RADIUS GOLD INC.
Form 20-F
June 29, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

[ ]

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

[X]

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

For the fiscal year ended **December 31, 2006**

OR

[ ]

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

For the transition period from ____________ to __________

OR

[ ]

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

Date of event requiring this shell company report

Commission File Number:

0-30720

RADIUS GOLD INC.

(Exact name of Registrant as specified in its charter)

British Columbia, Canada

(Jurisdiction of incorporation or organization)

355 Burrard Street, Suite 830, Vancouver, British Columbia, Canada V6C 2G8

(Address of principal executive offices)

Securities to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name on each exchange on which registered
None	**None**

Securities to be registered pursuant to Section 12(g) of the Act:

Common Shares, without par value

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report.

53,385,988 Common Shares, no par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ___ No **_X_**

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ___ No **_X_**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 12 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past ninety days. Yes **_X_** No ____

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer ___ Accelerated filer ___ Non-accelerated filer **_X_**

Indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 **_X_** Item 18 ___

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No **_X_** N/A

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GLOSSARY OF TECHNICAL TERMS

In this Annual Report, the following technical terms have the following meanings:

vein , veinlet (small)	A tabular mineral deposit formed within or adjacent to faults or fractures by the deposition of minerals from hydrothermal fluids.
AA	Atomic absorption.
Adit	A passage driven horizontally into a mountainside providing access to a mineral deposit from the surface of the working of a mine.
Ag	The elemental symbol for silver.
alteration	The chemical and mineralogical changes in a rock mass resulting from the passage of hydrothermal fluids.
Anomalous or anomalies	A sample or location in which either (i) the concentration of an element(s) or (ii) geophysical response is significantly different from the average background values that typify an area.
anomaly	The geographical area corresponding to anomalous geochemical or geophysical values.
argillite	Unusually hard, fine-grained sedimentary rocks, such as shale, mudstone, siltstone, and claystone. Commonly black.
arsenopyrite	A sulphide of arsenic and iron.
As	The elemental symbol for arsenic.
Assay	An analysis to determine the presence, absence or quantity of one or more elemental components.
Au	The elemental symbol for gold.
Au Eq. g/t	Denotes gold equivalent grades: gold grade plus silver grades which have been converted to gold grades by using a ratio generally based on the prevailing spot prices of gold and silver.

auriferous	Containing anomalous concentrations of gold.
background	The average concentration of an element or typical geophysical response in an area.
breccia	A rock consisting of sharp fragments in fine grained material.
channel sample	A sample which has been collected by continuous sampling across a measured interval, and is considered to be representative of the area sampled.
Cretaceous.	The geologic period extending from 135 million to 63 million years ago.
development	Preparation of a mineral deposit for commercial production including installations of plant and machinery and the construction of all related facilities.
Diamond drill	A type of rotary drill in which the cutting is done by abrasion rather than percussion. The cutting bit is set with diamonds and is attached to the end of long hollow rods through which water is pumped to the cutting face. The drill cuts a core of rock which is recovered in long cylindrical sections, an inch or more in diameter.
dip	The angle which a geological structure forms with a horizontal surface, measured perpendicular to the strike of the structure.
epidote	Calcium, aluminium, iron silicate mineral commonly occurring in hydrothermally altered carbonate-bearing rocks.
epithermal	A term applied to high-level hydrothermal systems which form at depths of ~1 km to surficial hotspring settings.
exploration	The prospecting, mapping, sampling, remote sensing, geophysical surveying, diamond drilling and other work involved in the searching for ore bodies.
FA	Fire assay.
fault	A fracture in a rock across which there has been displacement.
fracture	Breaks in a rock, usually planar.
Gangue	Minerals that occur with ore minerals, but are sub-economic to recover.

Gold Dore	A gold and silver alloy produced at a mine prior to refinement into high purity metal.
GPS	Global Positioning System a space based satellite positioning system whereby receiver units on the ground or in the air use triangulation from known satellite signals to derive a location in three dimensional space.
graben	A downthrown block between two parallel faults.
grab sample	A sample of selected rock chips collected from within a restricted area of interest.
grade	The concentration of an ore metal in a rock sample, given either as weight percent for base metals (e.g. Cu, Zn, Pb) or in grams per tonne (g/t) or ounces per short ton (oz/t) for precious metals. The grade of an ore deposit is calculated, often using sophisticated statistical procedures, as an average of the grades of a very large number of samples collected from throughout the deposit.
g/t	Grams of per metric tonne. Usually used in association with gold or silver.
Heap leach	A process used for the recovery of metals from crushed ore in heaps using a suitable leaching solution.
ha or hectare	An area totaling 10,000 square metres.
Hg	The elemental symbol for mercury.
highly anomalous	An anomaly which is 50 to 100 times average background.
Host rock	The body of rock in which mineralization of economic interest occurs.
hydrothermal	Pertaining to hot fluids, dominantly water, in the earth s crust which may carry metals and other compounds in solution to the site of ore deposition or wall rock alteration.
ICP	A type of assay technique.
intrusive	A rock mass formed below earth s surface from magma which has intruded into a preexisting rock mass
limonite (limonitic)	A mixture of hydrated iron oxides and iron hydroxides. (Pertaining to or containing limonite.)
mesothermal	A hydrothermal ore deposit typically a vein system- formed at intermediate temperatures (200-300ºC) and pressures/depths.
mineral resource, **measured mineral resource,**	Under CIM standards, a mineral resource is a concentration or occurrence of natural, solid, inorganic or fossilized organic material in or on the earth s crust in such form and quantity and of such a

indicated mineral resource,

inferred mineral resource

grade or quality that it has reasonable prospects for economic extraction. The location, quantity, grade, geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge.

The terms mineral resource , measured mineral resource , indicated mineral resource , and inferred mineral resource used in this Joint Information Circular are mining terms defined under CIM standards and used in accordance with Canadian National Instrument 43-101 Standards of Disclosure for Mineral Projects. They are not defined terms under United States standards and generally may not be used in documents filed with the SEC by U.S. companies. See Joint Information Circular Notice to United States Securityholders .

A mineral resource estimate is based on information on the geology of the deposit and the continuity of mineralization. Assumptions concerning economic and operating parameters, including cut-off grades and economic mining widths, based on factors typical for the type of deposit, may be used if these factors have not been specifically established for the deposit at the time of the mineral resource estimate. A mineral resource is categorized on the basis of the degree of confidence in the estimate of quantity and grade or quality of the deposit, as follows:

inferred mineral resource: Under CIM standards, an inferred mineral resource is that part of a mineral resource for which quantity and grade or quality can be estimated on the basis of geological evidence and limited sampling and reasonably assumed, but not verified, geological and grade continuity. The estimate is based on limited information and sampling gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes.

indicated mineral resource: Under CIM standards, an indicated mineral resource is that part of a mineral resource for which quantity, grade or quality, densities, shape and physical characteristics can be estimated with a level of confidence sufficient to allow the appropriate application of technical and economic parameters, to support mine planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings

	and drill holes that are spaced closely enough for geological and grade continuity to be reasonably assumed.
	measured mineral resource: Under CIM standards, a measured mineral resource is that part of a mineral resource for which quantity, grade or quality, densities, shape, physical characteristics are so well established that they can be estimated with confidence sufficient to allow the appropriate application of technical and economic parameters, to support production planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough to confirm both geological and grade continuity.
mineralization	Minerals of value occurring in rocks.
Mt	A million tonnes.
ore	A natural aggregate of one or more minerals which, at a specified time and place may be mined, processed and sold at a profit, or from which some part may profitably be separated.
Ounce / oz	Troy ounce, equal to approximately 31.103 grams.
outcrop	An exposure of rock at the earth s surface.
Paleozoic	The geological era ranging from 600 million to 230 million years ago.
phyllite	A cleaved metamorphic rock having affinities to both schists and slates.
Pleistocene	A division of the Tertiary period.
Pliocene	A division of the Tertiary period.
pseudomorph	One mineral occurring in the crystal form of another.
quartz	A common rock-forming mineral (SiO_2) that is frequently a dominant constituent of veins, especially those containing gold and silver mineralization.
Quaternary	The latest period of geological time in the stratigraphic column from 0 to 2 million years ago.
RC	Reverse Circulation drilling.
rhyolite	A silica-rich volcanic rock chemically equivalent to granite. Usually light colored, very fine-grained or glassy-looking.
Sb	The elemental symbol for antimony.
scorodite	A hydrated iron arsenate, oxidation product of arsenopyrite.
sericite	A white variety of muscovite mica.
Silicification / silicified	Complete or partial replacement of a rock by quartz, often during hydrothermal alteration.
Stibnite	An antimony sulphide mineral.
stockwork	A densely packed network of small veins, veinlets or fissures which may be filled with mineralized material.

strike	Azimuth of a plane surface aligned at right angles to the dip of the plane used to describe the orientation of stratigraphic units or structures.
Tertiary	The geological period extending from the end of the Cretaceous (65 million years ago) to approximately 2 million years before the present time.
Tl	The elemental symbol for thallium.
Tonne	A metric tonne, 1000 kilograms or 2,204.6 pounds.
travertine	Calcium carbonate deposited by precipitation from carbonate-saturated waters, particularly from hot springs.
UTM	The UTM (**U**niversal **T**ransverse **M**ercator) system is a world-wide geographic coordinate system defined in meters.

NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report contains forward-looking statements within the meaning of section 21E of the United States Securities Exchange Act of 1934, as amended (the Exchange Act), which represent expectations or beliefs of the Company about future events. These statements can be identified generally by forward-looking words such as expect , believe , anticipate , plan , intend , estimate , may , will or similar words. Information concerning the inte drill results and mineral resource estimates also may be deemed to be forward-looking statements, as such information constitutes a prediction of what mineralization might be found to be present if and when a project is actually developed. Forward-looking statements are statements about the future and are inherently uncertain, and actual achievements of the Company or other future events or conditions may differ materially from those reflected in the forward-looking statements due to a variety of risks, uncertainties and other factors, including, without limitation, those described in Item 3.D. of this Annual Report under the heading, Risk Factors , and elsewhere in this Annual Report.

The Company s forward-looking statements contained in this Annual Report are made as of the respective dates set forth in this Annual Report. Such forward-looking statements are based on the beliefs, expectations and opinions of management as of the date the statements are made. The Company does not intend to update these forward-looking statements. For the reasons set forth above, investors should not place undue reliance on forward-looking statements.

PART I

Item 1.

Identity of Directors, Senior Management and Advisers.

A.

Directors and Senior Management.

Not Applicable

B.

Advisers.

Not Applicable

C.

Auditors.

Not Applicable

Item 2.

Offer Statistics and Expected Timetable.

Not Applicable

Item 3.

Key Information.

A.

Selected Financial Data.

The following tables set forth and summarize selected consolidated financial data for the Company, prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP). The tables also summarize

certain corresponding information prepared in conformity with United States generally accepted accounting principles (U.S. GAAP). Canadian GAAP, as applied to the Company, materially differs from U.S. GAAP, as set forth in Note 14 to the Consolidated Financial Statements of the Company.

The information presented in the tables was extracted from the financial statements of the Company. The information presented for the fiscal years ended December 31, 2006, 2005 and 2004 and as at December 31, 2006, 2005 and 2004 was extracted from financial statements of the Company which were audited by Amisano Hanson, Chartered Accountants.

The selected financial data should be read in conjunction with Item 5, Operating and Financial Review and Prospects and in conjunction with the Consolidated Financial Statements of the Company and the Notes thereto contained elsewhere in this Annual Report. The Company s fiscal period ends on December 31 of each year.

The following is a summary of certain selected financial information for the Company s most recently completed fiscal year and for the Company s four preceding fiscal years.

Canadian GAAP

Under Canadian GAAP resource property acquisition costs and exploration costs may be deferred and amortized to the extent they meet certain criteria. Under US GAAP, resource property acquisition costs are considered tangible assets and must be capitalized unless the resource properties do not have proven reserves. The Company has expensed resource property cost as incurred and will capitalize resource property acquisition costs when it has been determined that a resource property can be economically developed as a result of a final feasibility study establishing proven and probable reserves. Costs incurred prospectively to develop the property are capitalized as incurred and are amortized using the units of production method over the estimated life of the ore body based on estimated recoverable ounces mined from proven and probable reserves. Therefore, additional expenses are required under US GAAP for the years ended December 31, 2006, 2005 and 2004.

The following information has been reconciled for U.S. GAAP. See Note 14 to the Consolidated Financial Statements of the Company.

	(CDN$ in 000, except per share data)				
	As at 12/31/06	As at 12/31/05	As at 12/31/04	As at 12/31/03	As at 12/31/02
Working Capital	10,830	13,765	17,071	14,795	1,952
Resource Properties (Cdn GAAP)	13,438	13,732	16,820	7,657	6,714
Resource Properties (US GAAP)	0	0	0	0	0
Long Term Debt (Cdn GAAP)	0	0	0	0	0
Long Term Debt (Cdn GAAP)	0	0	0	0	0
Shareholder s Equity (Cdn GAAP)	(24,599)	(27,881)	(34,265)	(22,606)	(8,707)
Shareholders Equity (US GAAP)	(11,161)	(14,149)	(17,445)	(14,948)	(1,993)
Total Assets (Cdn GAAP)	24,823	28,168	34,612	23,108	8,826
Total Assets (US GAAP)	11,385	14,436	17,792	15,450	2,112
Revenue	0	0	0	0	0
Net Income(Loss) (Cdn GAAP)	(4,564)	(6,679)	(3,908)	(1,722)	(643)
Earnings(Loss) Per Share (Cdn GAAP)	(0.09)	(0.13)	(0.09)	(0.06)	(0.04)

Net Income(Loss) (US GAAP)	(4,218)	(3,338)	(12,969)	(2,601)	(2,384)
Earnings (Loss)Per Share (US GAAP)	(0.08)	(0.07)	(0.29)	(0.09)	(0.14)
Dividends Per Share (Cdn GAAP)	0	0	0	0	0
Dividends Per Share (US GAAP)	0	0	0	0	0
Wtd.Avg.No.Shares (Cdn GAAP)	52,991	52,899	44,917	28,446	18,056
Wtd.Avg.No.Shares (US GAAP)	52,991	52,899	44,917	28,446	17,306

Except where otherwise indicated, all information extracted from or based on the Consolidated Financial Statements of the Company are presented in accordance with Canadian GAAP.

