Halo Technology Holdings, Inc.
Form 10QSB
May 15, 2006

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

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

or

o **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	**88-0467845**
State or other jurisdiction of incorporation or organization	**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 R No £

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

State the number of shares outstanding of each of the issuer s classes of common equity, as of the latest practicable date: As of May 10, 2006, there were 8,141,962 shares of Common Stock, par value $.00001 per share, outstanding.

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

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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 (the SEC), as well as the risks and uncertainties discussed in the Company s Annual Report on Form 10-KSB filed with the SEC on September 28, 2005 (the Form 10-KSB), and the Company s Quarterly Reports on Form 10-QSB filed with the SEC on November 14, 2005, February 15, 2006 and this Quarterly Report.

ITEM 1. Financial Statements.

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Halo Technology Holdings, Inc.
Consolidated Balance Sheets

	March 31, 2006 (Unaudited)	June 30, 2005 (Audited)
Assets		
Current Assets:		
Cash and cash equivalents	$ 1,749,926	$ 1,548,013
Marketable securities	33,800	
Accounts receivable, net of allowance for doubtful accounts of $176,260 and $30,845 respectively	3,993,731	2,024,699
Due from Platinum Equity, LLC	465,000	
Prepaid expenses and other current assets	873,006	409,496
Total current assets	7,115,463	3,982,208
Property and equipment, net	288,335	223,025
Deferred financing costs, net	1,653,701	476,876
Intangible assets, net of accumulated amortization of $2,759,621 and $756,064 respectively	24,302,862	15,678,736
Goodwill	31,517,696	7,055,264
Investment and other assets	168,179	884,379
Total assets	$ 65,046,236	$ 28,300,488
Liabilities and stockholders equity		
Current liabilities:		
Current portion of senior notes payable	$ 500,063	$
Note payable to Platinum Equity, LLC	1,750,000	
Notes payable	3,346,870	
Accounts payable	1,929,685	872,433
Accrued expenses	6,091,890	3,752,731
Deferred revenue	14,085,877	3,392,896
Due to ISIS	1,243,712	1,293,534
Total current liabilities	28,948,097	9,311,594
Subordinate notes payable	1,695,004	2,317,710
Senior notes payable	21,481,806	6,446,750
Other long term liabilities	42,499	43,275
Total liabilities	52,167,406	18,119,329
Commitments and contingencies		
Stockholders equity:		
Preferred stock (Canadian subsidiary)	2	2

Series C Preferred Stock: $.00001 par value; 16,000,000 shares authorized, 13,362,688 and 14,193,095 issued and outstanding (Liquidation value $13,362,688 and $14,193,095) respectively	13,362,688	14,193,095
Shares of Common Stock to be issued for accrued dividends on Series C Preferred Stock	412,399	212,897
Series D Preferred Stock: $.00001 par value; 8,863,636 shares authorized, 7,045,454 issued and outstanding (Liquidation value $7,750,000)	7,840,909	
Shares of Common Stock to be issued for accrued interest on subordinated debt	104,167	
Common stock: $.00001 par value; 150,000,000 shares authorized, 8,141,962 and 3,110,800 shares issued and outstanding respectively	81	31
Additional paid-in-capital	67,548,896	59,431,331
Deferred compensation		(970,711)
Accumulated other comprehensive loss	(48,072)	(105,262)
Accumulated deficit	(76,342,240)	(62,580,224)
Total stockholders equity	12,878,830	10,181,159
Total liabilities and stockholders equity	$ 65,046,236	$ 28,300,488

