise is the first and only spyware solution that protects enterprise computers from the most insidious category of evasive threats hyper-mutating and custom-coded spyware. Tenebril's patent-pending Spyware Profiling Engine(TM) differentiates SpyCatcher from its competitors by providing continuous protection that defeats these newly emerging threats. The convertible promissory notes of \$3,000,000 were issued as the purchase consideration. Tenebril was acquired with the plan of merging Tenebril into Process Software, Inc, one of the Company's existing subsidiaries, with complementary products and services.

**Acquisition of RevCast**

On September 15, 2006 the Company acquired an Illinois-based software company, RevCast. RevCast provides forecasting and replenishment solutions to some of the largest manufacturers in the world. RevCast's flagship product, Integrated Merchandising Solution (IMS), is being used today by several manufacturers that work with Wal-Mart and

other major retailers, which share direct

**Table of Contents**

POS information. The purchase consideration was 350,000 shares of the Halo's common stock, as well as the royalty payments, which is twenty percent (20%) of revenues generated by RevCast's assets, will be paid in cash quarterly, and has a maximum of \$400,000. RevCast was acquired with the plan of merging into the Kenosia subsidiary since the businesses are related.

**Business of the Company**

Halo is a holding company whose subsidiaries operate enterprise software and information technology businesses. The following pages describe the business of Halo's existing subsidiaries, Gupta Technologies, LLC, Warp Solutions, Kenosia Corporation, Tesseract Corporation, DAVID Corporation, Process Software, ProfitKey International, Empagio and ECI. In addition to holding its existing subsidiaries, Halo's strategy is to pursue acquisitions of businesses, which either complement Halo's existing businesses or expand the industries in which Halo operates.

**Recent Accounting Pronouncements**

In December 2004, the FASB issued SFAS No. 123(R), *Share-Based Payment*, which establishes standards for transactions in which an entity exchanges its equity instruments for goods or services. This standard requires an entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award. This eliminates the exception to account for such awards using the intrinsic method previously allowable under APB Opinion No. 25. For the Company, SFAS No. 123 (R) is effective as of January 1, 2006. The Company did not apply this method to prior periods. The impact on this new standard, if it had been in effect prior to January 1, 2006 is disclosed above in Note 2 *Summary of Significant Accounting Policies* *Stock Based Compensation*.

On March 29, 2005, the Staff of the Securities and Exchange Commission (SEC or the Staff) issued Staff Accounting Bulletin No. 107, *Share-Based Payment* (SAB 107). Although not altering any conclusions reached in SFAS 123(R), SAB 107 provides the views of the Staff regarding the interaction between SFAS 123(R) and certain SEC rules and regulations and, among other things, provide the Staff's views regarding the valuation of share-based payment arrangements for public companies. The Company followed the interpretative guidance on share-based payment set forth in SAB 107.

In May 2005, the FASB issued SFAS 154, *Accounting Changes and Error Corrections*, that applies to all voluntary changes in accounting principle. This statement requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. When it is impracticable to determine the period-specific effects of an accounting change on one or more individual prior periods presented, this statement requires that the new accounting principle be applied to the balances of assets and liabilities as of the beginning of the earliest period for which retrospective application is practicable and that a corresponding adjustment be made to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) for that period rather than being reported in an income statement. When it is impracticable to determine the cumulative effect of applying a change in accounting principle to all prior periods, this statement requires that the new accounting principle be applied as if it were adopted prospectively from the earliest date practicable. SFAS 154 will be effective for us for the fiscal year ended June 30, 2007. We do not anticipate that the adoption of SFAS No. 154 will have an impact on our overall results of operations or financial position.

In February 2006, the FASB issued SFAS 155, *Accounting for Certain Hybrid Financial Instruments-an amendment of FASB Statements No. 133 and 140*, that allows a preparer to elect fair value measurement at acquisition, at issuance, or when a previously recognized financial instrument is subject to a remeasurement (new basis) event, on an instrument-by-instrument basis, in cases in which a derivative would otherwise have to be bifurcated. It also eliminates the exemption from applying Statement 133 to interests in securitized financial assets so that similar instruments are accounted for similarly regardless of the form of the instruments. This Statement is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The Company does not anticipate that the adoption of SFAS No. 155 will have an impact on the Company's overall results of operations or financial position.

In March 2006, the FASB issued SFAS 156, *Accounting for Servicing of Financial Assets-an amendment of FASB Statement No. 140*, that applies to the accounting for separately recognized servicing assets and servicing liabilities.



This Statement requires that all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable. An entity should adopt this Statement as of the beginning of its first fiscal year that begins after September 15, 2006. The Company does not anticipate that the adoption of SFAS No. 156 will have an impact on the Company's overall results of operations or financial position.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measures ( SFAS 157 ). SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This statement applies under other accounting pronouncements that require or permit fair value measurements. However, it does not apply to SFAS 123(R).

**Table of Contents**

This statement shall be effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Earlier application is encouraged, provided that the reporting entity has not yet issued financial statements for that fiscal year, including any financial statements for an interim period within that fiscal year. The provisions of this statement should be applied prospectively as of the beginning of the fiscal year in which this Statement is initially applied, except in some circumstances where the statement shall be applied retrospectively. The Company is currently evaluating the effect, if any, of SFAS 157 on its financial statements.

***Critical Accounting Policies***

The discussion and analysis of the Company's financial condition and results of operations is based on the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses and disclosure of contingent liabilities.

On an on-going basis, we evaluate our estimates, including those related to revenue recognition and accounting for intangible assets. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

We have identified the accounting policies below as the policies critical to the Company's business operations and the understanding of the Company's results of operations. We believe the following critical accounting policies and the related judgments and estimates affect the preparation of the Company's consolidated financial statements:

***Revenue Recognition***

The Company recognizes revenue in accordance with the American Institute of Certified Public Accountants Statement of Position ( SOP ) 97-2, Software Revenue Recognition.

Revenues are derived from the licensing of software, maintenance contracts, training, and other consulting services.

In arrangements that include rights to multiple software products and/or services, the Company allocates and defers revenue for the undelivered items, based on vendor-specific objective evidence of fair value, and recognizes the difference between the total arrangement fee and the amount deferred for the undelivered items as revenue. Vendor specific objective evidence of fair value for undelivered elements of an arrangement is based upon the normal pricing and discounting practices for those products and services when sold separately and for maintenance contracts, is additionally measured by the renewal rate offered to the customer. In arrangements in which the Company does not have vendor-specific objective evidence of fair value of maintenance, and maintenance is the only undelivered item, the Company recognizes the total arrangement fee ratably over the contractual maintenance term.

Software license revenues are recognized upon receipt of a purchase order and delivery of software, provided that the license fee is fixed or determinable; no significant production, modification, or customization of the software is required; and collection is considered probable by management. For licensing of Company's software through its indirect sales channel, revenue is recognized when the distributor sells the software to its end-users, including value-added resellers. For licensing of software to independent software vendors, revenue is recognized upon shipment to the independent software vendors.

Service revenue for maintenance contracts is deferred and recognized ratably over the term of the agreement. Revenue from training and other consulting services is recognized as the related services are performed.

Certain software products the Company sells require significant implementation efforts, such as research, planning, customization, installation, and training. The Company often bundles these implementation projects with software license in contracts. These implementation efforts often take several months to complete. The Company applies the percentage-of-completion method to account for these contracts. Under the percentage-of-completion method, license and service revenues from these contracts are deferred and recognized as the projects progress. Costs related to these projects are tracked and compared against estimated total costs. The percentage of the costs incurred to the estimated total costs is applied to the total contract amount and recognized as revenue.

## **Table of Contents**

### *Business Combinations and Deferred Revenue*

In accordance with business combination accounting, we allocate the purchase price of acquired companies to the tangible and intangible assets acquired, and liabilities assumed, based on their estimated fair values. We engage third-party appraisal firms to assist management in determining the fair values of certain assets acquired and liabilities assumed. Such a valuation requires management to make significant estimates and assumptions, especially with respect to intangible assets and deferred revenue.

Management makes estimates of fair value based upon assumptions believed to be reasonable. These estimates are based on historical experience and information obtained from the management of the acquired companies and are inherently uncertain. Critical estimates in valuing certain of the intangible assets include but are not limited to: future expected cash flows from license sales, maintenance agreements, consulting contracts, customer contracts and acquired developed technologies and patents; the acquired company's brand awareness and market position, as well as assumptions about the period of time the acquired brand will continue to be used in the combined company's product portfolio; and discount rates. Unanticipated events and circumstances may occur which may affect the accuracy or validity of such assumptions, estimates or actual results.

We have acquired several software companies in fiscal 2006, and we plan to make more acquisitions in the future. Acquired deferred revenue is recognized at fair value to the extent it represents a legal obligation assumed by us in accordance with EITF 01-03, *Accounting in a Business Combination for Deferred Revenue of an Acquiree*. Under this guidance, the Company estimates fair values of acquired deferred revenue by adding an approximated normal profit margin to the estimated cost required to fulfill the obligation underlying the deferred revenue. As a result of this valuation, the deferred revenues of the acquired companies normally decrease substantially. In the enterprise software industry, this reduction averages between forty to sixty percent of the original balance. The reduction of the deferred revenue has a negative effect on the recognized revenue until the deferred revenue balance builds up to a normal level of the acquired business. The length of this effect depends on contracts underlying the deferred revenue. As the Company continues to acquire more businesses in the enterprise software industry, the effect of this deferred revenue valuation will have significant effect on the Company's results of operations.

### *Product Development Costs*

Product development costs incurred in the process of developing product improvements and enhancements or new products are charged to expense as incurred. Statement of Financial Accounting Standards (SFAS) No. 86, *Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed*, requires capitalization of certain software development costs subsequent to the establishment of technological feasibility. Based on the Company's product development process, technological feasibility is established upon the completion of a working model. Costs incurred by the Company between the completion of the working model and the point at which the product is ready for general release has been insignificant.

### *Intangible assets and Goodwill*

Intangible assets are primarily comprised of customer relationships, developed technology, trade names and contracts. Goodwill represents acquisition costs in excess of the net assets of businesses acquired. In accordance with SFAS 142, *Goodwill and Other Intangible Assets* goodwill is no longer amortized; instead goodwill is tested for impairment on an annual basis. We assess the impairment of identifiable intangibles and goodwill whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors we consider to be important which could trigger an impairment review include the following:

Significant underperformance relative to expected historical or projected future operating results;

Significant changes in the manner of use of the acquired assets or the strategy for the overall business; and

Significant negative industry or economic trends.

When we determine that the carrying value of intangibles and other long-lived assets may not be recoverable based upon the existence of one or more of the above indicators of impairment and the carrying value of the asset cannot be recovered from projected undiscounted cash flows, we record an impairment charge. We measure any impairment based on a projected discounted cash flow method using a discount rate determined by management to be

commensurate with the risk inherent in the current business model. Significant management judgment is required in determining whether an indicator of impairment exists and in projecting cash flows. Trade names are considered to have indefinite life. All other intangibles are being amortized over their estimated useful life of three to ten years.

**Table of Contents**

We have recorded a significant amount of goodwill on our balance sheet. As of December 31, 2006, goodwill was approximately \$36.1 million, representing approximately 69% of our total assets and approximately 77% of our long-lived assets subject to depreciation, amortization and impairment. In the future, goodwill may increase as a result of additional acquisitions we will make. Goodwill is recorded on the date of acquisition and is reviewed at least annually for impairment. Impairment may result from, among other things, deterioration in the performance of our business, adverse market conditions and a variety of other circumstances. Any future determination requiring the write-off of a significant portion of the goodwill recorded on our balance sheet could have an adverse effect on our financial condition and results of operations.