No dividends have been declared in any of the years presented above.

Exchange Rate Information

In this Annual Report, unless otherwise specified, all dollar amounts are expressed in Canadian Dollars. References in this document to $ and CDN$ refer to Canadian dollars, unless otherwise specified; and references to US$ refer to US dollars.

The following table sets forth the high and low rates of exchange for the Canadian dollar, expressed as Canadian dollars per U.S. dollar, for each month during the previous six months and the average of such exchange rates during the five most recent years ended December 31. The average rates presented in the table below represent the average of the exchange rates on the last day of each month during a year for the past five fiscal years. Exchange rates represent the noon buying rate in New York City for cable transfers payable in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York. The noon rate of exchange on June 8, 2007 as reported by the United States Federal Reserve Bank of New York for the conversion of Canadian dollars into United States dollars was US$1.00 = CDN$1.0622.

	Exchange Rate U.S. Dollars into Canadian Dollars	
	High	**Low**
Month ended May 31, 2007	$1.1136	$1.0701
Month ended April 30, 2007	$1.1583	$1.1068
Month ended March 31, 2007	$1.1810	$1.1530
Month ended February 28, 2007	$1.1852	$1.1586
Month ended January 31, 2007	$1.1824	$1.1647
Month ended December 31, 2006	$1.1652	$1.1415

	Average
Fiscal year ended December 31, 2006	$1.1307
Fiscal year ended December 31, 2005	$1.2083
Fiscal year ended December 31, 2004	$1.3015
Fiscal year ended December 31, 2003	$1.4015
Fiscal year ended December 31, 2002	$1.5704

B.

Capitalization and Indebtedness.

Not Applicable

C.

Reasons for the Offer and Use of Proceeds.

Not Applicable

D.

Risk Factors.

No Guarantee of Success of Business

There is no assurance that the business of the Company will be successful.

Foreign Countries and Regulatory Requirements

The mineral projects in which the Company has an interest are located in Nicaragua, Guatemala, Mexico and Ecuador. Mineral exploration and mining activities in these countries may be affected in varying degrees by political instability and government regulations relating to the mining industry. Any changes in regulations or shifts in political conditions are beyond the control of the Company and may adversely affect its business. Future operations may be affected in varying degrees by government regulations with respect to restrictions on production, price controls, export controls, income taxes, expropriations of property, environmental legislation and mine safety.

Exploration and Mining Risks

The business of exploration for minerals and mining involves a high degree of risk. Few properties that are explored are ultimately developed into producing mines. At present, there are no known bodies of commercial ore on any of the Company s properties and the proposed exploration programs are an exploratory search for ore. Unusual or unexpected formation, formation pressures, fires, power outages, labour disruptions, flooding, explorations, cave-ins, landslides and the inability to obtain suitable or adequate machinery, equipment or labour are other risks involved in

the conduct of exploration programs. Although the management of the Company has experience in the exploration and development of mineral properties, it has relied on and may continue to rely upon consultants and others for exploration and operating expertise. The economics of developing mineral properties is affected by many factors including the cost of operations, variation of the grade of minerals mined and fluctuations in the price of any minerals produced.

Financing Risks

The Company may not have enough financial resources to complete its currently planned work programs on its properties. There is no assurance that sufficient funding will be available to it for all of such work programs or for the further properties that the Company may acquire. There can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favourable. Failure to obtain such additional financing could result in delay or indefinite postponement of further exploration and development of its projects with the possible loss of such properties.

Uninsurable Risks

Hazards such as unusual or unexpected formations and other conditions are involved in mineral exploration and development. The Company may become subject to liability for pollution, cave-ins or hazards against which it cannot insure or against which it may elect not to insure. The payment of such liabilities may have a material, adverse effect on the Company s financial position.

Titles to Property

While the Company has obtained the usual industry standard title reports with respect to its properties which confirms ownership and that there are no registered encumbrances against the properties, this should not be construed as a guarantee of title. The properties may be subject to prior unregistered agreements or transfers and title may be affected by undetected defects or native land claims.

Permits and Licenses

The operations of the Company may require licenses and permits from various governmental authorities. There can be no assurance that the Company will be able to obtain all necessary licenses and permits that may be required to carry out exploration, development and mining operations at its projects.

Mineral Prices

Even if the Company s exploration programs are successful, factors beyond the control of the Company may affect the marketability of any minerals discovered. Metal prices have historically fluctuated widely and are affected by numerous factors beyond the Company s control, including international, economic and political trends, expectations for inflation, currency exchange fluctuations, interest rates, global or regional consumption patterns, speculative activities and worldwide production levels. The effect of these factors cannot accurately be predicted.

Competition

The mining industry is intensely competitive in all its phases. The Company competes with many companies possessing greater financial resources and technical facilities than itself for the acquisition of mineral interests as well as for the recruitment and retention of qualified employees.

Item 4.

Information on the Company.

A.

History and Development of the Company

The Company was incorporated under the name Radius Explorations Ltd. on September 9, 1997 pursuant to the British Columbia Company Act by registration of its Memorandum and Articles. On July 1, 2004, the Company and PilaGold Inc. amalgamated (the Amalgamation) under the British Columbia Business Corporations Act by registration of a Notice of Articles with the new name Radius Gold Inc. . See Item 4D, Property, Plant and Equipment, for information regarding capital expenditures made by the Company on its properties.

B.

Business Overview.

The Company is a natural resource property exploration company in the exploration stage with no history of cash flows from operations. In 1997, it commenced activities by carrying out exploration work in the Yukon Territory, Canada. In 1999, the Company changed its focus to Latin America and acquired property interests in Mexico and Guatemala. In February, 2001, the Company and its joint venture partner, Barrick Gold Corporation, decided to discontinue exploration work on the El Salitre Project in Mexico. In 2003, the Company commenced exploration in Nicaragua, and as a result of the Amalgamation in 2004, acquired property interests in the Dominican Republic. Also in 2004, the Company returned to Mexico to investigate several prospective properties. In 2005, the Company conducted property investigations in Colombia and Argentina, and in 2006, acquired an interest in a property in Ecuador.

Currently, the Company has property interests in Guatemala, Nicaragua, Mexico and Ecuador. Its exploration activities are largely focused in Nicaragua and Mexico, with some ongoing low-level activity in Guatemala and Ecuador. (See Property and Equipment, below, and Note 5, Notes to the Financial Statements).

Presently, the Company is in the exploration stage and its properties do not contain a known commercially viable minable deposit. There is no assurance that a commercially viable mineral deposit exists on any of the Company s properties, and further exploration is required before a final evaluation of the economic and legal feasibility is determined.

C.

Organizational Structure.

The following table sets forth the name of each material subsidiary of the Company, the jurisdiction of its incorporation and the direct or indirect percentage ownership by the Company of such subsidiary.

Name	Date of Incorporation	Jurisdiction	Percentage Owned
Exploraciones Minera de Guatemala, S.A.	July 5, 1996	Guatemala	100%
Minerales Sierra Pacifico, S.A.	November 17, 1999	Guatemala	100%
Minerales de Nicaragua S.A.	November 18, 2002	Nicaragua	100%

Radius (Cayman) Inc.	January 31, 2005	Cayman Isl.	100%
Pavon (Cayman) Inc.	January 31, 2005	Cayman Isl.	100%
Geometalos Del Norte-Geonorte	May 2, 2005	Mexico	100%

D.

Property and Equipment

The Company holds rights to properties in Guatemala, Nicaragua and Mexico, as set out in the following map and more particularly described below:

Guatemala

1.

Tambor Project

The Tambor Property consists of 6 exploration concessions located in south-central Guatemala known as the La Laguna, Unidad Tipo, Santa Margarita, El Injerto, Carlos Antonio and Progreso VII Concessions, as set out in the following map:

The Company entered into an agreement in 2001 with Orogen Holding (BVI) Limited (Orogen), an affiliate of Gold Fields Explorations Inc., pursuant to which Orogen acquired the right to acquire a 55% beneficial interest in the Tambor Project in consideration for incurring exploration expenses of at least US$5,000,000. Orogen subsequently conducted exploration work on the Tambor Project in the approximate amount of US$3,250,000. In 2003, the Company re-acquired from Orogen all of its interest in the Tambor Project in consideration for the issuance and delivery of 1,300,000 common shares of the Company (issued) to Orogen.

During the year ended December 31, 2004, the Company granted an option to Fortuna Silver Mines Inc. (Fortuna) to earn a 60% interest in the El Tambor Project in consideration of Fortuna incurring exploration expenditures totalling US$4,000,000 over four years. During the year ended December 31, 2005, this agreement was terminated by Fortuna.

George A. Armbrust, PhD., CPG of the firm, Chlumsky, Armbrust and Meyer, LLC of Lakewood, Colorado, prepared a National Instrument 43-101 Technical Report compliant gold resource estimate on the Tambor Project for Radius. That report is dated January 7, 2004 and there are no material changes to the property since the date of this report. The Technical Report has been filed in SEDAR.com. The following is a summary, prepared by Greg Smith, B.Sc., PGeo of the Technical Report, prepared by George A. Armbrust, PhD., CPG.

During late 2006, the Company initiated the planning and development of an underground exploration adit on the Guapinol zone at Tambor.

Exploration and Development History

The Tambor Project is located in south-central Guatemala. Tambor is a metasediment and greenstone hosted, structurally controlled mesothermal lode gold deposit. Quartz-gold-arsenopyrite mineralization occurs in veins and breccias localized by kink bands in sheared host rocks. The project hosts at least 13 gold-bearing mineral occurrences spread over a 14km by 6km area.

The Tambor property received progressively more-detailed work programs between 2000 and 2003. The bulk of the work was completed by Gold Fields Ltd who formed a joint venture with The Company in 2001 to explore the property. The initial exploration program included the establishment of 100 line-kilometers of grid and soil sampling. A total of 3,958 soil samples were collected over an 11 square kilometer area. The grid area was also geologically mapped and over 1,400 rocks samples were collected along the 7-kilometer gold trend.

Early work focused on the Bella Vista area, including the Laguna North, Laguna South and JNL targets and on the Tierra Blanca area, all in the western end of the JV property. In the Bella Vista area, 15 hand trenches were excavated on six of the nine known soil anomalies.

During 2002, Gold Fields conducted initial scout drilling on seven areas, mainly on the western end and east end of the JV properties. Of these seven areas, only the Laguna North area has received follow up drilling. In the final months of 2002, high grade quartz vein hosted mineralization with visible gold was located at Guapinol South. Hand excavated trenches there returned values up to 10.1m of 31g/t Au in trench GP-5.

In early 2003, Gold Fields made a new high grade discovery 200 m east of the Guapinol South veins in an area called Poza del Coyote. The first trench on this zone returned a high-grade core of 10.93m at 66.83 g/t Au within a broader lower grade mineralized zone. An initial ten-hole reverse circulation (RC) drilling program returned high grade intercepts in five holes with moderate-grade intercepts in four additional holes.

After completing the first stage drilling at Poza del Coyote, Gold Fields moved a core drill onto the Guapinol South area and had completed 31 core holes by the end of July 2003. About half the holes had high grade intercepts, although some were fairly narrow (1.5 to 2.0 meter core length). The core drill was then moved to Poza del Coyote and the Cliff Zone between there and Coyote. The results from the cliff zone returned some high grade intercepts.

In late 2003, the Company commissioned Chlumsky, Armbrust and Meyer (CAM) to complete a resource estimate on Tambor which was completed (see above).

During February and March 2004, the Company completed a geophysical orientation survey over the Tambor gold project in Guatemala. The survey was designed to test the suitability of a new 3D Induced Polarization (IP) method to locate additional mineralization. At total of 18 line km of surveying was completed on the Guapinol and Laguna Norte zones, over drill sections containing known mineralized intercepts. Initial interpretations suggest that there is a correlation between the known geochemical anomalies and the 3D IP geophysical anomalies.

Management is currently investigating various options for advancing Tambor in the context of recent developments in the gold price. Options include: i) additional exploration of the property by Radius, with bulk sampling of the higher grade quartz lenses completed from limited underground development; and ii) looking for another joint venture partner, such as an established mid-cap gold producer, to advance the project to development. The broader land package at Tambor also includes a number of high priority gold-in-soil anomalies which have yet to be drill tested and that have potential to add to the known resources at Tambor.

In early 2007 permits were obtained and underground exploration commenced at the Tambor project by way of an exploration drift to access the high grade gold zones at Guapinol. The primary objective of the underground work is to better understand the structural controls on the quartz-gold mineralization and hence the potential to develop additional resources. Radius is developing a crosscut through the quartz body which gave the high grade intercept in hole PDD-03-033 (80.5g/t Au over 5.3m). The estimated distance from the adit portal to the target zone of high grade

quartz is 205m. As of 28 June, the adit had advanced roughly 150m and was on track to cut the mineralization at some point in late July.

Geology, Mineral Deposits and Resources

Current understanding of the gold mineralization on the Tambor property suggests that it is a classic example of an orogenic (mesothermal) lode gold deposit. Specifically, Tambor is a metasediment and greenstone hosted, structurally controlled mesothermal lode gold deposit. Quartz-gold-arsenopyrite mineralization occurs in veins and breccias localized by kink bands in sheared host rocks. The project hosts at least 13 gold-bearing mineral occurrences spread over a 14km by 6km area.

Gold mineralization is associated with the convergence of the North American and Caribbean plates along major structures which evolved from transpressional to transcurrent movement. Mineralization is post-peak metamorphism. The gold zones are structurally controlled discordant veins, quartz-crush zones and vein stock works associated with shear zones.

Gold Fields prepared several resource estimates for Tambor JV properties but has not made them public. The main part of the resource is in the Guapinol South, Cliff and Poza del Coyote area.

In December 2003, Chlumsky, Armbrust and Meyer LLC (CAM) of Lakewood Colorado completed a NI43-101 compliant gold resource estimate for the Tambor Gold Project. Tambor contains 216,000 ounces of gold in inferred resources and 57,800 ounces in indicated resources, according to the independent resource estimate prepared by George A. Armbrust, Ph.D. CPG, Kenneth L. Meyer, Robert L. Sandefur P.E. and William Walker, PhD of CAM.