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31, 2006	Three Months Ended March 31, 2005	Nine Months Ended March 31, 2006	Nine Months Ended March 31, 2005
Revenue				
Licenses	$ 1,737,325	$ 1,610,615	$ 4,556,387	$ 1,822,231
Services	6,470,217	730,427	12,230,196	783,331
Total revenues	8,207,542	2,341,042	16,786,583	2,605,562
Cost of revenue				
Cost of licenses	402,848	148,384	925,872	258,809
Cost of services	1,364,526	154,277	2,462,574	154,277
Total cost of revenues	1,767,374	302,661	3,388,446	413,086
Gross Profit	6,440,168	2,038,381	13,398,137	2,192,476
Product development	1,777,543	616,652	4,294,336	729,375
Sales, marketing and business development	1,967,044	1,322,358	5,403,501	1,798,933
General and administrative (including non-cash compensation three months - 2006-$403,600; 2005-$890,206; nine months - 2006-$676,823; 2005-$1,432,948)	4,485,547	1,888,664	9,629,205	3,050,380
Late filing penalty		1,033,500		1,033,500
Loss before interest	(1,789,966)	(2,822,793)	(5,928,905)	(4,419,712)
Interest expense	(3,038,357)	(2,452,004)	(6,592,164)	(2,497,683)
Loss before income taxes	(4,828,323)	(5,274,797)	(12,521,069)	(6,917,395)
Income taxes	85,298	50,000	171,786	50,000
Net Loss	$ (4,913,621)	$ (5,324,797)	$ (12,692,855)	$ (6,967,395)
Computation of loss applicable to common shareholders				
Net loss before beneficial conversion and preferred dividends	$ (4,913,621)	$ (5,324,797)	$ (12,692,855)	$ (6,967,395)
Beneficial conversion and preferred dividends	(475,604)	(4,487,230)	(1,069,162)	(7,297,694)

Loss attributable to common stockholders	$ (5,389,225)	$ (9,812,027)	$ (13,762,017)	$ (14,265,089)
Basis and diluted net loss per share attributable to common stockholders	$ (0.75)	$ (4.12)	$ (2.97)	$ (9.96)
Weighted-average number common shares basic and diluted	7,147,300	2,383,662	4,637,578	1,431,615

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended March 31, 2006	Nine Months Ended March 31, 2005
Operating Activities		
Net Loss	$ (12,692,855)	$ (6,967,395)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,104,211	464,714
Provision for doubtful accounts	54,464	
Non cash compensation	676,823	1,432,948
Non cash interest expense	4,322,268	1,683,326
Loss on disposal of property and equipment	3,270	
Changes in operating assets and liabilities, net of effects of acquired business:		
Accounts receivable	316,904	149,510
Prepaid expenses and other current assets	(295,514)	25,865
Accounts payable and accrued expenses	(70,594)	413,583
Deferred revenue	6,247,359	831,937
Deferred product cost		14,028
Net cash provided by (used in) operating activities	666,336	(1,951,484)
Investing activities		
Purchase of property and equipment	(88,974)	(24,010)
Purchase of marketable securities	(40,577)	
Gupta acquisition, net of cash acquired $742,915		(15,007,085)
Tesseract, Process and Affiliates acquisition, net of cash acquired of $632,898	(16,048,141)	
ECI acquisition, net of cash acquired of $20,871	(557,700)	
Kenosia acquisition, net of cash acquired of $6,125	(507,145)	
Cash proceeds from Empagio, Inc. seller	36,224	
Proceeds from sales of property and equipment	1,689	
Net cash used in investing activities	(17,204,624)	(15,031,095)
Financing activities		
Deferred financing cost in connection with senior notes	(1,726,486)	
Repayment of subordinated notes	(1,500,000)	
Repayment of senior notes	(6,825,000)	
Repayment of Promissory notes	(550,000)	
Repayment of Bristol Technology, Inc. note	(500,000)	
Repayment of Platinum Equity, LLC note	(1,000,000)	
Proceeds from subordinated notes		2,500,000
Proceeds from senior notes	25,000,000	6,075,000
Proceeds from Promissory notes	3,775,000	

Proceeds from issuance of preferred and common stock, net of issuance costs		9,371,500
Net cash provided by financing activities	16,673,514	17,946,500
Effects of exchange rates on cash	66,687	1,109
Net increase in cash and cash equivalents	201,913	965,030
Cash and cash equivalents beginning of period	1,548,013	115,491
Cash and cash equivalents end of period	$ 1,749,926	$ 1,080,521
Supplemental disclosure of cash flow information:		
Income tax paid	$ 145,008	$
Interest paid	$ 1,458,993	$

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Supplemental schedule of non-cash investing and financing activities:

For the nine months ended March 31, 2006, the Company recorded $1,069,162 in connection with convertible preferred dividends.