**Stock-Based Compensation**

Prior to January 1, 2006, the Company used the intrinsic value method to account for stock-based compensation in accordance with Accounting Principles Board Opinion No. 25 ( APB 25 ), Accounting for Stock Issued to Employees, and had adopted the disclosure-only provisions of SFAS No. 123, Accounting for Stock-Based Compensation, as amended by SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure. Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS 123(R), Share-Based Payment ( SFAS 123(R) ). SFAS 123(R) requires entities to recognize the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of those awards (with limited exceptions). As a result, compensation cost of the Company for the year ended December 31, 2006 includes compensation expense for unvested portion of all the stock options outstanding and all the stock options granted after the effective date. No restatement has been made to prior periods. We had applied APB 25 s intrinsic value method up to December 31, 2005, and presented pro forma income statements in the footnote to show the effect of FAS123(R) as if it had been implemented in the prior periods.

**Results of Operations**

The following table sets forth selected unaudited financial data for the periods indicated in dollars and as a percentage of total revenue.

|   | <b>Three Months Ended December 31,</b> |              |             |              | <b>Six Months Ended December 31,</b> |              |             |              |
|---|--|--------------|-------------|--------------|--------------------------------------|--------------|-------------|--------------|
|   | <b>2006</b>                            |              | <b>2005</b> |              | <b>2006</b>                          |              | <b>2005</b> |              |
|   | (in 000 s)                             | % of Revenue | (in 000 s)  | % of Revenue | (in 000 s)                           | % of Revenue | (in 000 s)  | % of Revenue |
| Revenue                                   | 6,781                                  | 100%         | 2,534       | 100%         | 13,268                               | 100%         | 2,822       | 100%         |
| Cost of revenue                           | 2,057                                  | 30%          | 785         | 31%          | 3,772                                | 28%          | 849         | 30%          |
| Gross Profit                              | 4,724                                  | 70%          | 1,750       | 69%          | 9,495                                | 72%          | 1,973       | 70%          |
| Product development                       | 1,462                                  | 22%          | 767         | 30%          | 2,677                                | 20%          | 853         | 30%          |
| Sales, marketing and business development | 1,158                                  | 17%          | 631         | 25%          | 2,179                                | 16%          | 761         | 27%          |
| General and administrative                | 3,533                                  | 52%          | 2,441       | 96%          | 7,187                                | 54%          | 3,075       | 109%         |
| Loss on extinguishment of debt            | 1,958                                  | 29%          |             | 0%           | 1,958                                | 15%          |             | 0%           |
| Fair value gain on warrants               | 1,912                                  | 28%          | 7,865       | 310%         | 4,580                                | 35%          | 31,671      | 1122%        |
| Interest expense                          | 2,911                                  | 43%          | 2,196       | 87%          | 7,684                                | 58%          | 4,302       | 152%         |

**Revenue**

Revenue is derived from the licensing of software, maintenance contracts, training, and other consulting services. License revenue is derived from licensing of our software and third-party software products. Services revenue results from consulting and education services, and maintaining, supporting and providing periodic unspecified upgrades for previously licensed products.

Total revenue increased by \$4.3 million to \$6.8 million for the three months ended December 31, 2006 from \$2.5 million for the three months ended December 31, 2005. This increase was primarily due to the acquisitions of Empagio, \$2.5 million, Process and Affiliates, \$1.4 million and Tenebril, \$194,000. In addition, there was a net increase in Kenosia of \$167,000 of which approximately \$79,000 was due to increase in consulting revenue and

\$108,000 was due to more deferred revenue reduction made by purchase accounting adjustments in fiscal year 2005 (See *Business Combinations and Deferred Revenue* in Critical Accounting Policies ). Kenosia's increase was partially offset by a decrease of \$20,000 in the services revenue.

**Table of Contents**

Total revenue increased by \$10.5 million to \$13.3 million for the six months ended December 31, 2006 from \$2.8 million for the six months ended December 31, 2005. This increase was primarily due to the acquisitions of Empagio, \$5.4 million, Process and Affiliates, \$4.4 million and Tenebril, \$291,000. In addition, there was a net increase in Kenosia of \$410,000 of which approximately \$34,000 was due to increase in consulting revenue, \$140,000 in higher billing in support and maintenance, and \$236,000 was due to more deferred revenue reduction made by purchase accounting adjustments in fiscal year 2005 (See *Business Combinations and Deferred Revenue* in Critical Accounting Policies ).

License revenue increased by \$285,000 to \$707,000 for the three months ended December 31, 2006 from \$422,000 for the three months ended December 31, 2005. This increase was primarily due to the acquisitions of Empagio, \$29,000 Process and Affiliates, \$144,000, and Tenebril, \$33,000. In addition, there was an increase in Kenosia of \$79,000.

License revenue increased by \$837,000 to \$1.3 million for the six months ended December 31, 2006 from \$507,000 for the six months ended December 31, 2005. This increase was primarily due to the acquisitions of Empagio, \$67,000, Process and Affiliates, \$703,000, and Tenebril, \$33,000. In addition, there was an increase in Kenosia of \$34,000.

Services revenue increased \$4.0 million to \$6.1 million for the three months ended December 31, 2006 from \$2.1 million for the three months ended December 31, 2005. This increase was primarily due to the acquisitions of Empagio, \$2.4 million, Process and Affiliates, \$1.4 million and Tenebril, \$161,000. In addition, there was a net increase in Kenosia of \$88,000.

Services revenue increased \$9.6 million to \$11.9 million for the six months ended December 31, 2006 from \$2.3 million for the six months ended December 31, 2005. This increase was primarily due to the acquisitions of Empagio, \$5.3 million, Process and Affiliates, \$3.8 million and Tenebril, \$258,000. In addition, there was a net increase in Kenosia of \$376,000.

Because of the reduction of deferred revenue after an acquisition under generally accepted accounting principles, which has the effect of reducing the amount of revenue recognized in a given period from what would have been recognized had the acquisition not occurred, past reported periods should not be relied upon as predictive of future performance. Additionally, the Company's operating strategy is to continue to acquire technology companies. Each of such transactions will cause a change to our future financial results.

**Cost of Revenue**

Total cost of revenue increased by \$1.3 million to \$2.1 million for the three months ended December 31, 2006 from \$785,000 for the three months ended December 31, 2005. This increase was primarily due to the acquisitions of Empagio, \$946,000, Process and Affiliates, \$239,000 and Tenebril, \$88,000.

Total cost of revenue increased by \$2.9 million to \$3.8 million for the six months ended December 31, 2006 from \$849,000 for the six months ended December 31, 2005. This increase was primarily due to the acquisitions of Empagio, \$1.9 million, Process and Affiliates, \$821,000 and Tenebril, \$157,000. In addition, there was an increase in Kenosia of \$22,000 mainly related to additional consulting expenses incurred in conjunction with the merge with RevCast.

The principal components of cost of license fees are manufacturing costs, shipping costs, royalties paid to third-party software vendors, and amortization of acquired technologies. Cost of license revenue increased by \$86,000 to \$290,000 for the three months ended December 31, 2006 from \$204,000 for the three months ended December 31, 2005. This increase was primarily due to the acquisitions of Empagio, \$52,000, Tenebril, \$53,000 and the total increase was partially offset by the decrease of \$18,000 in the amortization of developed technology intangibles.

Cost of license revenue increased by \$291,000 to \$502,000 for the six months ended December 31, 2006 from \$211,000 for the six months ended December 31, 2005. This increase was primarily due to the acquisitions of Empagio, \$120,000, Process and Affiliates, \$128,000, and Tenebril, \$53,000. The total increase was offset by a net decrease of \$10,000 in Kenosia.

The principal components of cost of services are salaries paid to our customer support personnel and professional services personnel, amounts paid for contracted professional services personnel and third-party resellers, maintenance royalties paid to third-party software vendors and hardware costs. Cost of services revenue increased by \$1.2 million

to \$1.8 million for the three months ended December 31, 2006 from \$580,000 for the three months ended December 31, 2005. This increase was primarily a result of an increase in employee compensation directly related to additional headcounts added in conjunction with the acquisitions of Empagio,



**Table of Contents**

\$894,000, Process and Affiliates, \$248,000 and Tenebril \$35,000. In addition, there was an increase in Kenosia of \$8,000 mainly related to additional consulting expenses incurred in conjunction with the merge with RevCast.

Cost of services revenue increased by \$2.6 million to \$3.3 million for the six months ended December 31, 2006 from \$638,000 for the six months ended December 31, 2005. This increase was primarily a result of an increase in employee compensation directly related to additional headcounts added in conjunction with the acquisitions of Empagio, \$1.8 million, Process and Affiliates, \$716,000 and Tenebril, \$104,000. In addition, there was an increase in Kenosia of \$17,000 mainly related to additional consulting expenses incurred in conjunction with the merge with RevCast.

Gross profit margins were 70% for the three months ended December 31, 2006, compared to 69% for the three months ended December 31, 2005. The gross margin increase was mainly due to the change in the product mix (increase in the proportion of maintenance and services revenue) the Company sells from the new subsidiaries.

Gross profit margins were 72% for the six months ended December 31, 2006, compared to 70% for the six months ended December 31, 2005. The gross margin increase was mainly due to the change in the product mix (increase in the proportion of maintenance and services revenue) the Company sells from the new subsidiaries.

**Operating Expenses***Research and Development*

Research and development expense consists primarily of salaries and other personnel-related expenses for engineering personnel, expensable hardware and software costs, overhead costs and costs of contractors. Research and development expenses increased by approximately \$695,000 to \$1.5 million for the three months ended December 31, 2006 from \$767,000 for the three months ended December 31, 2005. This increase primarily resulted from the acquisitions of Empagio, \$182,000, Process and Affiliates, \$193,000, and Tenebril, \$193,000. In addition, there was an increase in Kenosia of \$131,000 mainly related to additional headcounts added in conjunction with the merge with RevCast.

Research and development expenses increased by approximately \$1.8 million to \$2.7 million for the six months ended December 31, 2006 from \$853,000 for the six months ended December 31, 2005. This increase primarily resulted from the acquisitions of Empagio, \$607,000, Process and Affiliates, \$755,000, and Tenebril, \$309,000. In addition, there was an increase in Kenosia of \$151,000 mainly related to additional headcounts added in conjunction with the merge with RevCast. To date, all software development costs have been expensed as incurred.

*Sales and Marketing*

Selling and marketing expenses consist primarily of salaries, commissions, benefits, advertising, tradeshow, travel and overhead costs for the Company's sales, marketing, and business development personnel. Sales and marketing expenses increased by approximately \$528,000 to \$1.2 million for the three months ended December 31, 2006 from \$630,000 for the three months ended December 31, 2005. This increase was primarily attributable to the acquisitions of Empagio, \$351,000, Process and Affiliates, \$156,000 and Tenebril, \$42,000. There was an increase of \$20,000 in Kenosia's headcount from the RevCast acquisition. The total increase was partially offset by a decrease of \$41,000 in corporate expenses.

Sales and marketing expenses increased by approximately \$1.4 million to \$2.2 million for the six months ended December 31, 2006 from \$761,000 for the six months ended December 31, 2005. This increase was primarily attributable to the acquisitions of Empagio, \$702,000, Process and Affiliates, \$476,000, and Tenebril, \$84,000. There was an increase of \$16,000 in Kenosia's headcounts added from the RevCast acquisition. There was also an increase of \$145,000 in corporate headcount to manage the increasing size and complexity of the Company's operation.

**Table of Contents***General and Administrative*

General and administrative costs include salaries and other direct employment expenses of our administrative and management employees, as well as legal, accounting and consulting fees and bad debt expense. General and administrative expenses increased by approximately \$1.1 million to \$3.5 million for the three months ended December 31, 2006 from \$2.4 million for the three months ended December 31, 2005. This increase was primarily attributable to the acquisitions of Empagio, \$526,000 and Tenebril, \$104,000. There was also an increase in Kenosia of \$106,000 mainly related to additional headcounts added in conjunction with the merge with RevCast and approximately \$277,000 in corporate headcount to manage the increasing size and complexity of the Company's operations, as the Company has acquired new subsidiaries, as well as professional services fees associated with the acquisitions, securities laws, and tax compliance.