Significantly, CAM commented that there are at least 2 major gold-in-soil anomalies with associated anomalous rock samples that have yet to be drill tested: a substantial strike length of strong gold-in-soil geochemistry associated with gold values in rock samples exists to the west of the Guapinol South-Cliff Zone trend, and another similar zone occurs roughly 1 km to the north of, and parallel to, Guapinol. Accordingly, CAM states that it is considered likely that the current resource (*at Tambor*) could be doubled or tripled or even more with a concerted drilling program .

CAM s resource estimate is tabulated below:

Cautionary Note to U.S. Investors concerning estimates of Indicated Resources

This section uses the term indicated resources . We advise U.S. investors that while those terms are recognized and required by Canadian regulations, the U.S. Securities and Exchange Commission does not recognize them. **U.S. Investors are cautioned not to assume that any part or all of mineral deposits in these categories will ever be converted into reserves.**

Tambor: Indicated Resource Estimate

Area	**Tonnes**	**Grade (g/t Au)**	**Contained Gold (Ounces)**
Guapinol South Cliff Zone	336,000	3.910	42,200
Poza del Coyote	120,000	4.024	15,500
Total	**456,000**	**3.940**	**57,800**

Cautionary Note to U.S. Investors concerning estimates of Inferred Resources

This section uses the term inferred resources . We advise U.S. investors that while this term is recognized and required by Canadian regulations, the U.S. Securities and Exchange Commission does not recognize it. Inferred resources have a great amount of uncertainty as to their existence, and great uncertainty as to their economic and legal feasibility. It cannot be assumed that all or any part of an Inferred Mineral Resource will ever be upgraded to a higher category. Under Canadian rules estimates of Inferred Mineral Resources may not form the basis of feasibility or other economic studies. **U.S. investors are cautioned not to assume that part or all of an inferred resource exists, or is economically or legally mineable.**

Tambor: Inferred Resource Estimate

Area	**Tonnes**	**Grade (g/t Au)**	**Contained Gold (Ounces)**
Guapinol South Cliff Zone	368,000	5.325	63,000
Poza del Coyote	228,000	4.219	31,000
Laguna North	1,951,000	1.950	122,200
Total	**2,547,000**	**2.641**	**216,200**

There has been no mining surface or underground development conducted at Tambor other than surface exploration trenching of soil anomalies.

2.

Marimba and Holly/Banderas Projects

(a)

Marimba Project

At December 31, 2006, the Company held a 100% interest in the Marimba Project, which consisted of two exploration concessions, located in southeastern Guatemala covering approximately 23,500 hectares.

During the year ended December 31, 2005, the Company decided, based on its exploration results to date, to do no further exploration on the property, and wrote-off $1,515,242 in costs to operations. Subsequent to December 31, 2006, the Company terminated its rights to the property concessions.

(b)

Holly/Banderas Project

The Company holds a 100% interest in the Holly/Banderas Project which consists of two exploration concessions covering approximately 48,048 hectares.

During the year ended December 31, 2004, the Company entered into an agreement with Glamis, giving Glamis an option to explore and develop the Holly/Banderas and Marimba properties. The agreement gave Glamis the right to acquire a 51% interest in the properties by spending US$4 million over a four-year period. During the year ended December 31, 2006, Glamis terminated its option on these properties.

During the year ended December 31, 2005, the Company explored additional areas around Holly/Banderas and wrote-off $3,993 of these costs to operations.

Nicaragua

1.

San Pedro Project

The San Pedro Project lies in east central Nicaragua. Access to San Pedro is via truck from Copalar to San Pedro (2 hrs), boat to La Estrelia (20mins), followed by a 5km horse ride to the camp, 5km. From the camp it is possible to walk to all of the showings in the northwest of the San Pedro project, which cover a 2km by 1.5km area. In the dry season you can drive to about 1km west of the zone.

The San Pedro Project is comprised on one concession, as shown on the following map:

In early 2005, the Company s exploration efforts focused on expanding the limits of the known mineralization and completing detailed mapping and soil and rock geochemistry across key areas of the property. The work included ground geophysics, completion of the soil grid and follow-up of the anomalies, trenching and discovery of new zones at Bella Vista and Dyke Zone.

In May 2005, a single fence of holes was drilled across 300m of the northernmost PM Zone. Although stockwork bulk-mineable gold mineralization between the main vein structures was not discovered, the drilling did intersect several narrow but high-grade veins with gold results of 1.5m @ 17.5 g/t Au in hole SPDH-09 and 5.5m @ 5.5 g/t Au in hole SPDH-10. Because of poor core recovery, these results are qualitative and additional drilling using a larger rig is recommended. The mineralized outcrop and gold-in-soil anomaly at the PM zone is roughly 2.5 km long, so most of the zone remains untested. Radius is in the process of obtaining government and community approval for a second phase of drilling. Hand trenching has been done on most of the zones and the Company received in 2006 government and community approval for a second phase of drilling. The Company is currently seeking a joint venture partner to further advance the property.

No Resource or Reserve has been defined within the San Pedro Project. No underground exploration has occurred on the San Pedro Project. No surface equipment or plant exists at the San Pedro Project.

2.

Natividad Project

Natividad is located in central Nicaragua, a 5 hour drive from Managua and about 1 hour from the town of Waslala. It outcrops on a main road and access to most parts of the project area is possible by foot or on horse back. It is located in a hilly agricultural region largely given over to cattle grazing. The original forest cover has been cut down over many years by slash and burn farmers. The details of the Natividad property, which consists of five of the Company s granted concessions and three of the applications, are set out in the below map:

The Company entered into a joint venture agreement with Meridian on September 22, 2004, with an effective date of May 25, 2005, giving Meridian the option to acquire a 60% interest in the Natividad Project. Towards earning the interest, Meridian spent a minimum of US$4.0 million on the property, having completed a total of 43 holes in 2005, and an additional 27 holes in the second phase as of September 30, 2006 (a total of 4,430m of drilling). The 2006 drilling tested the Manceras, Las Brisas, Ahumada, Pavon Central and Pavon North veins. In October, Meridian

received permission to drill at the Las Vallas zone and approximately 1,000m was drilled in the last months of the year.

Overall the results from these drill campaigns were disappointing and failed to extend the mineralized shoots intersected in last year's drilling. Strong veining with highly favourable textures was intersected but results generally failed to exceed 2 g/t gold.

In January, 2007, Meridian completed its work at Natividad. No further results of interest were received and Meridian informed the Company that it was withdrawing from the Natividad joint venture once the camp and drill pads have been rehabilitated. This work should be competed by July 2007 and the property and all data will be returned to the Company.

No Resource or Reserve has been defined within the Natividad Project. No underground exploration has occurred on the Natividad Project. No surface equipment or plant exists at the Natividad Project.

3.

India Norte Property

The Company s teams recently discovered a new, potentially significant vein system in northwest Nicaragua called the India Norte vein system, as set out in the following map:

India Norte is 100% owned by the Company and lies close to the old La India mining camp approximately 70 km from Managua. The Company has identified a series of quartz veins and stock work zones associated with a cluster of rhyodacite domes approximately 5 km north of the La India vein system. The Company s has defined a north-west trending mineralized structure over 2.5 km long with gold-mineralized stock works up to 30 m in true width locally. Initial trench sampling returned low to moderate grade gold results but over significant widths.

There is reason to believe that the Company s work to date has identified the upper parts of an extension to the formerly productive La India vein system. In La India mining camp the productive zone of the veins mined ranges from an elevation of 500 m ASL down to as low as 50 m ASL. The trenches sampled by the Company at India Norte are from well above that elevation, ranging from 550m ASL to over 700m ASL, indicating significant potential for economic gold-bearing veins at deeper levels. A drill plan has been prepared and a drill permit application has been filed with the relevant authorities.

No Resource or Reserve has been defined within the India Norte Property. No underground exploration has occurred on the India Norte Property. No surface equipment or plant exists at the India Norte Project.

4.

Trébol Property

The Trébol Property is comprised of two granted concessions and one concession application located within the Region Autonoma Atlantico Norte in northeastern Nicaragua, as set out in the following map:

The area covers at least two new epithermal vein systems exposed on a series of low-lying ridges. A gold-bearing epithermal system comprising 3 individual vein trends has been mapped over a distance of 2 km. The veins are of typical low-sulphidation affinity and comprise banded quartz breccias and stockworks, with visible gold noted at some locations. Trenches were excavated at four locations over a strike length of 1.2 km, and the limits of the mineralized system are still unknown. The prominent low ridges that appear to define the mineralized bodies continue along trend for several kilometers and have yet to be prospected.

Trench Number	Sampled Interval	Weighted Average Au g/t
TRSD-01	13.5	0.24
TRSD-02	10.4	1.34
TRSD-03	18.0	1.46
TRSD-04*	10.5	9.1

* includes 0.75m @ 13.1 g/t Au and 0.75m @ 66.2 g/t Au with abundant visible gold observed

Trenches TRSD-01 to -03 are located in a broad, well developed stockwork zone whereas trench TRS-04, topographically lower, exposes a quartz/adularia banded vein with abundant visible gold associated with manganese and iron oxides.

This prospect is located in a remote region of northern Nicaragua where environmental and social issues must be considered at every stage of the development. The Company s exploration team is therefore establishing an exploration camp and will work closely with the local communities at each step of the exploration program to ensure broad community support for the work. Further geological work is planned including mapping, prospecting and excavating of more trenches, in order to define the size of the mineralized system.

No Resource or Reserve has been defined within the Trébol Property. No underground exploration has occurred on the Trébol Property. No surface equipment or plant exists at the Trébol Property.

Ecuador

In November 2006, the Company signed an option agreement with Minera Cachabi C. Ltda. (Mineca), an Ecuadorian company, whereby the Company may earn a 70% interest in the Cerro Colorado high sulphidation gold project in Azuay province, southern Ecuador by incurring exploration expenditures of US$3-million by the third anniversary of the commencement of drilling on the project. In addition, the Company must make staged cash payments to Mineca of US$1-million, with US$100,000 paid on signing of the agreement, a further $125,000 payable when Radius begins drilling on the project, and additional cash payments totalling $775,000 to be made up to and including the third anniversary of commencement of drilling. The Company must also fund and prepare a feasibility study on or before the fifth anniversary of the start up of drilling. Once the Company has earned its 70% interest in the project, the Company and Mineca will negotiate a joint venture agreement to develop the project.

The project lies at an elevation of 2,400 to 3,200m, and is 80km south of the city of Cuenca. It was explored by Newmont during the 1990s, and some 800 rock chip samples were collected. Opposition at the time by some of the local communities influenced Newmont s decision to abandon the project in 1992. Newmont s work identified three priority targets:

1.

Cerro Colorado is a 200m diameter hill with abundant pervasive silicification and was Newmont s main target area. The area has been tentatively interpreted as being at the roots of a large silica Yanacocha-type system. Values of

trace to 2.7g/t Au have been recovered from grab and chip sampling of the zone. The size of the alteration and the extent of the silicification make Cerro Colorado a high priority drill target.

2.

The Reservoir anomaly is located at the north end of the greater Cerro Colorado project area. The anomaly consists of poorly outcropping sub vertical ribs of spongy silica with anomalous gold values. The main drill target consists of outcrops of altered limonitized and silicified ignimbrite which assays from trace to 1.1 g/t Au.

3.

The Bola Rumi zone is situated 5km south of Cerro Colorado and consists of silica replacements within schistose Paleozoic or younger rocks. Anomalous gold values from trace to 4.5 g/t Au were returned from sampling. Quartz replacements occur for roughly 1km along strike. The Balo Rumi target also contains the highest silver values returned from Cerro Colorado with several values of up to 60g/t returned from the western end of the Bola Rumi area. This is quite distinct from the other anomalies, where Ag values are low (<5g/t).

The Company s initial work at Cerro Colorado has focused on community relations to secure permission from the local community to drill the project. Community liaison is continuing and we have engaged local Ecuadorian specialists to consult with the local community on the Company s behalf.

Also, in the light of recent political uncertainty over the Ecuadorian government s future intentions towards international mining investment, management has adopted a low key approach towards progressing Cerro Colorado.

<u>Mexico</u>

From January through to April 2006, the Company undertook property visits and evaluations of third party properties in the states of Jalisco, Sinaloa, Michoacan and Guanajuato. The Amatista project, a low sulfidation gold-silver system in the state of Nayarit, was optioned in 2005. Exploration results were however disappointing and the option agreement was terminated in April, 2006. None of the other projects were sufficiently interesting to justify the Company s pursuing them further. In the second half of 2006, the Company carried out a low-key reconnaissance exploration program in the state of Jalisco. Several areas of silver-gold bearing quartz veins were identified, locally associated with stock work zones and quartz tourmaline breccias. Sampling, however, returned weak metal values and no further work is planned.

In the fourth quarter of 2006 a reconnaissance program was commenced in the states of Chiapas and Oaxaca, and the Company has continued actively undertaking exploration work in the region throughout the quarter. Several areas of anomalous gold and silver values in both stream sediment and rock have been identified, and applications for several concessions have been made. Additional follow up work is ongoing as is further reconnaissance work. Details on the various areas will be reported once Radius has secured title.

Item 5.

Operating and Financial Review and Prospects.

Overview

At the date of this Annual Report, the Company has not been able to identify a known body of commercial grade ore on any of its properties, and the ability of the Company to realize the costs it has incurred to date on these properties is dependent upon the Company being able to identify a commercial ore body, to finance its exploration costs and to resolve any environmental, regulatory or other constraints which may hinder the successful development of the

property, or being able to realize the costs incurred on a subsequent disposal of the property.

The following discussion and analysis of the financial condition and operating results of the Company for the three years ended December 31, 2006, 2005 and 2004 should be read in conjunction with the Consolidated Financial Statements and related notes to the financial statements which have been prepared in accordance with Canadian GAAP. The discussion and analysis set forth below covers the results measured under Canadian GAAP. Material differences between the application of Canadian GAAP and U.S. GAAP to the Company s audited financial statements exist as described in Note 14 to the Consolidated Financial Statements.

Strategic Transaction

In 2004, Radius Explorations Ltd. and PilaGold Inc. amalgamated (the Amalgamation) and continued as one company, Radius Gold Inc., pursuant to the provisions of the British Columbia Business Corporations Act. The holders of Radius Explorations shares received one (1) Radius Gold share for every one (1) Radius Explorations share held, and PilaGold shareholders received one (1) Radius Gold share for every two and one-quarter (2.25) PilaGold shares held.