In connection with the acquisition of Tesseract Corporation, the Company gave to Platinum Equity, LLC a Promissory Note and a working capital adjustment for $2,750,000, of which $1,000,000 was paid on March 31, 2006. The Company also issued Series D Preferred Stock of $6,750,000 for this acquisition. Transaction costs of $297,000 were accrued for the acquisitions of Tesseract, Process and Affiliates at March 31, 2006 (see Note 5).

In connection with the acquisition of Empagio, Inc, the Company issued 1,438,455 shares of the Company s common stock valued at $1,869,992. Transaction costs of $15,000 were accrued for this acquisition at March 31, 2006 (see Note 6).

In connection with the acquisition of Executive Consultants, Inc, the Company issued 330,688 shares of the Company s common stock valued at $558,863. Transaction costs of $15,000 were accrued for this acquisition at March 31, 2006 (see Note 7).

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On July 6, 2005, the Company acquired the stock of Kenosia (see Note 4). The following table summarizes the purchase transaction:

Purchase price:	
Cash	$ 1,247,175
Transaction costs	67,845
Note Payable	500,000
Total purchase price	1,815,020
Fair Value of:	
Assets acquired	(1,611,793)
Liabilities assumed	386,025
Goodwill	$ 589,252

On October 26, 2005, the Company acquired Tesseract Corporation (see Note 5). The following table summarizes the purchase transaction:

Purchase price:	
Cash	$ 3,500,000
Advances to Platinum made prior to September 30, 2005	1,000,000
Promissory Note and Working Capital Adjustment	2,750,000
Series D Preferred Stock	6,750,000
Transaction costs	126,500
Total purchase price	14,126,500
Fair Value of:	
Assets acquired	(4,600,357)
Liabilities assumed	2,456,041
Goodwill	$ 11,982,184

Also, on October 26, 2005, the Company acquired Process Software, LLC, David Corporation, ProfitKey International, LLC, and Foresight Software, Inc. (see Note 5). The following table summarizes the purchase transaction:

Purchase price:	
Cash	$ 12,000,000
Transaction costs	351,500
Total purchase price	12,351,500
Fair Value of:	
Assets acquired	(7,855,827)
Liabilities assumed	4,608,335
Goodwill	$ 9,104,008

On January 13, 2006, the Company acquired Empagio, Inc. (see Note 6). The following table summarizes the purchase transaction:

Purchase price:	
1,438,455 Common shares issued	$ 1,869,992

Cash received from seller	(36,224)
Transaction costs	15,000
Total purchase price	1,848,768
Fair Value of:	
Assets acquired	(561,236)
Liabilities assumed	449,057
Goodwill	$ 1,736,589

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On March 1, 2006, the Company acquired Executive Consultants, Inc. (see Note 7). The following table summarizes the purchase transaction:

Purchase price:	
Cash	$ 578,571
330,688 Common shares issued	558,863
Transaction costs	15,000
Total purchase price	1,152,434
Fair Value of:	
Assets acquired	(274,765)
Liabilities assumed	172,731
Goodwill	$ 1,050,400

See accompanying notes to consolidated financial statements.

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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) is a Nevada corporation with its principal executive office in Greenwich, Connecticut. The Company changed its name to Halo Technology Holdings, Inc. from Warp Technology Holdings, Inc, effective April 2, 2006. As a consequence of the name change, the Company s ticker symbol quoted on the OTC Bulletin Board changed from WARP to HALO. The new symbol has been effective since the open of business on Monday, April 3, 2006.

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.