General and administrative expenses increased by approximately \$4.1 million to \$7.2 million for the six months ended December 31, 2006 from \$3.1 million for the six months ended December 31, 2005. This increase was primarily attributable to the acquisitions of Empagio, \$1.5 million, Process and Affiliates, \$965,000 and Tenebril, \$178,000. There was also an increase in Kenosia of \$78,000 mainly related to additional headcounts added in conjunction with the merge with RevCast and approximately \$1.4 million in corporate headcount to manage the increasing size and complexity of the Company's operations, as the Company has acquired new subsidiaries, as well as professional services fees associated with the acquisitions, securities laws, and tax compliance.

*Loss on Extinguishment of Debt*

On October 12, 2006, the Company, Crestview and CAMOFI entered into a Consent Agreement whereby Crestview and CAMOFI consented to the transactions contemplated by the Subscription Agreement (see Note 9 of Notes to the Consolidated Financial Statements) in consideration of: (i) the Company adjusting the Conversion Price set forth in the Subordinated Notes held by Crestview and CAMOFI to be modified from \$1.00 to \$0.68, and (ii) the Warrant Price set forth in the existing warrants held by those entities to be modified from \$1.25 to \$0.68. Subsequently, pursuant to the Consent, the Conversion Price and the Warrant Price were modified to \$0.55.

Under EITF 96-19 *Debtor's Accounting for a Modification or Exchange of Debt Instruments*, and EITF 05-7 *Accounting for Modifications to Conversion Options Embedded in Debt Instruments and Related Issues*, if a change involving the same lender, regardless of the legal form, is substantial, then for accounting purposes the old debt instrument is considered extinguished, and a new debt instrument should be recorded. The Company determined that the changes in the Conversion Price and Warrant Price were substantial, and therefore recorded a loss on extinguishment of debt. The loss was determined as the difference between the fair market values of the common stock on an as-converted basis before and after the conversion price change. The unamortized portion of the debt discount was added to the loss. The difference in the fair market value of the warrants before and after was also added to the loss. The total loss on extinguishment of this debt was \$1,957,709.

**Fair Value Gain on Warrants**

Certain warrants the Company issued as part of its financing activities have features that require them to be treated as a derivative in accordance with EITF 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Owned Stock*. In addition to recognizing the value of the warrants by discounting the related debt and amortizing the discount to interest expense over the life of the debt, the value of the warrants are recognized as liabilities and revalued at the end of each period. The fair values of these warrants are determined based on the Black-Scholes model. Changes in fair values are charged to the Statements of Operations. Generally, if the Company's stock price increases, the fair value of the warrants increases, causing the liability to increase and resulting in loss, and vice versa.

Fair value gain on warrants revaluation was approximately \$1.9 million and \$7.9 million for the three months ended December 31, 2006 and December 31, 2005, respectively. The gains were results of the stock price decrease. These gains relate to the change in the fair value of the warrants relating to the Series C Preferred Stock, Senior Notes, Subordinated Notes, Fortress, DCI Master LDC and notes issued to other investors.

Fair value gain on warrants revaluation was approximately \$4.6 million and \$31.7 million for the six months ended December 31, 2006 and December 31, 2005, respectively. The gains were results of the stock price decrease. These gains relate to the change in the



**Table of Contents**

fair value of the warrants relating to the Series C Preferred Stock, Senior Notes, Subordinated Notes, Fortress, DCI Master LDC and notes issued to other investors.

**Interest Expense**

Interest expense increased by \$715,000 to \$2.9 million for the three months ended December 31, 2006 from \$2.2 million for the three months ended December 31, 2005. The increase was primarily due to Fortress and related fees of \$635,000, interest expense related to miscellaneous debt of \$159,000, beneficial conversion of convertible notes of \$166,000, and amortization of deferred financing cost of \$282,000. The increase was partially offset by the decrease in amortization of warrants of \$473,000.

Interest expense increased by \$3.4 million to \$7.7 million for the six months ended December 31, 2006 from \$4.3 million for the six months ended December 31, 2005. The increase was primarily due to the beneficial conversion of convertible notes of \$1.7 million, and Fortress debt and related fees of \$1.9 million. The increase was partially offset by the decrease in amortization of warrants of \$216,000.

**Results of Discontinued Operations**

On September 13, 2006, the Company entered into an agreement to sell its subsidiary, Gupta Technologies, LLC, to Unify Corporation in exchange for Unify's two business units and other considerations. On November 20, 2006, the Company completed this transaction. Pursuant to Statement of Financial Accounting Standards No. 144 Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144), Gupta's results of operations are shown as income (loss) from discontinued operations on the Consolidated Statements of Operations. Condensed financial information related to these discontinued operations is as follows:

|  | <b>Three Months Ended<br/>December 31,</b> |              | <b>Six Months Ended<br/>December 31,</b> |                |
|--|--|--------------|--|----------------|
|  | <b>2006</b>                                | <b>2005</b>  | <b>2006</b>                              | <b>2005</b>    |
| Total revenues                                 | \$ 1,659,400                               | \$ 2,836,237 | \$ 4,388,266                             | \$ 5,756,788   |
| Income (loss) before taxes                     | 160,199                                    | (794,685)    | 317,336                                  | (1,426,288)    |
| Income taxes                                   | 66,514                                     | 33,313       | 97,048                                   | 84,258         |
| Net income (loss) from discontinued operations | \$ 93,685                                  | \$ (827,998) | \$ 220,288                               | \$ (1,510,546) |

Revenues of the discontinued operations decreased by \$1.2 million to \$1.7 million for the three months ended December 31, 2006 from \$2.9 million for the three months ended December 31, 2005. This decrease was primarily due to a shorter period of operations as the sale of the business closed on November 20, 2006.

Revenues of the discontinued operations decreased by \$1.4 million to \$4.4 million for the six months ended December 31, 2006 from \$5.8 million for the six months ended December 31, 2005. This decrease was primarily due to a shorter period of operations as the sale of business closed on November 20, 2006 and lower billing of the license sale in the anticipation of a new version release of Gupta's main product lines.

Income before taxes from the discontinued operations increased by \$955,000 to \$160,000 for the three months ended December 31, 2006 from a loss of \$795,000 for the three months ended December 31, 2005. This increase was primarily due to the lower cost structure from a reduction in force Gupta executed in April 2006 and the depreciation of fixed assets and amortization of intangible assets were ceased due to the discontinued operations. The increase was partially offset by a shorter period of operations and lower revenues described above.

Income before taxes from the discontinued operations increased by \$1.7 million to \$317,000 for the six months ended December 31, 2006 from a loss of \$1.4 million for the six months ended December 31, 2005. This increase was primarily due to the lower cost structure from a reduction in force Gupta executed in April 2006 and the depreciation of fixed assets and amortization of intangible assets were ceased due to the discontinued operations. The increase was partially offset by a shorter period of operations and lower revenues described above.

**Table of Contents*****Net Operating Loss Carryforwards***

The Company has a U.S. Federal net operating loss carryforward of approximately \$51,814,000 as of December 31, 2006, which may be used to reduce taxable income in future years through the year 2026. The deferred tax asset primarily resulting from net operating losses was approximately \$21,124,000. Due to uncertainty surrounding the realization of the favorable tax attributes in future tax returns, the Company has placed a full valuation allowance against its net deferred tax asset. At such time as it is determined that it is more likely than not that the deferred tax asset is realizable, the valuation allowance will be reduced. Furthermore, the net operating loss carryforward may be subject to further limitation pursuant to Section 382 of the Internal Revenue Code

***Liquidity and Capital Resources***

Halo has three primary cash needs. These are (1) operations, (2) acquisitions and (3) debt service and repayment. Halo has financed a significant component of its cash needs through the sale of equity securities and debt.

For the six months ended December 31, 2006, cash used in continuing operations was approximately \$4.2 million. Our net loss \$7.6 million was offset by gain on warrants revaluation of \$4.6 million, decrease in deferred revenue of \$2.2 million, and increase in accounts receivable of \$790,000. In addition, components of cash used for operating activities included non-cash interest expense of \$4.7 million, depreciation and amortization expense of \$847,000, and non-cash compensation expense of \$976,000, and increase in accounts payable and accrued expenses of \$2.3 million. The Company acquired cash of \$623,000 through the acquisition of Tenebril. The Company also received \$6,100,000 for the sale of Gupta, and \$1,900,000 from issuances of subordinated notes and short-term loans. \$5,140,000 was used to repay the principal portion of the outstanding senior debt. \$788,000 was also provided by the discontinued operations of Gupta through November 20, 2006.

On January 31, 2005, Halo issued \$2,500,000 principal amount of subordinated convertible promissory notes (the Subordinated Notes ). The Subordinated Notes bear interest at 10%, payable in common stock or cash, and mature January 31, 2007. The Subordinated Notes are convertible at any time into shares of Halo common stock at \$1.00 per share, which conversion rate is subject to certain anti-dilution adjustments. The common stock issuable upon conversion of the Subordinated Notes has certain registration rights.

Halo entered into a \$50,000,000 credit facility with Fortress Credit Opportunities I LP and Fortress Credit Corp. on August 2, 2005 (the Credit Agreement ). Subject to the terms and conditions of the Credit Agreement, the lenders thereunder (the Lenders ) agreed to make available to Halo a term loan facility in three Tranches, Tranches A, B and C, in an aggregate amount equal to \$50,000,000 (the Loan ). In connection with entering into the Credit Agreement, Halo borrowed \$10,000,000 under Tranche A to repay its then-existing senior indebtedness, as well as certain existing subordinated indebtedness and to pay certain closing costs. On October 26, 2005, in connection with the closings of the acquisition of Tesseract, DAVID Corporation, Process Software, ProfitKey International and Foresight Software, Inc., Halo entered into Amendment Agreement No. 1 ( Amendment Agreement ) to the Credit Agreement under which the Lenders made an additional loan of \$15,000,000 under Tranche B of the credit facility under the Credit Agreement. The rate of interest payable on the amounts borrowed under the Loan is a floating percentage rate per annum equal to the sum of the LIBOR for that period plus the Margin . For these purposes, LIBOR means the rate offered in the London interbank market or U.S. Dollar deposits for the relevant period but no less than 2.65%. For these purposes, Margin means 9% per annum. Interest is due and payable monthly in arrears.

The Credit Agreement contains certain financial covenants usual and customary for facilities and transactions of this type. These financial covenants include Total Debt to EBITDA, Cash Interest Coverage Ratio, and Fixed Charge Covenant Ratio as defined. As of December 31, 2006, the Company is in compliance with these financial covenants. The Company anticipates that due to recent transactions, certain of the covenants under the Credit Agreement may have to be modified in the future in order for the Company to continue to comply for future periods. The Company has engaged in discussions with Fortress, and anticipates negotiating appropriate modifications to the covenants to reflect these changes in the Company's business as they occur. In the event the Company completes further acquisitions, the Company and the Lenders will be required to agree upon modifications to the financial covenants to reflect the changes to the Company's consolidated assets, liabilities, and expected results of operations in amounts to be mutually agreed to by the parties. If the Company were to fail to comply with the financial covenants under the Credit Agreement and the Lenders failed to agree to amend or waive compliance with the covenants that Halo did not

meet, Halo would be in default under the Credit Agreement. Any default under the Credit Agreement would result in a default under most or all of Halo's other financing arrangements. The Lenders could foreclose on all of Halo's assets, including the stock in its subsidiaries, and could cause Halo to cease operating.