A.

Operating Results.

Critical Accounting Policies

Management has prepared the consolidated financial statements of the Company in accordance with Canadian generally accepted accounting principles which conform, in all material respects, with those generally accepted in the United States of America, except as explained in Note 14. The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates. The financial statements have, in management s opinion, been properly prepared using careful judgement and within the framework of the significant accounting policies summarized below.

a)

Principles of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries:

i)

Minerales Sierra Pacifico S.A. and Exploraciones Mineras de Guatemala S.A., companies incorporated under the laws of Guatemala;

ii)

Minerales de Nicaragua S.A. and Desarrollo Geologico Minerao, S.A., companies incorporated under the laws of Nicaragua;

iii)

Recursos Del Cibao, S.A., a company incorporated under the laws of the Dominican Republic;

iv)

Radius Panamá Corporation, Weltern Resources Corp. and Corporación Geológica de Panamá, companies incorporated under the laws of Panamá.

v)

Radius (Cayman) Inc. and Pavon (Cayman) Inc., companies incorporated under the laws of Cayman Island; and

vi)

Geometalos Del Norte-Geonorte, a company incorporated under the laws of Mexico.

All significant inter-company transactions have been eliminated upon consolidation.

b)

Cash and Cash Equivalents

Cash and cash equivalents included highly liquid investments with original maturities of three months or less.

c)

Marketable Securities

Marketable securities are recorded at the lower of cost or market value.

d)

Mineral Properties

The Company defers the cost of acquiring, maintaining its interest, exploring and developing mineral properties until such time as the properties are placed into production, abandoned, sold or considered to be impaired in value. Costs of producing properties will be amortized on a unit of production basis and costs of abandoned properties are written-off. Proceeds received on the sale of interests in mineral properties are credited to the carrying value of the mineral properties, with any excess included in operations. Write-downs due to impairment in value are charged to operations.

The Company is in the process of exploring and developing its mineral properties and has not yet determined the amount of reserves available. Management reviews the carrying value of mineral properties on a periodic basis and will recognize impairment in value based upon current exploration results, the prospect of further work being carried out by the Company, the assessment of future probability of profitable revenues from the property or from the sale of the property. Amounts shown for properties represent costs incurred net of write-downs and recoveries, and are not intended to represent present or future values.

Environmental expenditures that relate to current operations are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations and which do not contribute to current or future revenue generation are expensed. Liabilities are recorded when environmental assessments and/or remedial efforts are probable, and the costs can be reasonably estimated. Generally, the timing of these accruals coincides with the earlier of completion of a feasibility study or the Company s commitment to a plan of action based on the then known facts.

e)

Property, Equipment and Amortization

Property and equipment are recorded at cost. Equipment is amortized over their estimated useful lives using the following methods:

Leasehold improvements	5 years straight-line
Trucks	5 years straight-line
Computer equipment	30% declining balance
Geophysical equipment	20% declining balance
Furniture and equipment	20% declining balance
Website	30% declining balance

Additions to equipment are amortized at one-half rate during the year of acquisition.

f)

Financial Instruments

Under the provisions of the Canadian Institute of Chartered Accountants 3855 Financial Instruments Recognition and Measurement the financial assets and liabilities of the Company are designated as other financial assets and liabilities, accordingly they are initially measured at fair value, which is the amount of consideration that would be agreed upon in an arm s-length transaction between knowledgeable, willing parties under no compulsion to act.

Subsequent to initial measurement at fair value, any gain or loss experienced on derecognition or impairment of the asset or liability is recorded in the statement of income.

The Company s financial instruments comprise cash and cash equivalents, marketable securities, advances and other receivables, due from related parties, accounts payable and accrued liabilities and due to related party. Cash and cash equivalents, marketable securities, advances and other receivables, accounts payable and accrued liabilities are reported at their fair values on the balance sheet. The fair values are the same as the carrying values due to their short-term nature. The fair value of the amount due to and from related parties has not been disclosed due to the fact that the cash flow stream is not determinable.

Unless otherwise noted, it is management s opinion that the Company is not exposed to significant interest, exchange or credit risks arising from these financial instruments.

g)

Basic and Diluted Loss Per Share

Basic loss per share (LPS) is calculated by dividing loss applicable to common shareholders by the weighted average number of common shares outstanding for the year. Diluted LPS reflects the potential dilution that could occur if potentially dilutive securities are exercised or converted to common stock. Due to the losses, potentially dilutive securities were excluded form the calculation of diluted LPS, as they were anti-dilutive. Therefore, there is no

difference in the calculation of basic and diluted LPS.

h)

Income Taxes

The Company accounts for income taxes using the asset and liability method. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Future income taxes assets and liabilities are recognized for temporary differences between the tax and accounting basis of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes only if it is more likely than not that they can be realized.

i)

Foreign Currency Translation

Monetary items denominated in a foreign currency are translated into Canadian dollars at exchange rates prevailing at the balance sheet date and non-monetary items are translated at exchange rates prevailing when the assets were acquired or obligations incurred. Foreign currency denominated revenue and expense items are translated at exchange rates prevailing at the transaction date. Gains or losses arising from the translations are included in operations.

j)

Stock-based Compensation

The Company has a stock-based compensation plan as disclosed in Note 6, whereby stock options are granted in accordance with the policies of regulatory authorities. The fair value of all share purchase options are expensed over their vesting period with a corresponding increase to contributed surplus. Upon exercise of share purchase options, the consideration paid by the option holder, together with the amount previously recognized in contributed surplus, is recorded as an increase to share capital.

The Company uses the Black-Scholes option valuation model to calculate the fair value of share purchase options at the date of grant. Option pricing models require the input of highly subjective assumptions, including the expected price volatility. Changes in these assumptions can materially affect the fair value estimate and, therefore, the existing models do not necessarily provide a reliable single measure of the fair value of the Company s share purchase options.

k)

Asset Retirement Obligation

The fair value of obligations associated with the retirement of tangible long-lived assets are recorded in the period the asset is put to use, with a corresponding increase to the carrying amount of the related asset. The obligations recognized are statutory, contractual or legal obligations. The liability is accreted over time for changes in the fair value of the liability through charges to accretion, which is included in depletion, depreciation and accretion expense. The costs capitalized to the related assets are amortized in a manner consistent with the depletion and depreciation of the related asset.

At December 31, 2006, the fair value of the mineral properties site restoration costs is not significant.

l)

Impairment of Long-lived Assets

Canadian generally accepted accounting principles require that long-lived assets and intangibles to be held and used by the Company be reviewed for possible impairment whenever events or changes in circumstances indicate that the asset may not be recoverable. If changes in circumstances indicate that the carrying amount of an asset that an entity expects to hold and use may not be recoverable, future cash flows expected to result from the use of the asset and its disposition must be estimated. If the undiscounted value of the future cash flows is less that the carrying amount of the asset, impairment is recognized.

Results of Operations

Year Ended December 31, 2006 compared to December 31, 2005

For the fiscal year ended December 31, 2006, the Company had a consolidated net loss of $4,563,806 ($0.09 per share) compared to a net loss of $6,679,398 ($0.13 per share) for the fiscal year ended December 31, 2005. Corporate expenses (not including stock-based compensation, amortization and exploration costs write-offs) in 2006 were about 2/3 of the total 2005 corporate expenses. Categories of corporate expenses which were significantly lower in 2006 were legal and accounting, public relations and travel. Due to investments maturing during 2006, the total interest income earned in 2006 was greater than in 2005.

Year Ended December 31, 2005 compared to December 31, 2004

For the fiscal year ended December 31, 2005, the Company had a consolidated net loss of $6,679,398 ($0.13 per share) compared to a net loss of $3,908,339 ($0.09 per share) for the fiscal year ended December 31, 2004. The large increase in overall loss is mostly due to a $5,917,734 write-off of explorations costs in the current year, compared with a $1,350,205 exploration cost write-off in 2004. Offsetting this increased expense, the 2005 non-cash compensation charge was $40,850, compared to $1,173,784 in 2004. Professional fees and shareholder communication costs were significantly less in 2005 than in 2004. Investment income in 2005 was lower than in 2004 due to redemption of bonds and the diversification of the Company s investment portfolio. During the year ended December 31, 2005, the Company received other income of $72,655 from administration fees paid by Meridian Gold pursuant to the Natividad joint venture, and from shared office costs.

Year Ended December 31, 2004 compared to December 31, 2003

The Company reported a net loss for the fiscal year ended December 31, 2004 of 3,908,339 ($0.09 per share), compared to a loss of $1,722,063 ($0.06 loss per share) for the fiscal year ended December 31, 2003. Interest income for 2004 increased significantly compared to 2003 due to a greater amount of funds invested in cash equivalents. Corporate expenses increased in almost all categories. Public relations costs were much greater in early 2004 as compared to 2003 as a result of printing and distributing marketing materials to at least 500,000 persons. There was a significant increase in professional fees and administrative costs due to the amalgamation transaction, and, since the amalgamation, administrative costs are greater due to the Company s paying a larger percentage of shared office costs and salaries.

During the fiscal year ended December 31, 2004, the Company recorded a stock-based compensation expense of $1,173,784 ($234,500 in 2003, as adjusted).

Mineral Properties

Year Ended December 31, 2006

Guatemala - During the fiscal year ended December 31, 2006, $283,898 was spent on exploration of mineral properties in Guatemala. Of that amount, the major expenditure categories include $77,043 for geological consulting fees, $40,698 for salaries, $30,678 for rent and utilities, and $24,703 for licences, rights and taxes.

Nicaragua - During the fiscal year ended December 31, 2006, the Company incurred $1,305,103 in exploration costs in Nicaragua. Of that amount, the major expenditure categories include $433,503 for geological consulting fees, $182,028 for geochemistry, and $117,140 for salaries. Deferred acquisition and exploration costs totalling $1,650,886 were written-off during the year, for properties on which no further work is warranted.

Mexico - During the fiscal year ended December 31, 2006, the Company spent $753,909 in exploration costs in Mexico. Of that amount, the major expenditure categories include $368,283 for geological consulting fees, $69,991 for geochemistry and $37,106 for salaries. Deferred acquisition and exploration costs totalling $1,348,844 were written off during the year, for properties on which no further work is warranted.

Ecuador - During the fiscal year ended December 31, 2006, the Company spent $113,130 in acquisition costs and $4,734 for exploration on the Cerro Colorado in Ecuador.

Other - During the fiscal year ended December 31, 2006, the Company spent $4,129 on property investigations in Canada, and wrote-off a total of $53,072 in property investigation costs in Argentina, Colombia and Tanzania.

Year Ended December 31, 2005

Guatemala - During the fiscal year ended December 31, 2005, $92,652 was spent on exploration of mineral properties in Guatemala. Of that amount, the major expenditure categories include $38,474 for geological and other consulting fees, and $20,696 for legal and accounting. Deferred exploration costs totalling $1,738,478 were written off during the year.

Nicaragua - During the fiscal year ended December 31, 2005, the Company incurred $1,932,109 in exploration costs in Nicaragua. Of that amount, the major expenditure categories include $742,205 for geological and other consulting fees, $236,225 for geochemistry, $181,573 for salaries, and $123,201 for licences and taxes, and $122,956 for travel and accommodation. Deferred exploration costs totalling $3,580,559 were written off during the year.

Mexico - During the fiscal year ended December 31, 2005, the Company spent $231,913 on acquisition of mineral concessions in Mexico and incurred $531,971 on exploration of those properties. The major exploration expenditure categories include $252,783 for geological and other consulting fees, $93,433 for travel and accommodation, and $39,929 for automobile costs.

Argentina - During the fiscal year ended December 31, 2005, the Company spent $29,524 on property investigations in Argentina.

Colombia - During the fiscal year ended December 31, 2005, the Company spent $7,461 on property investigations in Colombia.

Year Ended December 31, 2004

During the fiscal year ended December 31, 2004, $587,089 was spent on exploration of the Company s mineral properties in Guatemala. Of that amount, the major expenditure categories include $234,986 for geological and other consulting fees, $63,190 for salaries, $55,612 for licenses and taxes, and $48,572 for office rent. $893,643 in property investigation costs spent in Guatemala was written off during the year.

In February 2004, the Company increased its interest in the Tambor property by issuing to Gold Fields 1,300,000 shares at a deemed value of $1.49 per share. This is following Gold Fields incurring US$3,500,000 in property development.

During the fiscal year ended December 31, 2004, $2,422,462 was spent in Nicaragua. Of that amount, the major expenditure categories include $833,577 for geological and other consulting fees, $310,181 for geochemistry, $205,998 for drilling, $192,878 for camp food and supplies, $174,726 for salaries, $130,319 for travel, $129,072 for automobile costs, and $118,248 for licenses and taxes. $456,562 in property investigation costs spent in Nicaragua was written off during the year.

During 2004, the Company spent $46,006 in Mexico in connection with the investigation of properties for possible acquisition.

Per Share Losses

Both the net losses and the losses per share increased from the year 2004 to 2005 and then decreased in 2006. The increases from 2004 to 2005 were due mainly to a large property write-off in 2005. Corporate expenditures decreased from 2004 through 2006 corresponding to decreasing exploration activity in the Company.

Outlook

Management expects that the Company will have sufficient working capital to meet its corporate and exploration commitments over the next 24 months. Actual funding requirements may vary from those planned due to a number of factors, including the progress of exploration and development activity. Management believes it will be able to raise equity capital as required in the long term, but recognizes the uncertainty attached thereto. The Company continues to use various strategies to minimize its dependence on equity capital, including the securing of joint venture partners where appropriate.

B.

Liquidity and Capital Resources

Year ended December 31, 2006 compared to December 31, 2005

The Company s cash and marketable securities decreased from approximately $13.35 million at December 31, 2005 to $9.96 million at December 31, 2006. During the year ended December 31, 2006, the Company spent $2,764,207 in exploration and equipment costs and $640,946 on corporate expenses. Working capital at December 31, 2006 was $10.83 million compared to $13.77 million at December 31, 2005.

Year ended December 31, 2005 compared to December 31, 2004

The Company s cash and marketable securities decreased from $16.53 million at December 31, 2004 to $13.36 million at December 31, 2005. Working capital at December 31, 2005 was $13.76 million compared to $17.07 million at December 31, 2004.