On January 31, 2005, the Company completed the acquisition of Gupta Technologies, LLC (together with its subsidiaries, Gupta). Gupta is now a wholly owned subsidiary of the Company, and Gupta s wholly owned subsidiaries, Gupta Technologies GmbH, a German corporation, and Gupta Technologies Ltd., a U.K. company, have become indirect subsidiaries of the Company.

Gupta develops, markets and supports software products that enable software programmers to create enterprise class applications, operating on either the Microsoft Windows or Linux operating systems that are used in large and small businesses and governmental entities around the world. Gupta s products include a popular database application and a well-known set of application development tools. The relational database product allows companies to manage data closer to the customer, where capturing and organizing information is becoming increasingly critical. This product is designed for applications being deployed in situations where there are little or no technical resources to support and administer databases or applications.

Gupta recently released its Linux product line. Compatible with its existing Microsoft Windows-based product line, the Linux line of products will enable developers to write one application to run in both Microsoft Windows and Linux operating systems.

Gupta has headquarters in California, and has a regional office in Munich and sales offices in London and Paris.

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 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 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 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.

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. provides client/server Enterprise Resource Planning and Customer Relationship Management software to global organizations that depend on customer service operations for critical market differentiation and competitive advantage. Foresight s software products and services enable customers to deliver superior customer service while achieving maximum profitability.

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 create a leader in the Human Resources Management Solutions (HRMS) industry, boasting an impressive roster of Fortune 1000 enterprise customers and more than two million lives under management. The merged company will be called Empagio and will be headquartered in Atlanta, Georgia.

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 nine months ended March 31, 2006 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2006. For further information, refer to the financial statements and footnotes thereto included in the Company s Annual Report on Form 10-KSB for the year ended June 30, 2005.

Note 2. Summary of Significant Accounting Policies

Reclassification.

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation.

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.

Loss Per Share

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

stock, warrants and options convertible into an aggregate of approximately 46,953,305 and 32,597,965 of common shares as of March 31, 2006 and March 31, 2005, respectively, are not included as the inclusion of such would be anti-dilutive for all periods presented.

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 three months ended March 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. We will continue to do so to show the results of periods for which SFAS 123(R) was not effective in comparison to the results going forward.

Had compensation costs for the Company s stock option grants been determined based on the fair value at the grant dates for awards under these plans in accordance with SFAS 123(R), the Company s net loss and loss per share would have been increased to the pro forma amounts as follows:

	Three Months Ended March 31,		**Nine Months Ended March 31,**	
	2006	**2005**	**2006**	**2005**
Net loss, as reported	$ (4,913,621)	$ (5,324,797)	$ (12,692,855)	$ (6,967,395)
Add: Stock-based employee compensation expense included in reported net loss	331,772	47,500	461,342	406,500
Deduct: Stock-based employee compensation expense determined under fair value method for all awards	(331,772)	(49,400)	(1,667,892)	(419,610)
Net loss, pro forma	(4,913,621)	(5,326,697)	(13,899,405)	(6,980,505)
Beneficial conversion and preferred dividends	(475,604)	(4,487,230)	(1,069,162)	(7,297,695)
Net loss attributable to common stockholders Pro forma	$ (5,389,225)	$ (9,813,927)	$ (14,968,567)	$ (14,278,200)
Basic and diluted net loss per share attributable to common stockholders, as reported	$ (0.75)	$ (4.12)	$ (2.97)	$ (9.96)
Basic and diluted net loss per share attributable to common stockholders pro forma	$ (0.75)	$ (4.12)	$ (3.23)	$ (9.97)

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 and nine months ended March 31, 2006:

	Three Months Ended March 31, 2006	**Nine Months Ended March 31, 2006**
Expected volatility	160.88%	160.72%
Expected dividend yield	%	%
Expected risk-free interest rate	4.12%	4.20%
Expected term of options	4 years	4 years
Maximum contractual term	7 years	7 years
Range of estimated forfeitures	%	%

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Recent Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123(R), Share-Based Payment ,