**Table of Contents**

In addition, the Credit Agreement provides that in the event of certain changes of control, including (i) a reduction in the equity ownership in Halo of Ron Bienvenu or his immediate family members below 90% of such equity interests on the date of the Credit Agreement, or (ii) Ron Bienvenu ceases to perform his current management functions and is not replaced within 90 days by a person satisfactory to Fortress, all amounts due may be declared immediately due and payable.

The Credit Agreement contains specific events of default, including failure to make a payment, the breach of certain representations and warranties, and insolvency events. There is also a cross-default provision that provides that certain events of default under certain contracts between Halo or its subsidiaries and third parties will constitute an event of default under the Credit Agreement.

Halo's obligations under the Credit Agreement are guaranteed by the direct and indirect subsidiaries of Halo, and any new subsidiaries of Halo are obligated to become guarantors. Halo and its subsidiaries granted first priority security interests in their assets, and pledged the stock or equity interests in their respective subsidiaries, as collateral for the Loans. In addition, Halo has undertaken to complete certain matters, including the delivery of stock certificates in subsidiaries, and the completion of financing statements perfecting the security interests granted under the applicable state or foreign jurisdictions concerning the security interests and rights granted to the Lenders. Any new subsidiary of Halo will become subject to the same provisions.

On October 26, 2005, as part of the acquisition of Tesseract, Halo issued to Platinum Equity, LLC, a promissory note in the amount of \$1,750,000 (the Platinum Note). The Platinum Note was issued in a related party transaction. The principal under the Platinum Note accrues interest at a rate of 9.0% per annum. The principal and accrued interest under the Platinum Note was originally due on March 31, 2006. Interest is payable in registered shares of common stock of Halo, provided that until such shares are registered, interest shall be paid in cash. The Platinum Note contains certain negative covenants including that Halo will not incur additional indebtedness, other than permitted indebtedness under the Platinum Note. Under the Platinum Note, the following constitute an event of default: (a) Halo shall fail to pay the principal and interest when due and payable; (b) Halo fails to pay any other amount under the Platinum Note when due and payable; (c) any representation or warranty of Halo was untrue or misleading in any material respect when made; (d) there shall have occurred an acceleration of the state maturity of any indebtedness for borrowed money of Halo or any Halo subsidiary of \$50,000 or more in aggregate principal amount; (e) Halo shall sell, transfer, lease or otherwise dispose of all or any substantial portion of its assets in one transaction or a series of related transactions, participate in any share exchange, consummate any recapitalization, reclassification, reorganization or other business combination transaction or adopt a plan of liquidation or dissolution or agree to do any of the foregoing; (f) one or more judgments in an aggregate amount in excess of \$50,000 shall have been rendered against Halo or any Halo subsidiary; (g) Halo breaches certain of its covenants set forth in the Platinum Note; or (h) an Insolvency Event (as defined in the Platinum Note) occurs with respect to Halo or a Halo subsidiary. Upon such an event of default, the holder may, at its option, declare all amounts owed under the Platinum Note to be due and payable.

Additionally, under the Tesseract Merger Agreement, Halo was required to pay Platinum a working capital adjustment of \$1,000,000. Since this amount was not paid by November 30, 2005, Platinum has the option to convert the working capital adjustment into up to 1,818,182 shares of Series D Preferred Stock. To date, the Platinum has not elected to do so. Furthermore, since the working capital adjustment was not paid by November 30, 2005, Halo must pay Platinum a monthly transaction advisory fee of \$50,000 per month, commencing December 1, 2005. As of December 31, 2006, Halo has accrued and expensed approximately \$650,000 for such fees.

On March 31, 2006, the Company and Platinum entered into an Amendment and Consent (the Amendment and Consent) to the Platinum Note. Pursuant to the Amendment and Consent, the maturity of the Platinum Note was modified such that the aggregate principal amount of the Platinum Note and all accrued interest thereon shall be due and payable as follows: (i) \$1,000,000 on March 31, 2006; and (ii) the remaining \$750,000 in principal, plus all accrued but unpaid interest shall be paid on the earliest of (w) the second business day following the closing of the acquisition of Unify by the Company, (x) the second business day following termination of the merger agreement pursuant to which Unify is to be acquired by the Company, (y) the second business day after the Company closes an equity financing of at least \$2.0 million subsequent to the date of the Amendment and Consent or (z) July 31, 2006. In

accordance with the Amendment and Consent, \$1,000,000 was paid to Platinum on March 31, 2006. Since the entire amount of the Platinum Note was not paid on or before March 31, 2006, Platinum retained 909,091 shares of Series D Preferred Stock of the Company, which had been previously issued to Platinum as part of the consideration under the Tesseract Merger Agreement. These shares would have been canceled if the Platinum Note had been paid in full by that date. Subsequently, the parties have engaged in discussions to further modify the terms of the amounts owed to Platinum. Platinum has indicated it will waive any current breaches of these obligations, but the parties have not yet entered into any definitive agreement. However, in the event Platinum does not agree to modify such terms, the Company would be in breach of such agreements.



**Table of Contents***Conversion of Notes Payable into Common Stock and Warrants*

On July 21, 2006, Halo issued an aggregate of 2,732,392 shares of common stock in conversion of (1) an aggregate of \$1,850,000 of convertible promissory notes previously issued by the Company in September 2005, October 2005, and January 2006 (and \$126,041.67 of interest on such amount) as described in the Halo's Current Report on Form 8-K filed January 18, 2006, and (2) an aggregate of \$1,375,000 (and \$64,444.44 of interest on such amount) previously issued by the Company in January 2006 as described in the Halo's Current Report on Form 8-K filed February 2, 2006. In addition, the investors received warrants to acquire an aggregate of 2,049,296 shares of common stock of the Company. The warrants have an exercise price of \$1.25 per share, are exercisable over a five year term and subject to certain adjustments as set forth in the warrant. A copy of the form of the warrant is attached as Exhibit 10.126 to the Company's Current Report on Form 8-K filed July 27, 2006, and is incorporated herein by reference. In addition, 54,000 shares of common stock and warrants to acquire 40,500 shares of common stock were issued in payment of \$67,500 in advisory fees.

*Subordinated Debt Financing*

On October 12, 2006, the Company entered into that certain Subscription Agreement (the "Subscription Agreement") for the sale of the certain convertible promissory notes (each a "Note" and collectively, the "Notes") and warrants (the "Warrants") to acquire common stock in the Company. In connection with these transactions, the Company and the investors entered into certain subordination agreements concerning the priority of the Company's debt, and certain ancillary agreements, which are all described below.

The Company sold Notes in the aggregate principal amount of One Million Five Hundred Thousand Dollars (\$1,500,000) under the Subscription Agreement. The Company received \$1,500,000 in cash from the Investor. The Notes are convertible into common stock at any time at the option of the holder. The maturity date of the Notes is three years after the date of issuance. In the event that the Notes are not converted by the maturity dates of the Notes, any principal outstanding will then be due and payable. Interest on outstanding principal amounts accrues at the rate of ten percent (10%) per annum and is payable in shares of the Company's common stock. The Company may prepay the amount due under the Notes at any time, provided that the Company make a proportional prepayment on any other Notes sold under the Subscription Agreement. If the holder of the Notes elects to convert the Note into common stock, the holder will receive a number of shares equal to the amount of principal being converted, divided by the conversion price, which is \$0.68, subject to change as provided in the Note. In addition, the Company issued Notes in the aggregate principal amount of One Million Two Hundred Fifty Thousand Dollars (\$1,250,000) under the Subscription Agreement in exchange for 1,000,000 shares of the Company's common stock previously held by the investor.

Pursuant to the Subscription Agreement the Company issued Warrants to purchase a number of shares of the Company's common stock equal to 50% of the number of shares which would be issued upon conversion of the Notes. Accordingly, the Company issued warrants to acquire 1,102,942 shares of common stock in connection with the issuance of Notes in the aggregate principal amount of \$1,500,000. The warrants have a conversion price of \$.80 per share (subject to certain anti-dilution adjustments as provided in the Warrant) and are exercisable for a period of 5 years. The Company did not issue warrants in connection with the issuance of the \$1,250,000 Note.

The material terms of the Subscription Agreements are as follows. The Company and the investors (the "Investors") under the Subscription Agreements made certain representations and warranties customary in private financings, including representations from the Investors that they are "accredited investors" as defined in Rule 501(a) of Regulation D (Regulation D) under the Securities Act of 1933, as amended.

The Company undertakes to register the shares of Common Stock issuable upon conversion of the Notes, and upon conversion of the Warrants (together, the "Registrable Shares") via a suitable registration statement pursuant to the registration rights set forth in the Subscription Agreement. Since the registration statement covering the Registrable Shares has not been declared effective no later than 120 days from the closing, the Investors will receive certain penalties either in cash or in additional shares of common stock as set forth in the Subscription Agreement (unless the Investors waive such penalties). The Investors will also have rights to participate in up to \$5,000,000 of any future equity or convertible debt offerings by the Company.

On October 12, 2006, the Company entered into that a letter agreement (the "Vision Agreement") with Vision Opportunity Master Fund, Ltd. ("Vision"). In consideration for Vision's entering into the Subscription Agreement and

acting as lead investor, in addition to the Notes and Warrants that issued pursuant to the Subscription Agreement, the Company also issued to Vision warrants to purchase a number of shares of the Company's common stock equal to 50% of the number of shares which would be issued upon conversion of the Notes purchased by Vision. Accordingly, the Company issued to Vision additional warrants (the Additional

**Table of Contents**

Warrants ) to acquire 1,102,942 shares of common stock in connection with the issuance of Notes in the aggregate principal amount of \$1,500,000.

Furthermore, the Company agreed that, for as long as Vision is a holder of at least 25% of the Notes or Warrants purchased under the Subscription Agreement (or the shares of Common Stock issuable upon the conversion or exercise thereof), Vision will have the right to nominate one director to the Company's board of directors. The Company shall recommend that its shareholders approve such nomination at any shareholders' meeting for the election of directors or in connection with any written consent of shareholders of the election of directors.

Under the Vision Agreement, the Company agreed to reduce its parent company overhead by a minimum of 25% within six (6) months of the Closing and represented that it shall use at least \$5 million of the estimated \$6 million in proceeds from the sale of its Gupta subsidiary to reduce the amount of its indebtedness to Fortress Credit Corp. The Company is taking measures to reduce parent company overhead costs, and expects to meet the first requirement under the Vision Agreement. The Company paid \$4.6 million to Fortress at the closing of the Gupta sale, and has paid an additional \$500,000 on January 31, 2007; accordingly, the Company has fulfilled the second requirement of the Vision Agreement.

On October 12, 2006 the Company entered into that certain Subordination Agreement (the "Subordination Agreement") with the Investor under the Subscription Agreement and Fortress Credit Corp. (Fortress), Halo's senior creditor pursuant to which the Investor agreed that the Notes are expressly subordinate and junior in right of payment to all senior obligations owed by the Company to Fortress or another senior lender under Halo's existing senior credit facility with Fortress. Also under this Subordination Agreement, Fortress consented to the issuance of the Notes and the other transactions set forth in the Subscription Agreement.

On October 12, 2006 the Company entered into that certain Intercreditor and Subordination Agreement (the "Intercreditor Agreement") with the Investor under the Subscription Agreement and Halo's existing subordinated debt lenders (the "Existing Lenders"), Crestview Capital Master, LLC (Crestview) and CAMOFI Master LDC (CAMOFI). Under the Intercreditor Agreement the Investor agreed that the Notes are expressly subordinate and junior in right of payment to all senior obligations owed by the Company to the Existing Lenders under Halo's existing subordinated notes purchased by the Existing Lenders under that certain Subordinated Note and Warrant Purchase Agreement dated January 31, 2005.

On October 12, 2006 the Company, the Investor, the Existing Lenders, and Fortress entered into a letter agreement (the "Fortress Letter Agreement") whereby the parties agreed not to amend or modify the Intercreditor Agreement without the prior written consent of Fortress.