Year ended December 31, 2004 compared to December 31, 2003

During the 2004 fiscal year, the Company s cash resources decreased by $10,406,641 compared to an increase of $12,927,332 in 2003. The 2004 decrease is due mainly to the Company having spent a significantly greater amount on deferred exploration and on the purchase of marketable securities than in 2003. During the fiscal year ended December 31, 2004, the Company s interest income, proceeds on issuance of shares, and acquisition of cash from the

Amalgamation provided additional cash of $7,963,522, while the cash component of operating expenses for the year was $1,537,547.

As at December 31, 2004, the Company had working capital of approximately $17.1 million compared to working capital of $14.8 million as at the fiscal year ended December 31, 2003.

The Company s paid up share capital as at December 31, 2004 was $42,060,982 representing 53,091,188 common shares without par value. The contributed surplus of $2,290,834 plus share capital, together with a deficit of $10,087,313, results in shareholders equity of $34,264,503. Details of share capital issuances are discussed in Note 8 to the Financial Statements. Subsequent to the 2004 fiscal year, the Company received an additional $240,140 from the exercise of stock options and share purchase warrants.

C.

Research and Development, Patents and Licenses, etc.

Not applicable.

D.

Trend Information.

The Company is an exploration stage natural resource company engaged in the process of exploring and evaluating its mineral properties and projects and has not yet determined whether its properties and projects contain ore reserves that are economically recoverable. Consequently, there is no production, sales, or inventory in the conventional sense. The Company s financial success will be dependent upon the extent to which it can discover mineralization and the economic viability of developing such properties. Such development may take years to complete and the amount of resulting income, if any, is difficult to determine with any certainty. The sales value of any mineralization discovered by the Company is largely dependent upon factors beyond the Company s control such as the market value of the commodities produced.

The Company is not aware of any trends, uncertainties, demands, commitments or events which are reasonably likely to have a material effect upon the Company s net sales or revenues, income from continuing operations, profitability, liquidity or capital resources, or that would cause reported financial information not necessarily to be indicative of future operating results or financial condition.

E.

Off-balance Sheet Arrangements

Not applicable.

F.

Tabular Disclosure of Contractual Obligations

The following table lists as of December 31, 2006 information with respect to the Company s known contractual obligations.

	Payments due by period					
	Total	*1st year*	*2nd year*	*3rd year*	*4th year*	*5th year*
Contractual Obligations						
Long-Term Debt Obligations	**0**		0	0	0	0
Capital (Finance) Lease Obligations	**0**		0	0	0	0
Operating Lease Obligations(1)	**$672,816**	$129,598	$133,556	$133,916	$137,874	$137,874
Purchase Obligations	**0**		0	0	0	0
Other Long-Term Liabilities Reflected on the Company's Balance Sheet under Canadian GAAP	**0**		0	0	0	0
Total	**$672,816**	$129,598	$133,556	$133,916	$137,874	$137,874

(1)

Amount indicated is the office rent lease for the Company s head office in Vancouver, BC.

G.

Safe harbour

See Note Regarding Forward-Looking Statements.

H.

Share Issuance

The following table summarizes share issuances by the Company during the past five years:

Year	Type of Transaction	No. of Shares	Price per Share	Total Consideration
2006	Stock Option Exercises	75,000	$0.68	$51,000
2005	Stock Option Exercises	40,000	$0.90	$36,000
	Stock Option Exercises	50,000	$0.99	$49,500
	Stock Option Exercises	35,000	$1.00	$35,000
	Stock Option Exercises	37,800	$1.30	$49,140
	Warrant Exercises	57,000	$1.50	85,500

2004	Amalgamation	10,284,452	$1.11	$11,415,742
	Stock Option Exercises	35,000	40.60	$21,000
	Stock Option Exercises	117,000	$0.65	$76,050
	Stock Option Exercises	69,000	$0.68	$46,920
	Stock Option Exercises	30,000	$0.90	$27,000
	Stock Option Exercises	55,000	$0.95	$52,250
	Stock Option Exercises	79,444	$0.99	$78,650
	Stock Option Exercises	65,000	$1.10	$71,500
	Warrant Exercises	2,649,800	$0.25	$662,450
	Warrant Exercises	11,250	$0.55	$6,188
	Property Agreements	1,300,000	$1.49	$1,937,000
2003	Private Placement	1,000,000	$0.50	$500,000
	Private Placement	6,545,000	$1.50	$9,817,500
	Stock Option Exercises	275,000	$0.60	$165,000
	Stock Option Exercises	155,000	$0.66	$100,750
	Stock Option Exercises	255,000	$0.68	$173,400
	Stock Option Exercises	30,000	$0.90	$27,000
	Stock Option Exercises	20,000	$0.94	$28,800
	Stock Option Exercises	20,000	$0.95	$19,000
	Stock Option Exercises	130,000	$0.99	$128,700
	Stock Option Exercises	40,000	$1.00	$40,000
	Stock Option Exercises	10,000	$1.01	$10,100
	Stock Option Exercises	50,000	$1.25	$62,500
	Stock Option Exercises	170,000	$1.35	$229,500
	Warrant Exercises	2,145,000	$0.25	$536,250
	Warrant Exercises	738,750	$0.55	$406,313
	Warrant Exercises	1,123,334	$0.74	$831,267
	Warrant Exercises	2,982,262	$1.25	$3,727,828
2002	Private Placement	4,794,800	$0.20	$958,960

Item 6.

Directors, Senior Management and Employees.

A.

Directors and Senior Management.

The following table lists as of June 8, 2007 the names of the directors and senior management of the Company. The directors and senior management have served in their respective capacities since their election and/or appointment and will serve until the next Annual General Meeting of Shareholders or until a successor is duly elected, unless the office

is vacated in accordance with the Company s Articles.

Name and Municipality of Residence	**Position(s) held**	**Date of First Appointment**
Simon Ridgway Vancouver, BC, Canada	Director & President	September 30, 1997
Mario Szotlender, Caracas, Venezuela	Director	December 13, 1999
Harmen Keyser Gibsons, BC, Canada	Director	September 9, 1997
David Farrell Vancouver, BC, Canada	Director	June 15, 2001

Nicholas Glass
Vancouver, BC, Canada

Director

January 14, 2003

Ralph Rushton
Vancouver, BC, Canada

Director & Vice-President, Corporate Development

May 2, 2003

Bradford Cooke
North Vancouver, BC, Canada

Director

July 1, 2004

Craig Bow
Beulah, Colorado, USA

Director

January 28, 2006 (previously a director of Radius Explorations Ltd. from July 17, 2001 to July 1, 2004)

Cheryl Messier
North Vancouver, BC, Canada

Chief Financial Officer

July 1, 2004

David Cass
Vancouver, BC, Canada

Vice-President, Exploration

May 8, 2007

Tim Osler
Vancouver, BC, Canada

Corporate Secretary

May 7, 1998

Biographical Information

The following is a brief description of the employment background of the Company s directors and senior management:

Simon T.P. Ridgway - President and Director

Mr. Simon Ridgway is an exploration financier with 15 years experience financing and managing exploration companies operating in North, Central and South America. Mr. Ridgway began his career prospecting for gold in the Yukon Territory where he learned the value added approach of grass roots exploration. A firm believer in the gold potential of Central America, his practical, low cost approach to exploration management has led to major discoveries in Honduras, El Salvador and Guatemala. He is a director of three other publicly-traded resource companies.

Mario Szotlender - Director

Mr. Mario Szotlender holds a degree in international relations and has successfully directed Latin American affairs for numerous private and public companies over the past fifteen years, specializing in developing new business opportunities and establishing relations within the investment community. Mr. Szotlender has also operated several mineral operations in Venezuela, including the Las Cristinas in the 1980 s. He is currently the President of Mena Resources Inc. and Focus Ventures Ltd., and is a director of several other publicly-traded resources companies.

Harmen J. Keyser - Director

Mr. Harmen Keyser has over 20 years exploration experience in North America and abroad. He is registered as a Professional Geologist with the Northwest Territories Association of Professional Engineers, Geologists, and Geophysicists. Since 1991, Mr. Keyser has been self-employed. He is currently President of Landmark Minerals Inc. and a director of Northland Resources Inc., both publicly-traded resource companies.

David Farrell Director

Mr. David Farrell is Director, Mergers & Acquisitions of Endeavour Financial, a private investment banking firm providing advisory services to small and mid-tier global mining companies. At Endeavour, David is responsible for originating and implementing M&A and merchant banking transactions. His experience at Endeavour includes two years in its London office, structuring and closing multi-jurisdictional transactions in London s mining finance market. Prior to joining Endeavour in 2000, David was a corporate solicitor with Stikeman Elliott specializing in project

finance, securities and corporate law and is admitted to the bar in both England and British Columbia.

Nicholas Glass - Director

Mr. Nicholas Glass is a member of the Bar in British Columbia, England and Wales, and currently practises as a mediator and arbitrator in labour relations disputes and civil claims. He has been on the boards of two highly successful public companies, one of which was sold in 2002 for $40 million. Mr. Glass is also a director and officer of two private investment companies, with real estate and securities holdings in Canada, the U.S. and the U.K.

Ralph Rushton Vice President, Corporate Development and Director

Mr. Ralph Rushton earned a BSc. in Geology from Portsmouth in the UK, an MSc from the University of Alberta, and studied Business Communications at Simon Fraser University in Vancouver. With 14 years experience in gold mining and exploration gained mainly with the Anglo American group in Southern Africa, the Middle East and Eastern Europe, Mr. Ruston s current responsibilities include corporate development work and investor relations, and maintaining the Company s links with senior mining companies. He is also a director of Northland Resources Inc., a publicly-traded resource company.

Bradford Cooke - Director

Mr. Bradford Cooke, M.Sc., P.Geo., is a mining executive and a professional geologist with over 29 years of experience in the mining industry. He earned a B.Sc. (Honours) degree from Queens University in 1976 and a M.Sc. (Geology) degree from the University of British Columbia in 1984. Mr. Cooke began his mineral exploration career in 1976 as a Project Geologist with Noranda Mines, and subsequently worked for Shell Minerals, Chevron Resources and as an independent geologic consultant. In 1987, Mr. Cooke founded Canarc Resource Corp., a junior gold exploration and mining company focused on exploring and developing prospective gold properties throughout North, Central and South America. In 2003, he formed Endeavour Silver Corp. for the purpose of acquiring advanced high-grade silver projects in Mexico.

Craig Bow - Director

Craig Bow is a geologist and has been involved in the mineral exploration industry for over 20 years. He worked extensively in South America, acting as Exploration Manager, South America for Newcrest Resources Ltd., prior to taking a position as Area Manager, North America for Gold Fields Exploration Inc., a subsidiary of Gold Fields of South Africa. In March 2006, Mr. Bow was appointed director and President of Lara Exploration Ltd., a publicly-traded resource company.

Cheryl Messier Chief Financial Officer

Ms. Cheryl Messier has over 12 years experience as a financial controller. She worked as CFO for an international computer trading company grossing US$5 million in annual sales. Bringing strong cash flow management experience she joined the Company in June 2003. She is also CFO of two other publicly-traded resource companies.

David Cass Vice-President, Exploration

Mr. Cass, MSc (Mineral Exploration and Mining Geology), has nearly 20 years international exploration and mining industry experience and is fluent in Spanish. He spent 15 years with Anglo American, including 6 years as Exploration Manager North America, and four years managing Anglo s programs in Peru. Prior to joining the Company, he worked as VP Corporate Development for a Vancouver-based junior exploration company.

Tim Osler - Secretary

Mr. Tim Osler, B.Sc., owns and operates a mining consulting and retail mining equipment business, and has developed a gold mining placer property in the Yukon Territory which is currently producing. Mr. Osler is currently a director of Mena Resources Inc. and Focus Ventures Ltd.

There are no family relationships among the members of the board of directors or the members of senior management of the Company. There are no arrangements or understanding with major shareholders, customers, suppliers or others, pursuant to which any member of the board of directors or member of senior management was selected.

B.

Compensation.

Executive officers are compensated in a manner consistent with their respective contributions to the overall benefit of the Company. During the fiscal year ended December 31, 2006, the Company paid to its executive officers the following amounts:

Name	Position	Amount
Simon Ridgway	President	$132,000
Ralph Rushton	Vice-President, Corporate Development	$ 32,315
Jock Slater	Vice-President, Exploration	$ 88,581
Cheryl Messier	Chief Financial Officer	$ 26,163

The Company has no standard arrangement pursuant to which directors are compensated for their services in their capacity as such except for the granting from time to time of incentive stock options. The following table sets out all options in the Company which are held as of June 8, 2007 by the current directors and officers:

Optionees	Number of Shares Subject	Exercise Price ($)	Expiration Date
Simon Ridgway	320,000	$0.68	January 7, 2008
	280,000	$0.70	February 21, 2011
	600,000		
Mario Szotlender	120,000	$0.68	January 7, 2008
	180,000	$0.70	February 21, 2011
	300,000		
Harmen Keyser	100,000	$0.70	February 21, 2011
David Farrell	150,000	$0.70	February 21, 2011
Nicholas Glass	100,000	$0.70	February 21, 2011
Ralph Rushton	250,000	$0.70	February 21, 2011
Bradford Cooke	150,000	$0.70	February 21, 2011
Craig Bow	150,000	$0.70	February 21, 2011
Cheryl Messier	150,000	$0.70	February 21, 2011

David Cass	500,000	$0.52 April 16, 2012
Tim Osler	100,000	$0.70 February 21, 2011
TOTAL:	**2,550,000**	

C.

Board Practices.

The directors of the Company are elected annually and hold office until the next Annual General Meeting of the members of the Company or until their successors in office are duly elected or appointed. All directors are elected for a one-year term. All officers serve at the pleasure of the board of directors. The next annual general meeting will be held on June 28, 2007.

Currently, there are no directors service contracts with the Company or any of its subsidiaries providing for benefits upon termination of employment.

Audit Committee

The Audit Committee of the Company is comprised of David Farrell, Bradford Cooke and Harmen Keyser, all of whom are independent and financially literate . The Audit Committee Charter provides that the primary function of the Audit Committee is to assist the Board of Directors of the Company (the Board) in fulfilling its oversight responsibilities by reviewing the financial information to be provided to the shareholders and others, the systems of internal controls and management information systems established by management and the Company s external audit process and monitoring compliance with the Company s legal and regulatory requirements with respect to its financial statements.