On October 12, 2006 the Company, Crestview and CAMOFI entered into a Consent Agreement (the "Consent") whereby Crestview and CAMOFI consented to the transactions contemplated by the Subscription Agreement in consideration of: (i) the Company adjusting the Conversion Price set forth in the Subordinated Notes held by Crestview and CAMOFI to be modified from \$1.00 to \$0.68, and (ii) the Warrant Price set forth in the existing warrants held by those entities to be modified from \$1.25 to \$0.68. Subsequently, pursuant to the Consent, the Conversion Price and the Warrant Price were modified to \$0.55.

*Amendment No. 2 to Fortress Credit Agreement*

On October 12, 2006 Company entered into Amendment Agreement No. 2 ("Amendment Agreement") between the Company and Fortress relating to the Credit Agreement dated August 2, 2005 between the Company, the Subsidiaries of the Company listed in Schedule 1 thereto (the "Subsidiaries"), Fortress Credit Corp., as original lender (together with any additional lenders, the "Original Lenders"), and the Agent. Pursuant to this Amendment Agreement, certain covenants were amended. The covenants amended related to the financial ratios between the earnings of the Company's operating subsidiaries and the Company's debt, to reflect the changes to the Company since the first amendment to the Credit Agreement, in October of 2005, primarily the addition of Empagio, Tenebril and RevCast as subsidiaries of the Company, the sale of Foresight, and the sale of Gupta.

*Working Capital Requirements*

Halo's future capital requirements will depend on many factors, including cash flow from operations, continued progress in research and development programs, competing technological and market developments, and Halo's ability to maintain its current customers and successfully market its products, as well as any future acquisitions it undertakes.

Halo intends to meet its cash needs, as in the past, through cash generated from operations, the proceeds of privately placed equity issuances, debt, and possible sale of assets.

## Table of Contents

Even without further acquisitions, in order to meet its financial obligations including repayment of outstanding debt obligations, Halo will have to issue further equity and engage in further debt transactions. There can be no guarantee that Halo will be successful in such efforts. In the absence of such further financing, Halo will either be unable to meet its debt obligations or will have to significantly restructure its operations, or a combination of these two actions. Such actions would significantly negatively affect the value of Halo's common stock.

Halo's working capital requirements as of December 31, 2006 was a deficit of approximately \$24.5 million, comprised primarily of accounts payable and accrued expenses, \$8.9 million, deferred revenue, \$8.6 million, and short-term debt, \$10.7 million, which was partially offset by cash, \$774,000, accounts receivable, \$3.2 million, and prepaid expenses and other current assets, \$907,000. Halo's working capital requirements as of June 30, 2006 was a deficit of approximately \$7.8 million, comprised primarily of accounts payable and accrued expenses, \$6.7 million, deferred revenue, \$9.5 million, short-term debt, \$7.6 million, and liabilities of discontinued operations of \$5.9 million which was partially offset by cash \$854,000, accounts receivable, \$2 million, prepaid expenses and other current assets, \$315,000, and assets held for sale, \$18.3 million.

The increase in our capital requirements for the six months ended December 31, 2006 is primarily due to the sale of Gupta. Gupta's assets and liabilities, net value of which was \$12.4 million as of June 30, 2006, have been removed. In addition, there was an increase of \$3.1 million in the current portion of the senior note due to the original accelerated repayment schedule and the recent amendment. There was also an issuance of the promissory note in the principal amount of \$3,000,000 to the sellers of Tenebril, Inc.. This note is convertible into Halo's Common stock at the option of Halo. It is expected that this conversion will take place and the liability will be removed by the issuance of the equity. The Company recorded \$3.5 million in liability for this note to adjust for the conversion terms. The Company also experienced an increase of \$2.2 million in accounts payable and accrued expenses, reflecting temporary shortage of cash. The increase in the capital requirements is mainly offset by the conversion of the short-term notes. As described in "*Conversion of Notes Payable into Common Stock and Warrants*," the Company converted approximately \$3.6 million of its convertible notes and accrued interest into the Common Stock and warrants. The capital requirement increase was also offset by an increase in accounts receivable of \$1.2 million, reflecting historically strong seasonal sales in December.

The Company expects its spending on research and development in the current fiscal year to remain consistent with the level of such expenditures in the fiscal year ended June 30, 2006, subject to changes in operations due to acquisitions or sales of subsidiary companies.

The Company anticipates further material increases in its operating costs for the current fiscal year ending June 30, 2007. We expect substantially increasing operating expenses in connection with the growth of our operations, the development of our enterprise technologies, the expansion of our services operations and our acquisition activity. Our capital requirements during the year ending June 30, 2007 will depend on numerous factors including the amount of resources we devote to:

Funding the continued development of our products;

Sales and marketing efforts;

Improving and extending our services and the technologies used to deliver these services to our customers;

Pursuing other strategic acquisitions and alliances; and

Making possible investments in businesses, products and technologies.

The Company has incurred recurring operating losses since its inception, as of December 31, 2006, had an accumulated deficit of \$102,519,029, and, at December 31, 2006, had insufficient working capital to fund all of its obligations. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments to reflect the possible future effect of the recoverability and classification of assets or the amounts and classifications of liabilities that may result from the outcome of this uncertainty.

The Company's continuation as a going concern is dependant upon receiving additional financing. Given our current cash position, and our expectations of cash flows from operations, we anticipate requiring additional working capital of approximately \$4 to \$6 million for the year ending June 30, 2007 of which we have received \$1.5 million in a transaction completed on October 12, 2006. We expect to pursue equity or debt financing, and possibly sale of assets in order to meet these capital needs. There can be no assurance that we will be successful in such efforts. In the absence of such further financing, or asset sales, Halo will either be unable to meet its

**Table of Contents**

debt obligations or will have to significantly restructure its operations, or a combination of these two actions. Such actions would significantly negatively affect the value of Halo's common stock.

*Investing Activities and Current Debt*

As of December 31, 2006, the Company had debt that matures in the next 12 months in the amount of approximately \$11,571,000. This consists of \$1,750,000 payable to Platinum Equity, LLC (seller of Tesseract, Process, David, Profitkey, and Foresight), \$4,459,252 as current portion of Fortress debt, \$1,243,718 due to ISIS, \$3,000,000 payable to Tenebril seller, and \$160,000 notes payable to other investors. \$1,000,000 was paid to Platinum Equity, LLC on March 31, 2006 to reduce the note to the current balance. On July 21, 2006, the Company converted \$3,225,000 of notes payables into equity (See *Conversion of Notes Payable into Common Stock and Warrants* above). In addition, during the six months ended December 31, 2006, the Company paid \$5,140,000 to Fortress as principal payments of the senior notes.

Halo continues to evaluate strategic alternatives, including opportunities to strategically grow the business, enter into strategic relationships, make acquisitions or enter into business combinations. Halo can provide no assurance that any such strategic alternatives will come to fruition and may elect to terminate such evaluations at any time.

*Subsequent Events*

None.

**Table of Contents****CAUTIONARY LANGUAGE CONCERNING FORWARD-LOOKING STATEMENTS**

This Quarterly Report on Form 10-QSB contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the Reform Act). Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate or imply future results, performance or achievements, and may contain the words believe, anticipate, expect, estimate, intend, project, plan, will be, will likely continue, result, or words or phrases with similar meaning. All of these forward-looking statements are based on estimates and assumptions made by our management that, although we believe to be reasonable, are inherently uncertain. Forward-looking statements involve risks and uncertainties, including, but not limited to, economic, competitive, governmental and technological factors outside of our control, that may cause our business, strategy or actual results to differ materially from the forward-looking statements. We operate in a changing environment in which new risks can emerge from time to time. It is not possible for management to predict all of these risks, nor can it assess the extent to which any factor, or a combination of factors, may cause our business, strategy or actual results to differ materially from those contained in forward-looking statements. Factors you should consider that could cause these differences include, among other things: general economic and business conditions, including exchange rate fluctuations; our ability to identify acquisition opportunities and effectively and cost-efficiently integrate acquisitions that we consummate; our ability to maintain effective internal control over financial reporting; our ability to attract and retain personnel, including key personnel; our success in developing and introducing new services and products; and, competition in the software industry, as it relates to both our existing and potential new customers. These forward-looking statements are made only as of the date hereof, and we undertake no obligation to update or revise the forward-looking statements, whether as a result of new information, future events or otherwise. The safe harbors for forward-looking statements provided by the Reform Act are unavailable to issuers of penny stock. Our shares may be considered a penny stock and, as a result, the safe harbors may not be available to us.

**ITEM 3. Controls And Procedures**

As of December 31, 2006, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including Rodney A. Bienvenu, Jr., the Company's principal executive officer, and Mark Finkel, the Company's principal financial officer, of the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rule 13a-15(e) and Rule 15(d)-15(e) of the Securities Exchange Act of 1934 (the Exchange Act) pursuant to Rule 13a-15(d) and 15(e) of the Exchange Act. Based upon that evaluation, Messrs. Bienvenu and Finkel have each concluded that, as of December 31, 2006, the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files, furnishes or submits under the Exchange Act is recorded, processed, summarized and reported on a timely basis except as follows:

A material control weakness is a significant deficiency or a combination of significant deficiencies that results in more than a remote likelihood that a material misstatement in financial statements will not be prevented or detected on a timely basis by employees in the normal course of their work. As stated in the Company's Annual Report on Form 10-KSB/A for the year ended June 30, 2006 filed with the SEC on October 26, 2006, the management identified that one of the Company's subsidiaries, Process Software, LLC (Process), had a material control weakness in its revenue recognition process.

The Company recognizes revenue in accordance with the American Institute of Certified Public Accountants Statement of Position (SOP) 97-2, Software Revenue Recognition. Under SOP 97-2, service revenue for maintenance contracts is deferred and recognized ratably over the term of the agreement. Process sometimes started this ratable recognition earlier or later than the actual contract date while it recognized the revenue over a shorter or longer period on other occasions. These resulted in improper revenue recognition, either understating or overstating the revenue and earnings. Process also demonstrated inconsistency in recording accounts receivable. The Company usually invoices its customers either on receipt of a purchase order or on signing of a contract. The invoiced amount is recorded as accounts receivable as of the invoice date. Process sometimes recorded accounts receivable earlier or later than the actual invoice date, resulting in over or understatement of accounts receivable. Process lacked the discipline and training of the personnel who record its sales transactions. It also lacked the monitoring process to mitigate these weaknesses.



These material weaknesses impacted our ability to properly record and report the financial results during the fiscal year 2006. However, the Company's management is actively engaged in remediation efforts to address this material weaknesses identified in our internal control over financial reporting. The Company has transitioned sales invoicing responsibilities from non-accounting personnel to accounting personnel better trained to process such documents. The Company has substantially implemented a new accounting system, which has enabled the Company to monitor ongoing activities without increasing staff level. In the transition, the Company is performing additional revenue testing to identify inconsistencies. As a result of our review, the Company believes they have resolved the revenue recognition issues noted above.

**Table of Contents**

There were no other significant changes in our internal control subsequent to the date of the evaluation that are reasonably likely to materially affect our internal control over financial reporting.

The Company and its auditors have identified certain other deficiencies within the internal control framework which, if left uncorrected, could result in a material weakness. These internal control deficiencies related to the financial close process and a lack of compliance with established procedures for adjusting account balances and financial disclosures especially as relates to non-recurring transactions, that, if uncorrected, could result in material misstatements. The Company plans to address these deficiencies by ensuring that it has accounting personnel with sufficient skills and experience to account for non-recurring transactions in accordance with generally accepted accounting principles.

The Company's management believes that the Company will be able to improve our disclosure controls and procedures and remedy the identified material weaknesses. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, will be or have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

## PART II

## OTHER INFORMATION

**ITEM 1. Legal Proceedings**

From time to time, Halo may be involved in litigation that arises in the normal course of its business operations. As of the date of this report, Halo is not a party to any litigation that it believes could reasonably be expected to have a material adverse effect on its business or results of operations

**ITEM 2. Unregistered Sales of Equity Securities and use of Proceeds.**

## (a) Subordinated Debt Financing

On October 12, 2006, the Company issued certain subordinated debt which is convertible into Common Stock of Company, and issued certain warrants to acquire common stock of the Company. This transaction is further described under *Liquidity and Capital Resources - Subordinated Debt Financing* above, and was disclosed in a Current Report on Form 8-K filed October 13, 2006.

## (c) Information Required by Item 703 of Regulation S-B

## SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES

| Period                       | (a) Total<br>Number<br>of Shares of<br>Common<br>Stock<br>Purchased | (b)<br>Average<br>Price Paid<br>per<br>Share | (c) Total<br>Number of<br>Shares<br>Purchased as<br>Part of Publicly<br>Announced<br>Plans or<br>Programs | (d) Maximum<br>Number (or<br>Approximate<br>Dollar Value)<br>of Shares that<br>May Yet<br>Be Purchased<br>Under<br>the Plans or<br>Programs |
|------------------------------|---|--|---|---|
|                              |   |  |   |   |
| Month #1 (Oct. 1 - 31, 2006) | 1,000,000 <sup>(1)</sup>  | \$ 1.25                                      | 0   | 0   |
| Month #2 (Nov. 1 - 30, 2006) | 0   |  | 0   | 0   |
| Month #3 (Dec. 1 - 31, 2006) | 0   |  | 0   | 0   |

Edgar Filing: Halo Technology Holdings, Inc. - Form 10QSB

|       |           |    |      |   |   |
|-------|-----------|----|------|---|---|
| Total | 1,000,000 | \$ | 1.25 | 0 | 0 |
|       |           | 48 |      |   |   |

---

**Table of Contents**

Note (1) The Company purchased 1,000,000 shares of its Common Stock in a single transaction. In exchange for the stock purchased, the Company issued a promissory note in the amount of \$1,250,000. This transaction is further described under *Liquidity and Capital*

*Resources Subordinated Debt Financing* above.

**ITEM 3. Defaults Upon Senior Securities.**

None.

**ITEM 4. Submission of Matters to a Vote of Security Holders.**

(a) On December 6, 2006, the Company held an annual meeting of stockholders.

(b) At the annual meeting, the following directors were elected each for a one year term: Rodney A. Bienvenu, Jr., David M. Howitt, David E. Oliver, David Skriloff and Gordon O. Rapkin. There were no other directors whose term of office continued after the annual meeting.

(c) The following matters were voted upon at the annual meeting:

1) Election of the following five (5) directors to serve until the next annual meeting of stockholders:

| Nominee                 | Votes For  | Votes Withheld |
|-------------------------|------------|----------------|
| Rodney A. Bienvenu, Jr. | 20,700,319 | 131,945        |
| David M. Howitt         | 20,700,429 | 131,835        |
| David E. Oliver         | 20,700,429 | 131,835        |
| David Skriloff          | 20,700,319 | 131,945        |
| Gordon O. Rapkin        | 20,700,429 | 131,835        |

2) Ratification of the appointment of Mahoney Cohen & Company, CPA, P.C. as auditors for the Company for the fiscal year ending June 30, 2007:

| Vote For   | Votes Against | Votes Withheld | Broker Non-Vote |
|------------|---------------|----------------|-----------------|
| 20,700,710 | 3,511         | 47,506         | 80,537          |

3) Approval of the Halo Technology Holdings 2006 Equity Incentive Plan:

| Vote For   | Votes Against | Votes Withheld | Broker Non-Vote |
|------------|---------------|----------------|-----------------|
| 20,758,626 | 57,035        | 16,603         |                 |

**ITEM 5. Other Information.**

None.

**Table of Contents**

**ITEM 6. Exhibits And Reports On Form 8-K.**

(a) Exhibits:

The following documents heretofore filed by the Company with the Securities and Exchange Commission are hereby incorporated by reference:

| <b>Exhibit No.</b> | <b>Description of Exhibit</b>  |
|--------------------|--|
| 3.1 (1)            | Articles of Incorporation of WARP Technology Holdings, Inc.  |
| 3.2 (1)            | Bylaws of WARP Technology Holdings, Inc.   |
| 3.3 (2)            | Form of the Articles of Merger of Abbott Mines Limited and WARP Technology Holdings, Inc.  |
| 3.4 (6)            | Form of Certificate of Amendment to Articles of Incorporation of WARP Technology Holdings, Inc. filed with the Secretary of State of the State of Nevada on September 12, 2003.  |
| 3.6 (7)            | Form of Certificate Of Designations, Preferences And Rights Of Series A 8% Cumulative Convertible Preferred Stock Of Warp Technology Holdings, Inc. as filed with the Secretary of State of the State of Nevada on October 1, 2003.  |
| 3.7 (7)            | Form of Certificate Of Designations, Preferences And Rights Of Series B 10% Cumulative Convertible Preferred Stock Of Warp Technology Holdings, Inc. as filed with the Secretary of State of the State of Nevada on October 1, 2003. |
| 3.8 (10)           | Certificate of Designations, Preferences, and Rights of Series B-2 Preferred Stock, as filed with the Secretary of State of the State of Nevada on August 4, 2004.   |
| 3.9 (12)           | Certificate of Change Pursuant to Nevada Revised Statutes Sec. 78.209, effecting 100 for 1 reverse split effective November 18, 2004, as filed with the Secretary of State of the State of Nevada on November 8, 2004.               |
| 3.10 (16)          | Certificate of Amendment to Articles of Incorporation of WARP Technology Holdings, Inc., as filed with the Secretary of State of the State of Nevada on March 31, 2005.  |
| 3.11 (17)          | Certificate of Designations of Series C Stock of WARP Technology Holdings, Inc.  |
| 3.12 (26)          | Certificate of Designation for Nevada Profit Corporation, designating Series D Preferred Stock, as filed with the Secretary of State of the State of Nevada, effective October 26, 2005.   |
| 3.13(33)           | Certificate of Amendment to Articles of Incorporation of Halo Technology Holdings, Inc., as filed with the Secretary of State of the State of Nevada, effective April 2, 2006.   |
| 4.1 (1)            | Specimen Certificate Representing shares of Common Stock, \$.00001 par value per share, of WARP Technology Holdings, Inc.  |
| 4.2 (13)           | Form of Bridge Note issued October 13, 2004 by the Company.  |
| 4.3 (14)           | Form of Amended and Restated Subordinated Secured Promissory Note.   |
| 4.4 (14)           | Form of Senior Secured Promissory Note.  |

|          |  |
|----------|--|
| 4.5 (14) | Form of Initial Warrant and Additional Warrant                               |
| 4.6 (14) | Form of Subordinated Secured Promissory Note                                 |
| 4.7 (14) | Form of Warrant  |
| 4.8 (14) | Form of Convertible Promissory Note  |
| 4.9 (19) | \$1,000,000 Promissory Note, dated July 6, 2005, to Bristol Technology, Inc. |

**Table of Contents**

| <b>Exhibit No.</b> | <b>Description of Exhibit</b>  |
|--------------------|--|
| 4.10 (20)          | Form of Promissory Note  |
| 4.11 (20)          | Warrant Certificate, Form of Fact of Warrant Certificate, Warrants to Purchase Common Stock of Warp Technology Holdings, Inc.                        |
| 4.12 (24)          | Form of Promissory Note first issued October 21, 2005.   |
| 4.13 (24)          | Form of Warrant, first issued October 21, 2005, to purchase shares of Common Stock, par value \$0.00001 per share, of the Company.                   |
| 4.14 (30)          | Form of Note first issued January 11, 2006   |
| 4.15 (31)          | Form of Note first issued January 27, 2006   |
| 4.16 (42)          | Form of Note first issued October 12, 2006   |
| 4.17 (42)          | Form of Warrant first issued October 12, 2006.   |
| 99.1 (43)          | Transcript of Earnings Call Held October 12, 2006  |
| 99.1 (44)          | Pro Forma Financial Information  |
| 10.1 (10)          | Series B-2 Stock Purchase Agreement dated as of August 4, 2004 between and among the Company and the Persons listed on Schedule 1.01 thereto.        |
| 10.3 (3)           | Form of the Financial Consulting Agreement dated March 5, 2002 between WARP Solutions, Inc. and Lighthouse Capital, Inc.                             |
| 10.4 (3)           | Form of the Financial Consulting Agreement dated May 16, 2002 between the Company and Lighthouse Capital, Inc.                                       |
| 10.5 (3)           | Form of Master Distributor Agreement between Macnica Networks Company and WARP Solutions, Inc. dated as of August 1, 2002.                           |
| 10.6 (3)           | Form of Master Distributor Agreement between CDI Technologies, Inc. and WARP Solutions, Inc. dated as of September 1, 2002.                          |
| 10.7 (4)           | Put and Call Agreement dated as of December , 2002 by and among Warp Technologies Holdings, Inc. and all of the Shareholders of Spider Software Inc. |
| 10.8 (5)           | The WARP Technology Holdings, Inc. 2002 Stock Incentive Plan.  |
| 10.9 (5)           | Form of Stock Option Grant agreement for options granted pursuant to The WARP Technology Holdings, Inc. 2002 Stock Incentive Plan.                   |
| 10.10 (5)          | Form of Strategic Alliance Agreement dated as of April 7, 2003 between Mirror Image Internet, Inc. and WARP Solutions, Inc.                          |

- 10.11 (5) Form of iMimic/OEM Software License Agreement dated April 2003 between iMimic Networking, Inc. and WARP Technology Holdings, Inc.
- 10.12 (6) Form of Consulting Agreement between WARP Technology Holdings, Inc. and Dr. David Milch dated as of August 1, 2003.
- 10.13 (8) Form of Consulting Agreement between WARP Technology Holdings, Inc. and Mr. Steven Antebi which was executed by the parties thereto on December 23, 2003.
- 10.14 (8) Form of Employment Agreement between WARP Technology Holdings, Inc. and Mr. Malcolm Coster which was executed by the parties thereto on November 17, 2003.



**Table of Contents**

| <b>Exhibit No.</b> | <b>Description of Exhibit</b>   |
|--------------------|---|
| 10.15 (9)          | Form of Consulting Agreement between WARP Technology Holdings, Inc. and Mr. Noah Clark which was executed by the parties thereto on March 29, 2004.   |
| 10.16 (10)         | Series B-2 Preferred Stock Purchase Agreement entered into as of August 4, 2004 between and among the Company and the Persons listed on Schedule 1.01 thereto.  |
| 10.17 (10)         | Stockholders Agreement, dated as of August 4, 2004, between and among Warp, the holders of the Series B-2 Preferred Stock and such other Stockholders as named therein.   |
| 10.18 (11)         | Form of Employment Agreement for Ron Bienvenu and the Company made as of August 4, 2004   |
| 10.20 (11)         | Form of Employment Agreement for Ernest Mysogland and the Company made as of August 4, 2004   |
| 10.22 (11)         | Form of Incentive Stock Option Agreement for Ron Bienvenu to purchase an aggregate of 15,068,528 shares of Common Stock of the Company, par value \$0.00001 per share.  |
| 10.24 (11)         | Form of Incentive Stock Option Agreement for Ernest Mysogland to purchase an aggregate of 5,022,843 shares of Common Stock of the Company, par value \$0.00001 per share.   |
| 10.26 (11)         | Form of Consulting Agreement between WARP Technology Holdings, Inc. and ISIS Capital Management, LLC which was executed by the parties thereto on August 4, 2004.   |
| 10.27 (11)         | Form of Stock Option Agreement between WARP Technology Holdings, Inc. and ISIS Capital Management, LLC which was executed by the parties thereto on August 4, 2004.   |
| 10.30 (13)         | Letter agreement dated September 13, 2004 between WARP Technology Holdings, Inc. and Griffin Securities, Inc. for Griffin to act on a best efforts basis as a non-exclusive financial advisor and placement agent for the Client in connection with the structuring, issuance, and sale of debt and equity securities for financing purposes. |
| 10.31 (13)         | Purchase Agreement Assignment and Assumption as of October 13, 2004, by and between ISIS Capital Management, LLC and WARP Technology Holdings, Inc.   |
| 10.32 (13)         | Financial Advisory/Investment Banking Agreement dated September 20, 2004 between WARP Technology Holdings, Inc. and Duncan Capital LLC  |
| 10.33 (14)         | Amendment No. 2 to Extension Agreement by and between the Company and Gupta Holdings, LLC.  |
| 10.34 (14)         | Amendment No. 3 to Extension Agreement by and between the Company and Gupta Holdings, LLC   |
| 10.35 (14)         | Amendment to Membership Interest Purchase Agreement made and entered into as of January 31, 2005, by and between the Company and Gupta Holdings, LLC  |
| 10.36 (14)         |   |

Edgar Filing: Halo Technology Holdings, Inc. - Form 10QSB

Form of Series C Subscription Agreement entered into January 31, 2005 by and between the Company and the Investors as identified therein.