The Audit Committee is accountable to the Board. In the course of fulfilling its specific responsibilities hereunder, the Audit Committee is expected to maintain an open communication between the Company s external auditors and the Board. The responsibilities of a member of the Audit Committee are in addition to such member s duties as a member of the Board.

The Audit Committee does not plan or perform audits or warrant the accuracy or completeness of the Company s financial statements or financial disclosure or compliance with generally accepted accounting procedures as these are the responsibility of management and the external auditors.

Compensation Committee

The Compensation Committee of the Company is comprised of David Farrell and Bradford Cooke, both of whom are unrelated and independent . The Compensation Committee Charter provides that the function of the Compensation Committee is to assist the Board in discharging its oversight responsibilities relating to compensation, including the compensation of key senior management employees of the Company.

The Compensation Committee is to review and make recommendations to the Board on an annual basis with respect to the Company s stock option plan and make recommendations respecting grants of options. It shall also review and recommend to the Board annually, or more frequently as required, management s succession plans for the Executive Management, including the specific development plans and career planning for potential successors to occupy these positions.

Disclosure Committee

The Disclosure Committee of the Company is comprised of Simon Ridgway and Ralph Rushton, and was formed in order to ensure that communications with the investing public about the Company are timely, factual, accurate, and broadly disseminated in accordance with all applicable legal and regulatory requirements.

The Disclosure Committee Charter extends to all employees of the Company, its Board of Directors, those authorized to speak on its behalf and all other insiders. It covers disclosures in documents filed with the securities regulators, financial and non-financial disclosure, including management s discussion and analysis and written statements made in the Company s annual and quarterly reports, new releases, letter to shareholders, presentations by senior management and information contained on the Company s website and other electronic communications with analysts and investors, interviews with the media as well as speeches, press conferences and conference calls.

D.

Employees.

As at December 31, 2006, the Company had 26 employees, 7 in the Vancouver office and 19 in Guatemala, Nicaragua and Mexico. 13 employees provide administrative or management services and 13 employees provide geological services. None of the employees is represented by a union.

E.

Share Ownership.

The following table sets forth, as of June 8, 2007, the number of the Company s Common Shares beneficially owned by (a) the directors and members of senior management of the Company, individually, and as a group, and (b) the percentage ownership of the outstanding Common Shares represented by such shares. The security holders listed below are deemed to be the beneficial owners of Common Shares underlying options and warrants which are exercisable within 60 days from the above date.

Unless otherwise indicated, the shareholders listed possess sole voting and investment power with respect to the shares shown.

Title of Class	Name and Address of Beneficial Owner	Amount and Nature	Percentage of Class(1)
Common	Simon Ridgway Vancouver, BC	2,707,452(2)	5.02%
Common	Mario Szotlender Caracas, Venezuela	1,365,375(3)	2.54%
Common	Harmen Keyser Gibsons, BC	203,741(4)	0.38%
Common	David Farrell Vancouver, BC	150,000(5)	0.28%
Common	Nicholas Glass Vancouver, BC	200,000(6)	0.37%
Common	Ralph Rushton Vancouver, BC	338,500(7)	0.63%
Common	Bradford Cooke North Vancouver, BC	150,000(8)	0.28%
Common		150,000(9)	0.28%

	Craig Bow Beulah, Colorado, USA		
Common	Cheryl Messier North Vancouver, BC	150,000(10)	0.28%
Common	David Cass Vancouver, BC	20,000	0.04%
Common	Tim Osler Vancouver, BC	640,845(11)	1.20%
Common	**All Directors and Senior Management as a group (11 individuals)**	**6,075,913**	**10.96%**

(1)

Based on 53,385,988 shares outstanding as at June 8, 2007, plus any Common Shares deemed to be beneficially owned by the individual (or, for the last row of the table, by the group) pursuant to options and warrants which are exercisable by the individual (or, for the last row of the table, by the group) within 60 days from the above date.

(2)

600,000 of these shares represent currently exercisable stock options; and 175,000 of these shares are escrow shares which are releasable subject to the terms of the Escrow Agreement dated April 15, 1998. 1,116,791 of the free trading shares are held by Mill Street Services Ltd., a private company owned by the Ridgway Family Trust, of which Simon Ridgway is the Trustee. 9,389 of the free trading shares are held by Elvietri Holdings, AVV, a private company owned by Simon Ridgway.

(3)

300,000 of these shares represent currently exercisable stock options; and 25,000 of these shares are escrow shares which are releasable subject to the terms of the Escrow Agreement dated April 15, 1998.

(4)

100,000 of these shares represent currently exercisable stock options; and 25,000 of these shares are escrow shares which are releasable subject to the terms of the Escrow Agreement dated April 15, 1998.

(5)

All of these shares represent currently exercisable stock options.

(6)

100,000 of these shares represent currently exercisable stock options.

(7)

250,000 of these shares represent currently exercisable stock options.

(8)

All of these shares represent currently exercisable stock options.

(9)

All of these shares represent currently exercisable stock options.

(10)

All of these shares represent currently exercisable stock options.

(11)

100,000 of these shares represent currently exercisable stock options; and 12,500 of these shares are escrow shares which are releasable subject to the terms of the Escrow Agreement dated April 15, 1998.

Stock Option Plan

In May 2003, the Company established a Director and Employee Stock Option Plan, the material terms of which are as follows:

1.

the Plan reserves a rolling maximum of 10% of the issued capital of the Company at the time of granting of each option, with no vesting provisions;

2.

no more than 5% of the issued capital may be reserved for issuance to any one individual in any 12 month period;

3.

no more than 2% of the issued capital may be reserved for issuance to any Consultant (as defined by the TSX Venture Exchange) or to an optionee providing investor relations services in any 12 month period;

4.

the minimum exercise price of an option cannot be less than the Market Price (as defined by the TSX Venture Exchange) of the Company s shares less any allowable discount;

5.

options will be granted for a period of up to five years, or 10 years if the Company becomes a Tier 1 company on the TSX Venture Exchange;

6.

options are non-assignable and non-transferable; and

7.

there are provisions for adjustment in the number of shares issuable on exercise of options in the event of a share consolidation, split, reclassification or other relevant change in the Company s corporate structure or capitalization.

As at June 8, 2007, there were 4,200,000 shares reserved for issuance and subject to outstanding options granted under the Plan.

Item 7.

Major Shareholders and Related Party Transactions.

A.

Major Shareholders.

A major shareholder of the Company is a person that beneficially owns, directly or indirectly, more than 5% of the Company s Common Shares. The following table sets forth to the best of the Company s knowledge, as of June 8, 2007, the number of the Company s Common Shares beneficially owned by (a) each major shareholder of the Company, and (b) the percentage ownership of the outstanding Common Shares represented by such shares. The major shareholder listed below is deemed to be the beneficial owners of Common Shares underlying options and warrants which are exercisable within 60 days from the above date. Unless otherwise indicated, to the best of the Company s knowledge, the shareholder listed possesses sole voting and investment power with respect to the shares shown.

Shareholder Name	Number of Shares	Percentage of Issued Shares[(1)]
Simon Ridgway	2,707,452 [(2)]	5.02%

(1)

Based on 53,385,988 shares outstanding as at June 8, 2007, plus any Common Shares deemed to be beneficially owned by the shareholder pursuant to options and warrants which are exercisable within 60 days from the above date.

(2)

600,000 of these shares represent currently exercisable stock options; and 175,000 of these shares are escrow shares which are releasable subject to the terms of the Escrow Agreement dated April 15, 1998. 1,116,791 of the free trading shares are held by Mill Street Services Ltd., a private company owned by the Ridgway Family Trust, of which Simon Ridgway is the Trustee. 9,389 of the free trading shares are held by Elvietri Holdings, AVV, a private company owned by Simon Ridgway.

To the best of the Company s knowledge, there are no arrangements the operation of which may result in a change in control of the Company.

The Company is a publicly-owned corporation, the shares of which are owned by residents of Canada, the United States, and other countries. The Company is not controlled directly or indirectly by another corporation or any foreign government. As of June 8, 2007, there were 53,385,988 shares of the Company outstanding, of which approximately 2,813 U.S. holders of record or beneficial holders, held a total of 5,872,738 shares (11.0%). The number of beneficial holders was determined based on a review of the number of holders represented by Broadridge Investor Communications, a U.S. mailing service.

B.

Related Party Transactions.

Effective as at the Amalgamation date of July 1, 2004, the Company agreed to pay to Mill Street Services Ltd. $16,000 per month for Mr. Ridgway s services as President of the Company. Mill Street Services Ltd. is a private company owned by the Ridgway Family Trust, of which Simon Ridgway is the Trustee. During 2006, Mill Street billed portions of this fee to other public companies of which Mr. Ridgway is a director for his services rendered to those companies.

The Company and PilaGold Inc. amalgamated and continued as one company pursuant to the provisions of the British Columbia Business Corporations Act on July 1, 2004. Certain of the directors and officers of the Company were directors, officers and/or shareholders of PilaGold Inc.

During the fiscal year ended December 31, 2006, the Company paid an aggregate of $241,927 to directors and companies that have common directors with the Company for consulting and management fees.

C.

Interests of Experts and Counsel.

Not Applicable.

Item 8.

Financial Information.

A.

Consolidated Statements and Other Financial Information.

The financial statements as required under Item 17 are attached hereto and found immediately following Item 19 of this Annual Report. An auditors report of Amisano Hanson with respect to the fiscal years ended December 31, 2006 and 2005 and the balance sheet as at December 31, 2006 and 2005, are included herein immediately preceding the consolidated financial statements.

There are no legal proceedings currently pending which may have, or have had in the recent past, significant effects on the Company s financial position or profitability.

The Company has no history of paying dividends and the Company does not contemplate that any dividends will be paid on its shares in the immediate or the foreseeable future. The present policy of the Company is to retain future earnings for use in its operations and the expansion of its business.

B.

Significant Changes.

There have been no significant changes in the Company since the date of the Company s annual financial statements.

Item 9.

The Offer and Listing.

The Company shares were listed and posted for trading on the TSX Venture Exchange (the TSXV) (formerly the Canadian Venture Exchange and before that, the Vancouver Stock Exchange) on October 7, 1998 and currently trades on the TSXV. The TSXV trading symbol is RDU.

Effective October 4, 2002, the Company began trading on the Regulated Unofficial Market of the Frankfurt Stock Exchange under the trading symbol RE1. Radius has the German Security ID number of 725224.

A.

Offer and Listing Details.

The following tables set forth the reported high and low closing bid prices (all expressed in Canadian dollars) on the TSXV for (a) the Company s five most recent fiscal years; (b) each quarterly period for the Company s past two fiscal years and for the first quarter of the Company s 2007 fiscal year, and (c) for each of the six months from December 2006 to May 2007.

High and Low Price for the Five Most Recent Fiscal Years

Fiscal Year ended	**High**	**Low**
December 31		
2006	$0.95	$0.31
2005	$1.69	$0.51
2004	$1.85	$0.88
2003	$2.03	$0.63
2002	$1.65	$0.63

High and Low Prices for Each Quarterly Period for the Past Two Fiscal Years and For the First Quarter of Fiscal 2007

Period Ended	**High**	**Low**
March 31, 2007	$0.73	$0.39
December 31, 2006	$0.59	$0.31
September 30, 2006	$0.68	$0.44
June 30, 2006	$0.95	$0.62
March 31, 2006	$0.92	$0.62
December 2005	$0.80	$0.51
September 30, 2005	$1.50	$0.61
June 30, 2005	$1.45	$1.15
March 31, 2005	$1.69	$1.21

High and Low Prices for the Most Recent Six Months

Period	High	Low
May 2007	$0.66	$0.50
April 2007	$0.58	$0.49
March 2007	$0.60	$0.52
February 2007	$0.73	$0.46
January 2007	$0.56	$0.39
December 2006	$0.56	$0.45

On May 31, 2007, the closing price of the Common Shares on TSXV was $0.62 per Common Share. During the last three years, the Common Shares have not been subject to any trading suspensions.

B.

Plan of Distribution.

Not Applicable

C.

Markets.

The Company s shares were listed and posted for trading on the TSX Venture Exchange (the TSXV) (formerly the Canadian Venture Exchange and before that, the Vancouver Stock Exchange) on October 7, 1998 and currently trades on the TSXV. The TSXV trading symbol is RDU.

Effective October 4, 2002, the Company s shares began trading on the Regulated Unofficial Market of the Frankfurt Stock Exchange under the trading symbol RE1. Radius has the German Security ID number of 725224.

Effective December 22, 2004, the Company s shares began trading on the U.S. Over-the-Counter Bulletin Board under the trading symbol RDUFF.

D.

Selling Shareholders.

Not Applicable.

E.

Dilution.

Not Applicable

F.

Expenses of the Issue.

Not Applicable

Item 10.

Additional Information.

A.

Share Capital.

Not Applicable

B.

Articles of Association.

The Company s Articles do not contain any restrictions on the type of business in which the Company may engage.

Section 17 of the Company s Articles provides that, A director or senior officer who holds a disclosable interest (as that term is used in the Business Corporations Act) in a contract or transaction into which the Company has entered or proposes to enter is liable to account to the Company for any profit that accrues to the director or senior officer under or as a result of the contract or transaction only if and to the extent provided in the Business Corporations Act. A director who holds a disclosable interest in a contract or transaction into which the Company has entered or proposes to enter and who is present at the meeting of directors at which the contract or transaction is considered for approval may be counted in the quorum at the meeting whether or not the director votes on any or all of the resolutions considered at the meeting.

Section 13.5 of the Articles provides that the directors may from time to time determine the remuneration of directors. However, a disclosable interest does not include compensation to be paid to a director, and therefore such interest is not required to be disclosed pursuant to Section 17 of the Articles. Management believes that, in the absence of an independent quorum, a director cannot vote compensation to himself or herself.

The borrowing powers of the directors are addressed in Part 8, which states that, The Company, if authorized by the directors, may:

(1)

borrow money in the manner and amount, on the security, from the sources and on the terms and conditions that they consider appropriate;

(2)

issue bonds, debentures and other debt obligations either outright or as security for any liability or obligation of the Company or any other person and at such discounts or premiums and on such other terms as they consider appropriate;

(3)

guarantee the repayment of money by any other person or the performance of any obligation of any other person; and

(4)

mortgage, charge, whether by way of specific or floating charge, grant a security interest in, or give other security on, the whole or any part of the present and future assets and undertaking of the Company.