- 10.37 (14) Investors Agreement entered into the 31st day of January, 2005 by and among the Company, and the persons listed on Exhibit A thereto.
- 10.38 (14) Senior Note and Warrant Purchase Agreement, as of January 31, 2005, by and among the Company and the Purchasers identified therein.
- 10.39 (14) Subordinated Note and Warrant Purchase Agreement, as of January 31, 2005, by and among the Company and the Purchasers identified therein.
- 10.40 (14) Senior Security Agreement, dated as of January 31, 2005, between the Company and Collateral Agent (as defined therein).
- 10.41 (14) Senior Security Agreement, dated as of January 31, 2005, between Warp Solutions, Inc. and Collateral Agent (as defined therein).

**Table of Contents**

| <b>Exhibit No.</b> | <b>Description of Exhibit</b>   |
|--------------------|---|
| 10.43 (14)         | Senior Guaranty, dated as of January 31, 2005, between Warp Solutions, Inc. and Collateral Agent (as defined therein).  |
| 10.45 (14)         | Subordinated Security Agreement, dated as of January 31, 2005, between the Company and Collateral Agent (as defined therein).   |
| 10.46 (14)         | Subordinated Subsidiary Security Agreement, dated as of January 31, 2005, between Warp Solutions, Inc. and Collateral Agent (as defined therein).   |
| 10.48 (14)         | Subordinated Guaranty, dated as of January 31, 2005, between Warp Solutions, Inc. and Collateral Agent (as defined therein).  |
| 10.51 (14)         | Collateral Agency Agreement made as of January 31, 2005 by and among the Collateral Agent (as defined therein) and the Noteholders (as defined therein).  |
| 10.52 (14)         | Post Closing Agreement, dated as of January 31, 2005, by and among the Credit Parties and the Collateral Agent (as such terms are defined therein).   |
| 10.53 (15)         | Separation Agreement, dated as of March 3, 2005, by and between the Company and Gus Bottazzi.   |
| 10.70 (18)         | Stock Purchase Agreement by and among WARP Technology Holdings, Inc., Bristol Technology, Inc. and Kenosia Corporation, dated June 10, 2005.  |
| 10.71 (19)         | Pledge and Security Agreement by and among the Company, Kenosia Corporation, and Bristol Technology, Inc. dated July 6, 2005.   |
| 10.72 (20)         | Credit Agreement dated August 2, 2005 between Warp Technologies, Inc., the Subsidiaries of the Company, Fortress Credit Corp., as Original Lender and Agent   |
| 10.73 (20)         | Agreement regarding issuance of warrant certificates dated as of August 2, 2005 between Warp Technologies Holdings, Inc., and Fortress Credit Corp.   |
| 10.74 (20)         | Security Agreement dated as of August 2, 2005 between Warp Technologies Holdings, Inc. and Fortress Credit Corp.  |
| 10.75 (20)         | Stock Pledge Agreement dated as of August 2, 2005 between Warp Technologies Holdings, Inc. and Fortress Credit Corp.  |
| 10.76 (20)         | Pledge Agreement dated as of August 2, 2005 between Warp Technologies Holdings, Inc. and Fortress Credit Corp.  |
| 10.77 (20)         | Intercreditor and Subordination Agreement dated as of August 2, 2005 between Warp Technologies Holdings, Inc, the Subsidiaries of Warp Technologies Holdings, Inc., the Financial Institutions, the Holders of Subordinated Notes and Fortress Credit Corp. |
| 10.80 (20)         | Deed dated August 2, 2005 between Warp Technologies Limited and Fortress Credit Corp.   |

Edgar Filing: Halo Technology Holdings, Inc. - Form 10QSB

- 10.82 (20) Deed dated August 2, 2005 between Warp Solutions, Inc. and Fortress Credit Corp.
- 10.83 (20) Security Trust Agreement dated August , 2005 between Fortress Credit Corp., Fortress Credit Opportunities I LP, Finance Parties and Security Grantors
- 10.85 (21) Commercial Lease dated as of August 29, 2005 by and between Railroad Avenue LLC and Warp Technologies Holdings, Inc.
- 10.86 (22) Purchase Agreement dated as of September 12, 2005 by and between Warp Technology Holdings, Inc., Platinum Equity, LLC, Energy TRACS Acquisition Corp. and Milgo Holdings, LLC.
- 10.87 (22) Merger Agreement dated as of September 12, 2005 by and between Warp Technology Holdings, Inc., TAC/Halo, Inc., Tesseract Corporation and Platinum Equity, LLC

**Table of Contents**

| <b>Exhibit No.</b> | <b>Description of Exhibit</b>   |
|--------------------|---|
| 10.88 (23)         | Promissory Note dated September 20, 2005 whereby Warp Technology Holdings, Inc. promises to pay to the order of DCI Master LDC in the principal amount of \$500,000   |
| 10.89 (23)         | Warrant to purchase 181,818 shares of common stock , par value \$0.00001 per share issued to DCI Master LDC   |
| 10.90 (25)         | Halo Technology Holdings 2005 Equity Incentive Plan   |
| 10.91 (25)         | Form of Employee Incentive Stock Option Agreement under Halo Technology Holdings 2005 Equity Incentive Plan   |
| 10.92 (25)         | Form of Non-Qualified Stock Option Agreement under Halo Technology Holdings 2005 Equity Incentive Plan  |
| 10.93 (25)         | Fiscal 2006 Halo Senior Management Incentive Plan 10.93 (25)  |
| 10.94 (26)         | Amendment No. 1 to Merger Agreement, dated as of October 26, 2005 among Platinum Equity, LLC, Warp Technology Holdings, Inc., TAC/Halo, Inc., TAC/HALO, LLC and Tesseract Corporation.  |
| 10.95 (26)         | Investor s Agreement, dated October 26, 2005 by and among Warp Technology Holdings, Inc. and Platinum Equity, LLC.  |
| 10.96 (26)         | Promissory Note of Warp Technology Holdings, Inc. dated October 26, 2005 in the amount of \$1,750,000.  |
| 10.97 (26)         | Amendment Agreement No. 1 between Warp Technology Holdings, Inc., Fortress Credit Opportunities I LP and Fortress Credit Corp. dated October 26, 2005.  |
| 10.98 (26)         | Intercreditor and Subordination Agreement between Warp Technology Holdings, Inc., the Subsidiaries of Warp Technology Holdings, Inc., the Financial Institutions listed in Part 2 of Schedule 1, the Holdings of Subordinated Notes listed in Part 3 of Schedule 1 and Fortress Credit Corp., dated October 26, 2005. |
| 10.99 (26)         | Pledge Agreement between the Company and Fortress Credit Corp. dated October 26, 2005 regarding Process Software, LLC.  |
| 10.100 (26)        | Pledge Agreement between the Company and Fortress Credit Corp. dated October 26, 2005 regarding ProfitKey International, LLC.   |
| 10.101 (26)        | Pledge Agreement between the Company and Fortress Credit Corp. dated October 26, 2005 regarding and TAC/Halo, LLC.  |
| 10.102 (26)        | Stock Pledge Agreement between Warp Technology Holdings, Inc. and Fortress Credit Corp. dated October 26, 2005 regarding David Corporation.   |
| 10.103 (26)        |   |

Edgar Filing: Halo Technology Holdings, Inc. - Form 10QSB

Stock Pledge Agreement between Warp Technology Holdings, Inc. and Fortress Credit Corp. dated October 26, 2005 regarding Foresight Software, Inc.

- 10.104 (26) Security Agreement between Process Software, LLC and Fortress Credit Corp. dated October 26, 2005.
- 10.105 (26) Security Agreement between ProfitKey International, LLC and Fortress Credit Corp. dated October 26, 2005.
- 10.106 (26) Security Agreement between TAC/Halo, LLC and Fortress Credit Corp. dated October 26, 2005
- 10.107 (26) Security Agreement between Foresight Software, Inc. and Fortress Credit Corp. dated October 26, 2005.
- 10.108 (26) Security Agreement between David Corporation and Fortress Credit Corp. dated October 26, 2005.
- 10.109 (27) Merger Agreement, dated as of December 19, 2005, by and among Warp Technology Holdings, Inc., EI Acquisition, Inc., Empagio, Inc., and certain stockholders of Empagio.
- 10.111 (28) Employment Agreement with Mark Finkel
- 10.112 (28) Non-Competition Agreement with Mark Finkel

**Table of Contents**

| <b>Exhibit No.</b> | <b>Description of Exhibit</b>   |
|--------------------|---|
| 10.113 (28)        | Confidentiality Agreement with Mark Finkel  |
| 10.114 (29)        | Form of Agreement Regarding Warrants  |
| 10.115 (30)        | Subscription Agreement entered into January 11, 2006  |
| 10.116 (31)        | Subscription Agreement first entered into January 27, 2006  |
| 10.117 (32)        | Merger Agreement, dated as of January 30, 2006, by and among Warp Technology Holdings, Inc., ECI Acquisition, Inc., Executive Consultants, Inc., and certain stockholders of Executive Consultants, Inc.                      |
| 10.120 (34)        | Amendment and Consent, dated as of March 31, 2006 between Warp Technology Holdings, Inc. and Platinum Equity, LLC.  |
| 10.121 (35)        | Lease with 200 Railroad LLC. Certain exhibits and schedules to the Lease are referred to in the text thereof and the Registrant agrees to furnish them supplementally to the Securities and Exchange Commission upon request. |
| 10.122 (37)        | Form of Consent Agreement entered into by certain Series C Preferred Stockholders and Halo Technology Holdings, Inc.  |
| 10.126 (38)        | Form of Warrant issued July 21, 2006.   |
| 10.127 (39)        | Agreement and Plan of Merger dated August 24, 2006 between Halo Technology Holdings, Inc., Tenebril Acquisition Sub, Inc., Tenebril Inc., and Sierra Ventures.  |
| 10.128 (39)        | Form of Promissory Note Issued to Tenebril Stockholders   |
| 10.129 (39)        | Investors Agreement dated August 24, 2006 between Halo Technology Holdings, Inc. and the Investors named therein.   |
| 10.130 (40)        | Purchase and Exchange Agreement between Halo and Unify Corporation dated September 13, 2006.  |
| 10.131 (40)        | Termination Agreement among Halo, UCA Merger Sub, Inc., and Unify Corporation, dated September 13, 2006.  |
| 10.132 (41)        | Equity Purchase Agreement among Halo, the RevCast Stockholders and the Enterprises Members dated September 15, 2006.  |
| 10.133 (42)        | Subscription Agreement first entered into October 12, 2006.   |
| 10.134 (42)        | Letter Agreement between the Company and Vision dated October 12, 2006.   |
| 10.135 (42)        | Form of Subordination Agreement among the Company, Fortress and other lenders.  |