There is no provision in the Company s Articles regarding a mandatory age for retirement of directors. There is no requirement for a director to hold shares of the Company.

All of the authorized shares of common stock of the Company are of the same class and, once issued, rank equally as to dividends, voting powers, and participation in assets. Holders of common stock are entitled to one vote for each share held of record on all matters to be acted upon by the shareholders. Holders of common stock are entitled to receive such dividends as may be declared from time to time by the Board of Directors, in its discretion, out of funds legally available therefor.

Upon liquidation, dissolution or winding up of the Company, holders of common stock are entitled to receive pro rata the assets of Company, if any, remaining after payments of all debts and liabilities. No shares have been issued subject to call or assessment. There are no pre-emptive or conversion rights and no provisions for redemption or purchase for cancellation, surrender, or sinking or purchase funds.

Any modification, amendment or variation of such shareholder rights or provisions are governed by the British Columbia Business Corporations Act and must be approved by a vote of at least 2/3 of the votes cast at a shareholders meeting. Unless the British Columbia Business Corporations Act or the Company s Articles otherwise provide, any action to be taken by a resolution of the members may be taken by an ordinary resolution or by a vote of a majority of the shares represented at the shareholders meeting.

The conditions governing the manner in which annual general meetings and extraordinary general meetings of shareholders are convoked, including the conditions of admission are described in the Articles of the Company in Section 10 Meetings of Shareholders.

Section 10.1 states that, Unless an annual general meeting is deferred or waived in accordance with the Business Corporations Act, the Company must hold its first annual general meeting within 18 months after the date on which it was incorporated or otherwise recognized, and after that must hold an annual general meeting at least once in each calendar year and not more than 15 months after the last annual reference date at such time and place as may be determined by the directors.

Section 10.4 states that, The Company must send notice of the date, time and location of any meeting of shareholders, in the manner provided in these Articles, or in such other manner, if any, as may be prescribed by ordinary resolution (whether previous notice of the resolution has been given or not), to each shareholder entitled to attend the meeting, to each director and to the auditor of the Company, unless these Articles otherwise provide, at least the following number of days before the meeting:

(1)

if and for so long as the Company is a public company, 21 days;

(2)

otherwise, 10 days.

The conditions of admission are described in Section 11.5 where it is stated that, The directors, the president (if any), the secretary (if any), the assistant secretary (if any), any lawyer for the Company, the auditor of the Company and any other persons invited by the directors are entitled to attend any meeting of shareholders, but if any of those persons does attend a meeting of shareholders, that person is not to be counted in the quorum and is not entitled to vote at the meeting unless that person is a shareholder or proxy holder entitled to vote at the meeting.

There are no limitations on the rights to own securities.

There is no provision of the Company s Articles, charter or bylaws that would have an effect of delaying, deferring or preventing a change in control of the Company and that would operate only with respect to a merger, acquisition or corporate restructuring involving the Company (or any of its subsidiaries).

There are no conditions imposed by the Articles governing changes in the capital, where such conditions are more stringent that is required by law.

C.

Material Contracts.

Other than as disclosed elsewhere in this Annual Report, the Company has not entered into any material contracts, other than contracts entered into in the ordinary course of business, during the two year period immediately preceding the filing of this Annual Report, except:

D.

Exchange Controls.

The Company is not aware of any Canadian federal or provincial laws, decrees, or regulations that restrict the export or import of capital, including foreign exchange controls, or that affect the remittance of dividends, interest or other payments to non-Canadian holders of the common shares. There are no limitations on the right of non-Canadian owners to hold or vote the common shares imposed by Canadian federal or provincial law or by the charter or other constituent documents of the Company.

E.

Taxation

The following summary of the material Canadian federal income tax consequences are stated in general terms and are not intended to be advice to any particular shareholder. Each prospective investor is urged to consult his or her own tax advisor regarding the tax consequences of his or her purchase, ownership and disposition of Common Shares. The tax consequences to any particular holder of Common Shares will vary according to the status of that holder as an individual, trust, corporation or member of a partnership, the jurisdiction in which that holder is subject to taxation, the place where that holder is resident and, generally, according to that holder s particular circumstances. This summary is applicable only to holders who are resident in the United States, have never been resident in Canada, deal at arm s length with the Company, hold their Common Shares as capital property and who will not use or hold the Common Shares in carrying on business in Canada. Special rules, which are not discussed in this summary, may apply to a United States holder that is an issuer that carries on business in Canada and elsewhere.

This summary is based upon the provisions of the Income Tax Act of Canada and the regulations thereunder (collectively, the Tax Act or ITA) and the Canada-United States Tax Convention (the Tax Convention) as at the date of this Annual Report and the current administrative practices of Canada Customs and Revenue Agency. This summary does not take into account provincial income tax consequences.

Management urges each holder to consult his own tax advisor with respect to the income tax consequences applicable to him in his own particular circumstances.

Canadian Income Tax Consequences

The summary below is restricted to the case of a holder (a Holder) of one or more Common Shares who for the purposes of the Tax Act is a non-resident of Canada, holds his Common Shares as capital property and deals at arm s length with the Company.

Dividends

A Holder will be subject to Canadian withholding tax (Part XIII Tax) equal to 25%, or such lower rates as may be available under an applicable tax treaty, of the gross amount of any dividend paid or deemed to be paid on his Common Shares. Under the Tax Convention, the rate of Part XIII Tax applicable to a dividend on Common Shares paid to a Holder who is a resident of the United States is, if the Holder is a company that beneficially owns at least 10% of the voting stock of the Company, 5% and, in any other case, 15% of the gross amount of the dividend. The Company will be required to withhold the applicable amount of Part XIII Tax from each dividend so paid and remit the withheld amount directly to the Receiver General for Canada for the account of the Holder.

Disposition of Common Shares

A Holder who disposes of Common Shares, including by deemed disposition on death, will not be subject to Canadian tax on any capital gain thereby realized unless the common Share constituted taxable Canadian property as defined by the Tax Act. Generally, a common share of a public corporation will not constitute taxable Canadian property of a Holder unless he held the common share as capital property used by him carrying on a business in Canada, or he or persons with whom he did not deal at arm s length alone or together held or held options to acquire, at any time within the 60 months preceding the disposition, 25% or more of the issued shares of any class of the capital stock of the Company.

A Holder who is a resident of the United States and realizes a capital gain on disposition of Common Shares that was taxable Canadian property will nevertheless, by virtue of the Treaty, generally be exempt from Canadian tax thereon unless (a) more than 50% of the value of the Common Shares is derived from, or from an interest in, Canadian real estate, including Canadian mineral resources properties, (b) the Common Shares formed part of the business property of a permanent establishment that the Holder has or had in Canada within the 12 months preceding disposition, or (c) the Holder (i) was a resident of Canada at any time within the ten years immediately preceding the disposition, and for a total of 120 months during any period of 20 consecutive years, preceding the disposition, and (ii) owned the Common Shares when he ceased to be resident in Canada.

A Holder who is subject to Canadian tax in respect of a capital gain realized on disposition of Common Shares must include one half of the capital gain (taxable capital gain) in computing his taxable income earned in Canada. The Holder may, subject to certain limitations, deduct one half of any capital loss (allowable capital loss) arising on disposition of taxable Canadian property from taxable capital gains realized in the year of disposition in respect to taxable Canadian property and, to the extent not so deductible, from such taxable capital gains of any of the three preceding years or any subsequent year.

United States Federal Income Tax Consequences

The following is a discussion of material United States Federal income tax consequences, under the law, generally applicable to a U.S. Holder (as defined below) of Common Shares. This discussion does not cover any state, local or foreign tax consequences.

The following discussion is based upon the sections of the Internal Revenue Code of 1986, as amended (the Code), Treasury Regulations, published Internal Revenue Service (IRS) rulings, published administrative positions of the IRS and court decisions that are currently applicable, any or all of which could be materially and adversely changed, possible on a retroactive basis, at any time. In addition, the discussion does not consider the potential effects, both adverse and beneficial, or recently proposed legislation which, if enacted, could be applied, possibly on a retroactive basis, at any time. The discussion is for general information only and it is not intended to be, nor should it be construed to be, legal or tax advice to any holder or prospective holder of Common Shares of the Company. Each holder and prospective holder of Common Shares of the Company is advised to consult their own tax advisors about the federal, state, local, and foreign tax consequences of purchasing, owning and disposing of Common Shares of the Company applicable to their own particular circumstances.

U.S. Holders

As used herein, a (U.S. Holder) includes a holder of Common Shares of the Company who is a citizen or resident of the United States, a corporation created or organized in or under the laws of the United States or of any political subdivision thereof, an estate whose income is taxable in the United States irrespective of source or a trust subject to the primary supervision of a court within the United States and control of a United States fiduciary as described in Section 7701(a)(30) of the Code. This summary does not address the tax consequences to, and U.S. Holder does not include, persons subject to special provisions of Federal income tax law, such as tax-exempt organizations, qualified retirement plans, financial institutions, insurance companies, real estate investment trusts, regulated investment companies, broker-dealers, non-resident alien individuals, persons or entities that have a functional currency other than the U.S. dollar, shareholders who hold Common Shares as part of a straddle, hedging or conversion transaction, and shareholders who acquired their Common Shares through the exercise of employee stock options or otherwise as compensation for services. This summary is limited to U.S. Holders who own Common Shares as capital assets. This summary does not address the consequences to a person or entity holding an interest in a shareholder or the consequences to a person of the ownership, exercise or disposition of any options, warrants or other rights to acquire Common Shares.

Distribution of Common Shares

U.S. Holders receiving dividend distributions (including constructive dividends) with respect to common shares of the Company are required to include in gross income for United States Federal income tax purposes the gross amount of such distributions equal to the U.S. dollar value of such distributions on the date of receipt (based on the exchange rate on such date), to the extent that the Company has current or accumulated earnings and profits, without reduction for any Canadian income tax withheld from such distributions. Such Canadian tax withheld may be credited, subject to certain limitations, against the U.S. Holder s United States Federal Income tax liability or, alternatively, individuals may be deducted in computing the U.S. Holder s United States Federal taxable income by those individuals who itemize deductions. (See more detailed discussion at Foreign Tax Credit below). To the extent that distributions exceed current or accumulated earnings and profits of the Company, they will be treated first as a return of capital up to the U.S. Holder s adjusted basis in the common shares and thereafter as gain from the sale or exchange of the common shares. Dividend income will be taxed at marginal tax rates applicable to ordinary income while preferential tax rates for long-term capital gains are applicable to a U.S. Holder which is an individual, estate or trust. There are currently no preferential tax rates for long-term capital gains for a U.S. Holder which is a corporation.

In the case of foreign currency received as a dividend that is not converted by the recipient into U.S. dollars on the date of receipt, a U.S. Holder will have a tax basis in the foreign currency equal to its U.S. dollar value on the date of receipt. Generally any gain or loss recognized upon a subsequent sale of other disposition of the foreign currency, including the exchange for U.S. dollars, will be ordinary income or loss.

Dividends paid on the common shares of the Company will not generally be eligible for the dividends received deduction provided to corporations receiving dividends from certain United States corporations. A U.S. Holder which is a corporation may, under certain circumstances, be entitled to a 70% deduction of the United States source portion of dividends received from the Company (unless the Company qualifies as a foreign personal holding company or a passive foreign investment company , as defined below) if such U.S. Holder owns shares representing at least 10% of the voting power and value of the Company. The availability of this deduction is subject to several complex limitations which are beyond the scope of this discussion.

Under current Treasury Regulations, dividends paid on the Company s common shares, if any, generally will not be subject to information reporting and generally will not be subject to U.S. backup withholding tax. However, dividends and the proceeds from a sale of the Company s common shares paid in the U.S. through a U.S. or U.S. related paying agent (including a broker) will be subject to U.S. information reporting requirements and may also be subject to the 31% U.S. backup withholding tax, unless the paying agent is furnished with a duly completed and signed Form W-9. Any amounts withheld under the U.S. backup withholding tax rules will be allowed as a refund or a credit against the U.S. Holder s U.S. federal income tax liability, provided the required information is furnished to the IRS.

Foreign Tax Credit

For individuals whose entire income from sources outside the United States consists of qualified passive income, the total amount of creditable foreign taxes paid or accrued during the taxable year does not exceed $300 ($600 in the case of a joint return) and an election is made under section 904(j), the limitation on credit does not apply.

A U.S. Holder who pays (or has withheld from distributions) Canadian income tax with respect to the ownership of Common Shares of the Company may be entitled, at the option of the U.S. Holder, to either a deduction or a tax credit for such foreign tax paid or withheld. Generally, it will be more advantageous to claim a credit because a credit reduces United States Federal income taxes on a dollar-for-dollar basis, while a deduction merely reduces the taxpayer s income subject to tax. This election is made on a year-by-year basis and applies to all foreign income taxes (or taxes in lieu of income tax) paid by (or withheld from) the U.S. Holder during the year. There are significant and complex limitations which apply to the credit, among which is the general limitation that the credit cannot exceed the proportionate share of the U.S. Holder s United States income tax liability that the U.S. Holder s foreign source income bears to his/her or its worldwide taxable income in the determination of the application of this limitation. The various items of income and deduction must be classified into foreign and domestic sources. Complex rules govern this classification process. In addition, this limitation is calculated separately with respect to specific classes of income such as passive income , high withholding tax interest , financial services income , shipping income , and certain o classifications of income. Dividends distributed by the Company will generally constitute passive income or, in the case of certain U.S. Holders, financial services income for these purposes. The availability of the foreign tax credit and the application of the limitations on the credit are fact specific and management urges holders and prospective holders of common shares of the Company to consult their own tax advisors regarding their individual circumstances.