Edgar Filing: Halo Technology Holdings, Inc. - Form 10QSB

|             |  |
|-------------|--|
| 10.136 (42) | Form of Intercreditor and Subordination Agreement with Existing Subordinated Lenders                   |
| 10.137 (42) | Letter Agreement with Fortress.  |
| 10.138 (42) | Consent Agreement with Subordinated Lenders  |
| 10.139 (42) | Amendment No. 2 to Fortress Credit Agreement   |
| 10.140 (44) | Amendment to Purchase Agreement between the Company and Unify Corporation                              |
| 10.141 (44) | Amendment Agreement No. 3 between the Company and Fortress Credit Corp.                                |
| 10.142 (45) | Halo Technology Holdings 2006 Equity Incentive Plan  |
| 10.143 (45) | Form of Incentive Stock Option Agreement under Halo Technology Holdings 2006 Equity Incentive Plan     |
| 10.144 (45) | Form of Non-Qualified Stock Option Agreement under Halo Technology Holdings 2006 Equity Incentive Plan |
| 21.1 (*)    | Subsidiaries of the Company.   |



**Table of Contents**

| <b>Exhibit No.</b> | <b>Description of Exhibit</b>  |
|--------------------|--|
| 31.1 (*)           | Certification of Periodic Report pursuant to Section 302 of the Sarbanes Oxley Act of 2002.  |
| 31.2 (*)           | Certification of Periodic Report pursuant to Section 302 of the Sarbanes Oxley Act of 2002.  |
| 32.1 (*)           | Certification pursuant to 18 U.S.C., Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002.                                   |
| (1)                | Incorporated herein by reference to the exhibits to WARP Technology Holdings, Inc.'s Registration Statement on Form SB-2 (File No. 333-46884).             |
| (2)                | Incorporated herein by reference to the exhibits to WARP Technology Holdings, Inc.'s Current Report on Form 8-K filed by the Company on September 3, 2002. |
| (3)                | Incorporated herein by reference to the exhibits to the Annual Report on Form 10-KSB filed by the Company on October 7, 2002.                              |
| (4)                | Incorporated herein by reference to the exhibits to  |

WARP  
Technology  
Holdings, Inc. s  
Current Report  
on Form 8-K  
filed on  
January 27,  
2003.

(5) Incorporated by  
reference to the  
exhibits to the  
Quarterly Report  
on Form 10-QSB  
filed by the  
Company on  
February 14,  
2003.

(6) Incorporated by  
reference to the  
exhibits to  
WARP  
Technology  
Holdings, Inc. s  
Annual Report  
on Form 10-KSB  
filed by the  
Company on  
October 14,  
2003.

(7) Incorporated by  
reference to the  
exhibits to 3.6 to  
WARP  
Technology  
Holdings, Inc. s  
Quarterly Report  
on Form 10-QSB  
filed by the  
Company on  
November 14,  
2003.

(8) Incorporated by  
reference to the  
exhibits to the  
Quarterly Report  
on Form 10-QSB  
filed by the

Company on  
February 12,  
2004.

- (9) Incorporated by reference to the exhibits to the Quarterly Report on Form 10-QSB filed by the Company on May 17, 2004.
  
- (10) Incorporated herein by reference to the exhibits to WARP Technology Holdings, Inc.'s Current Report on Form 8-K filed on August 20, 2004.
  
- (11) Incorporated herein by reference to the exhibits to WARP Technology Holdings, Inc.'s Annual Report on Form 10-KSB, filed on October 13, 2004.
  
- (12) Incorporated herein by reference to the exhibits to WARP Technology Holdings, Inc.'s Current Report on Form 8-K filed on November 12, 2004.

(13) Incorporated herein by reference to the exhibits to WARP Technology Holdings, Inc.'s Quarterly Report on Form 10-QSB, filed on November 15, 2004.

(14) Incorporated herein by reference to the exhibits to WARP Technology Holdings, Inc.'s Current Report on Form 8-K filed on February 4, 2005.

(15) Incorporated herein by reference to the exhibits to WARP Technology Holdings, Inc.'s Current Report on Form 8-K filed on March 9, 2005.

(16) Incorporated herein by reference to the exhibits to WARP Technology Holdings, Inc.'s Current Report on Form 8-K filed on April 1, 2005.

(17)

Incorporated  
herein by  
reference to the  
exhibits to  
WARP  
Technology  
Holdings, Inc. s  
Current Report  
on Form 8-K  
filed on April 4,  
2005.

**Table of Contents**

(18) Incorporated herein by reference to the exhibits to WARP Technology Holdings, Inc.'s Registration Statement on Form S-2 (File Number 333-123864)

(19) Incorporated herein by reference to the exhibits to WARP Technology Holdings, Inc.'s Current Report on Form 8-K filed on July 11, 2005.

(20) Incorporated herein by reference to the exhibits to WARP Technology Holdings, Inc.'s Current Report on Form 8-K filed on August 16, 2005.

(21) Incorporated herein by reference to the exhibits to WARP Technology Holdings, Inc.'s Current Report on Form 8-K filed on September 2,

2005.

(22) Incorporated herein by reference to the exhibits to WARP Technology Holdings, Inc.'s Current Report on Form 8-K filed on September 16, 2005.

(23) Incorporated herein by reference to Warp Technologies Holdings, Inc.'s Current Report on Form 8-K filed on September 26, 2005.

(24) Incorporated herein by reference to the second of Warp Technologies Holdings, Inc.'s Current Reports on Form 8-K filed on October 27, 2005.

(25) Incorporated herein by reference to the third of Warp Technologies Holdings, Inc.'s Current Reports on Form 8-K filed on October 27, 2005.

(26) Incorporated herein by reference to Warp Technologies Holdings, Inc. s Current Report on Form 8-K filed on November 1, 2005.

(27) Incorporated herein by reference to Warp Technologies Holdings, Inc. s Current Report on Form 8-K filed on December 23, 2005.

(28) Incorporated herein by reference to Warp Technologies Holdings, Inc. s Current Report on Form 8-K filed on January 4, 2006.

(29) Incorporated herein by reference to Warp Technologies Holdings, Inc. s Current Report on Form 8-K filed on January 6, 2006.

(30) Incorporated herein by reference to Warp Technologies



Holdings, Inc. s  
Current Report  
on Form 8-K  
filed on  
January 18,  
2006.

(31) Incorporated  
herein by  
reference to  
Warp  
Technologies  
Holdings, Inc. s  
Current Report  
on Form 8-K  
filed on  
February 2,  
2006.

(32) Incorporated  
herein by  
reference to  
Warp  
Technologies  
Holdings, Inc. s  
Current Report  
on Form 8-K  
filed on  
February 3,  
2006

(33) Incorporated  
herein by  
reference to  
Warp  
Technology  
Holdings, Inc. s  
Current Report  
on Form 8-K  
filed on  
March 31, 2006.

(34) Incorporated  
herein by  
reference to  
Halo  
Technology  
Holdings, Inc. s  
Current Report  
on Form 8-K  
filed April 3,

2006.

- (35) Incorporated herein by reference to Halo Technology Holding, Inc. s Current Report on Form 8-K filed May 5, 2006.
- (36) Incorporated herein by reference to the exhibits to the Quarterly Report on Form 10-QSB filed by Halo Technology Holdings, Inc. on May 15, 2006.
- (37) Incorporated herein by reference to Halo Technology Holdings, Inc. s Current Report on Form 8-K filed on May 19, 2006.
- (38) Incorporated herein by reference to Halo Technology Holdings, Inc. s Current Report on Form 8-K filed on July 27, 2006.
- (39) Incorporated herein by reference to

Halo  
Technology  
Holdings, Inc. s  
Current Report  
on Form 8-K  
filed on  
August 30,  
2006.

(40) Incorporated  
herein by  
reference to  
Halo  
Technology  
Holdings, Inc. s  
Current Report  
on Form 8-K  
filed on  
September 19,  
2006.

**Table of Contents**

(41) Incorporated herein by reference to Halo Technology Holdings, Inc.'s Current Report on Form 8-K filed on September 21, 2006.

(42) Incorporated herein by reference to Halo Technology Holdings, Inc.'s Current Report on Form 8-K filed on October 13, 2006.

(43) Incorporated herein by reference to Halo Technology Holdings, Inc.'s Current Report on Form 8-K filed on October 18, 2006.

(44) Incorporated herein by reference to Halo Technology Holdings, Inc.'s Current Report on Form 8-K filed on November 27, 2006.

(45)

Incorporated  
herein by  
reference to  
Halo  
Technology  
Holdings, Inc. s  
Current Report  
on Form 8-K  
filed on  
December 12,  
2006

(\*) Filed herewith.

(b) Reports on  
Form 8-K:

The following reports on Form 8-K have been filed during the time period covered by this report:

Current Report on Form 8-K filed October 11, 2006, disclosing the Company s Board of Directors determined that investors should not rely on the Company s consolidated financial statements for the period ended June 30, 2005, September 30, 2005, December 31, 2005 and March 31, 2006.

Current Report on Form 8-K filed October 12, 2006, disclosing a press release announcing its financial results for the fiscal year ended June 30, 2006.

Current Report on Form 8-K filed October 13, 2006, disclosing the Company entered into a Subscription Agreement. In connection with the Subscription Agreement, the Company entered into other subordination agreements concerning the priority of the Company s debt, and certain ancillary agreements.

Current Report on Form 8-K filed October 18, 2006, disclosing the Company held a conference call regarding its earnings for the fiscal year ended June 30, 2006.

Current Report on Form 8-K filed October 26, 2006, disclosing the resignation of John L. Kelly from the Board of Directors.

Current Report on Form 8-K filed October 30, 2006, disclosing that John A. Boehmer has determined not to stand for re-election to the Board of Directors.

Current Report on Form 8-K filed on November 20, 2006, disclosing a press release announcing its financial results for the fiscal quarter ended September 30, 2006.

Current Report on Form 8-K filed on November 27, 2006, disclosing the Company had entered into an Amendment No. 1 to Purchase and Exchange Agreement with Unify Corporation. This Report also disclosed the Company also entered into Amendment Agreement No. 3 with Fortress Credit Corp. This Report also disclosed due to the sale of Gupta, that agreements in connection with Gupta are no longer material agreements of the Company. Also on this report, the Company disclosed it had completed the transactions with Unify Corporation.

Current Report of Form 8-K filed on December 12, 2006, disclosing that the stockholders of the Company approved the Halo Technology Holdings 2006 Equity Incentive Plan

**Table of Contents**

SIGNATURES

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

HALO TECHNOLOGY HOLDINGS, INC.

February 14, 2007 By: /s/ Rodney A. Bienvenu, Jr.

**Rodney A. Bienvenu, Jr.,  
Chief Executive Officer & Chairman (as  
Registrant s Principal Executive Officer  
and duly authorized officer)**

February 14, 2007 By: /s/ Mark Finkel

**Mark Finkel  
Chief Financial Officer  
(as Registrant s Principal Financial Officer)**

59

---

**Table of Contents**

EXHIBIT INDEX

The following Exhibits are filed herewith:

| <b>Exhibit<br/>Number</b> | <b>Description of Document</b>   |
|---------------------------|--|
| 21.1                      | Subsidiaries of the Company.   |
| 31.1                      | Certification of Periodic Report pursuant to Section 302 of the Sarbanes Oxley Act of 2002.                              |
| 31.2                      | Certification of Periodic Report pursuant to Section 302 of the Sarbanes Oxley Act of 2002.                              |
| 32.1                      | Certification pursuant to 18 U.S.C., Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002. |
| 32.2                      | Certification pursuant to 18 U.S.C., Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002. |