Disposition of Common Shares

A U.S. Holder will recognize gain or loss upon the sale of Common Shares of the Company equal to the difference, if any, between (I) the amount of cash plus the fair market value of any property received, and (ii) the shareholder s tax basis in the Common Shares of the Company. Preferential tax rates apply to long-term capital gains of U.S. Holders, which are individuals, estates or trusts. This gain or loss will be capital gain or loss if the Common Shares are capital assets in the hands of the U.S. Holder, which will be a short-term or long-term capital gain or loss depending upon the holding period of the U.S. Holder. Gains and losses are netted and combined according to special rules in arriving at the overall capital gain or loss for a particular tax year. Deductions for net capital losses are subject to significant limitations. For U.S. Holders which are not corporations, any unused portion of such net capital loss may be carried over to be used in later tax years until such net capital loss is thereby exhausted, but individuals may not carry back capital losses. For U.S. Holders which are corporations (other than corporations subject to Subchapter S of the Code), an unused net capital loss may be carried back three years from the loss year and carried forward five years from the loss year to be offset against capital gains until such net capital loss is thereby exhausted.

Other Considerations

In the following circumstances, the above sections of the discussion may not describe the United States Federal income tax consequences resulting from the holding and disposition of Common Shares of the Company.

Foreign Personal Holding Company

If at any time during a taxable year more than 50% of the total combined voting power or the total value of the Company s outstanding shares is owned, actually or constructively, by five or fewer individuals who are citizens or residents of the United States and 60% (50% after the first tax year) or more of the Company s gross income for such year was derived from certain passive sources (e.g. from interest income received from its subsidiaries), the Company would be treated as a foreign personal holding company. In that event, U.S. Holders that hold Common Shares of the Company would be required to include in gross income for such year their allocable portions of such passive income to the extent the Company does not actually distribute such income.

The Company does not believe that it currently has the status of a foreign personal holding company . However, there can be no assurance that the Company will not be considered a foreign personal holding company for the current or any future taxable year.

Foreign Investment Company

If 50% or more of the combined voting power or total value of the Company s outstanding shares are held, actually or constructively, by citizens or residents of the United States, United States domestic partnerships or corporations, or estates or trusts other than foreign estates or trusts (as defined by the Code Section 7701(a)(31), and the Company is found to be engaged primarily in the business of investing, reinvesting, or trading in securities, commodities, or any interest therein, it is possible that the Company might be treated as a foreign investment company as defined in Section 1246 of the Code, causing all or part of any gain realized by a U.S. Holder selling or exchanging common shares of the Company to be treated as ordinary income rather than capital gains.

Passive Foreign Investment Company

As a foreign corporation with U.S. Holders, the Company could potentially be treated as a passive foreign investment company (PFIC), as defined in Section 1297 of the Code, depending upon the percentage of the Company s income which is passive, or the percentage of the Company s assets which is held for the purpose of producing passive income.

Certain United States income tax legislation contains rules governing PFICs, which can have significant tax effects on U.S. shareholders of foreign corporations. These rules do not apply to non-U.S. shareholders. Section 1297 (a) of the Code defines a PFIC as a corporation that is not formed in the United States and, for any taxable year, either (I) 75% or more of its gross income is passive income , which includes interest, dividends and certain rents and royalties or (ii) the average percentage, by fair market value (or, if the company is a controlled foreign corporation or makes an election, by adjusted tax basis), of its assets that produce or are held for the production of passive income is 50% or more. The taxation of a US shareholder who owns stock in a PFIC is extremely complex and is therefore beyond the scope of this discussion. Management urges US persons to consult with their own tax advisors with regards to the impact of these rules.

Controlled Foreign Corporation

A Controlled Foreign Corporation (CFC) is a foreign corporation more than 50% of whose stock by vote or value is, on any day in the corporation s tax year, owned (directly or indirectly) by U.S. Shareholders. If more than 50% of the voting power of all classes of stock entitled to vote is owned, actually or constructively, by citizens or residents of the United States, United States domestic partnerships and corporations or estates or trusts other than foreign estates or trusts, each of whom own actually or constructively 10% or more of the total combined voting power of all classes of stock of the Company could be treated as a controlled foreign corporation under Subpart F of the Code. This classification would affect many complex results, one of which is the inclusion of certain income of a CFC, which is subject to current U.S. tax. The United States generally taxes United States Shareholders of a CFC currently on their pro rata shares of the Subpart F income of the CFC. Such United States Shareholders are generally treated as having received a current distribution out of the CFC s Subpart F income and are also subject to current U.S. tax on their pro rata shares of the CFC s earnings invested in U.S. property. The foreign tax credit described above may reduce the U.S. tax on these amounts. In addition, under Section 1248 of the Code, gain from the sale or exchange of shares by a U.S. Holder of common shares of the Corporation which is or was a United States Shareholder at any time during the five-year period ending with the sale or exchange is treated as ordinary income to the extent of earnings and profits of the Company (accumulated in corporate tax years beginning after 1962, but only while the shares were held and while the Company was controlled) attributable to the shares sold or exchanged. If a foreign corporation is both a PFIC and a CFC, the foreign corporation generally will not be treated as a PFIC with respect to the United States Shareholders of the CFC. This rule generally will be effective for taxable years of United States Shareholders beginning after 1997 and for taxable years of foreign corporations ending with or within such taxable years of United States Shareholders. The PFIC provisions continue to apply in the case of PFIC that is also a CFC with respect to the U.S. Holders that are less than 10% shareholders. Because of the complexity of Subpart F, a more detailed review of these rules is outside of the scope of this discussion.

The amount of any backup withholding will not constitute additional tax and will be allowed as a credit against the U.S. Holder s federal income tax liability.

Filing of Information Returns

Under a number of circumstances, United States Investor acquiring Common Shares of the Company may be required to file an information return with the Internal Revenue Service Center where they are required to file their tax returns with a duplicate copy to the Internal Revenue Service Center, Philadelphia, PA 19255. In particular, any U.S. Holder

who becomes the owner, directly or indirectly, of 10% or more of the Common Shares of the Company will be required to file such a return. Other filing requirements may apply, and management urges U.S. Holders to consult their own tax advisors concerning these requirements.

F.

Dividends and Paying Agents.

Not Applicable

G.

Statement by Experts.

Not Applicable

H.

Documents on Display.

The documents concerning the Company which are referred to in this Annual Report may be inspected at the Company s executive offices, located at Suite 830, 355 Burrard Street, Vancouver, BC.

I.

Subsidiary Information.

Not Applicable

Item 11.

Quantitative and Qualitative Disclosures About Market Risk.

There are no market risks which can be expected to materially affect the Company s business.

Mineral Prices

Even if the Company s exploration programs are successful, factors beyond the control of the Company may affect the marketability of any minerals discovered. Metal prices have historically fluctuated widely and are affected by numerous factors, including international, economic and political trends, expectations for inflation, currency exchange fluctuations, interest rates, global or regional consumption patterns, speculative activities and worldwide production levels. The effect of these factors cannot be accurately predicted.

Foreign Currency Translation

Monetary items denominated in a foreign currency are translated into Canadian dollars at exchange rates prevailing at the balance sheet date and non-monetary items are translated at exchange rates prevailing when the assets were acquired or obligations incurred. Foreign currency denominated revenue and expense items are translated at exchange rates prevailing at the transaction date. Gains or losses arising from the translations are included in operations.

Item 12.

Description of Securities Other than Equity Securities.

Not Applicable

PART II

Item 13.

Defaults, Dividend Arrearages and Delinquencies.

None.

Item 14.

Material Modifications to the Rights of Security Holders and Use of Proceeds.

None.

Item 15.

Controls and Procedures

Disclosure Controls and Procedures

The Company s management, including the President, has reviewed and evaluated the effectiveness of the Company s disclosure controls and procedures as of a date within 90 days before the filing of this annual report. Based on that review and evaluation, the President has concluded that the Company s disclosure controls and procedures are effective in providing management with all material information required to be disclosed in this annual report on a timely basis.

Changes in Internal Controls Over Financial Reporting

The management of the Company is responsible for establishing and maintaining adequate internal control over the financial reporting of the Company. The management of the Company, including the President, has reviewed whether or not there have been significant changes in internal controls or in other factors that could significantly affect the internal controls of the Company subsequent to the date of their most recent evaluation. Based on that review, the President has concluded that there have been no such significant changes.

Item 16.

[Reserved]

Item 16A.

Audit Committee Financial Expert

The Board of Directors of the Company has determined that there is one audit committee financial expert (as defined by the SEC) on the Company s audit committee, namely David Farrell, a Director of the Company. Mr. Farrell has gained the attributes of an audit committee financial expert through his experience overseeing and assessing the performance of the public accountants who have audited the Company s financial statements;

Item 16B.

Code of Ethics

The Company has not adopted a formal written code of ethics given its relatively small size. Directors and officers of the Company are subject to the laws of the Province of British Columbia, Canada, whereby they are required to act honestly, in good faith and in the best interests of the Company. Also, the Board of Directors of the Company is comprised of two lawyers who are available to the management of the Company to provide a high standard of care in the activities of the Company and to provide guidance when needed.

Item 16C.

Principal Accountant Fees and Services

Amisano Hanson, Chartered Accountants, has served as the Company s principal accountant since January 9, 2004. The chart below sets forth the total amount billed the Company by Amisano Hanson for services performed during the Company s fiscal years ended December 31, 2006 and 2005, and breaks down these amounts by category of service:

	Years ended December 31	
	2006	**2005**
Audit:	$52,750	$30,000
Audit Related:	0	0
Tax (tax return preparation)	$6,100	0
All Other Fees	0	0
Total	**$58,850**	**$30,000**

Audit Fees are the aggregate fees billed for the audit of the Company s consolidated annual financial statements in connection with statutory and regulatory filings or engagements.

Audit Committee's pre-approval policies and procedures

The Audit Committee nominates and engages the independent auditors to audit the financial statements, and approves all audit, audit-related services, tax services and other services provided by the Company s outside auditors. Any services provided by the auditors that are not specifically included within the scope of the audit must be pre-approved by the audit committee prior to any engagement. The audit committee is permitted to approve certain fees for audit-related services, tax services and other services pursuant to a *de minimus* exception before the completion of the engagement. In 2006, none of the fees paid to the auditors were approved pursuant to the *de minimus* exception.

Item 16D.

Exemptions from the Listing Standards for Audit Committees.

Not Applicable

Item 16E.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers.

None

PART II

Item 17.

Financial Statements.

The Company s Consolidated Financial Statements are stated in Canadian Dollars and are prepared in accordance with Canadian GAAP, the application of which, in the case of the Company, conforms in all material respects for the periods presented with U.S. GAAP, except as discussed in Note 16 to the Consolidated Financial Statements of the Company.

The Consolidated Financial Statements of the Company as required under Item 16 of Form 20-F attached hereto are individually listed under Item 19, and are found immediately following the text of this Annual Report. The audit report of Amisano Hanson, Chartered Accountants, and the comments by auditors for U.S. readers on Canada U.S. reporting difference, are included herein immediately preceding the Consolidated Financial Statements.

Item 18.

Financial Statements.

Not Applicable

Item 19.

Exhibits.

Financial Statements

The Consolidated Financial Statements of the Corporation and exhibits listed below are filed with this Annual Report on Form 20-F in the United States.

The following financial statements are attached to and form part of this Annual Report:

Consolidated Financial Statements of the Company

-

Report of Independent Registered Public Accounting Firm of Amisano Hanson, Chartered Accountants

-

Consolidated Balance Sheets as at December 31, 2006 and 2005

-

Consolidated Statements of Operations for the years ended December 31, 2006, 2005 and 2004

-

Consolidated Statements of Cash Flows for the years ended December 31, 2006, 2005 and 2004

-

Consolidated Statements of Shareholders Equity for the years ended December 31, 2006, 2005 and 2004

-

Consolidated Schedule of Mineral Properties for the year ended December 31, 2006

-

Consolidated Schedule of Mineral Properties for the year ended December 31, 2005

-

Notes to the Consolidated Financial Statements of the Company

Exhibits

The following exhibits are attached to and form part of this Annual Report:

Exhibit No.	Description
1 (1)	Certificate of Amalgamation and Articles of the Company dated July 1, 2004.
2 (2)	Escrow Agreement dated April 14, 1998 among the Company, Pacific Corporate Trust Company, as escrow agent, and certain shareholders of the Company named therein
8 (3)	List of Subsidiaries
31.1	Section 302 Certification of the President, C.E.O. and C.F.O.
32.1	Section 906 Certification of the President, C.E.O. and C.F.O.

(1)

Incorporated by reference to the Company s Form 20-F Registration Statement dated July 13, 2005.

(2)

Incorporated by reference to the Company s Form 20-F Registration Statement dated November 15, 2000.

(3)

See Item 4, Organizational Structure, herein.

RADIUS GOLD INC.

(An Exploration Stage Company)

REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND 2005

(Expressed in Canadian Dollars)

A PARTNERSHIP OF INCORPORATED PROFESSIONALS **AMISANO HANSON**

CHARTERED ACCOUNTANTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders,

Radius Gold Inc.

(An Exploration Stage Company)

We have audited the consolidated balance sheets of Radius Gold Inc. as at December 31, 2006 and 2005 and the consolidated statements of operations, cash flows and shareholders' equity for each of the years in the three year period ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005 and the results of its operations and cash flows for each of the years in the three year period ended December 31, 2006, in accordance with Canadian generally accepted accounting principles.

Vancouver, Canada
April 9, 2007

AMISANO HANSON
Chartered Accountants

750 WEST PENDER STREET, SUITE 604

TELEPHONE: 604-689-0188

VANCOUVER CANADA

FACSIMILE: 604-689-9773

V6C 2T7

E-MAIL: amishan@telus.net

RADIUS GOLD INC.

(An Exploration Stage Company)

CONSOLIDATED BALANCE SHEETS

December 31, 2006 and 2005

(Stated in Canadian Dollars)

		2006	2005
ASSETS			
CURRENT			
Cash and cash equivalents		$ 933,697	$ 1,423,554
Marketable securities	Note 3	9,023,890	11,936,277
Advances and receivables	Notes 5 and 7	838,139	305,864

GST receivable		13,688	26,052
Due from related parties	Note 7	147,870	256,649
Prepaid expenses and deposits		96,744	102,641
		11,054,028	14,051,037
PROPERTY AND EQUIPMENT	Note 4	330,962	384,720
MINERAL PROPERTIES	Notes 5 and 7, and Schedule 1	13,438,248	13,731,865
		$ 24,823,238	$ 28,167,622

LIABILITIES

Current			
Accounts payable and accrued liabilities	Note 7	$ 213,689	$ 286,527
Due to related parties	Note 7	10,510	35,129
		224,199	286,527

SHAREHOLDERS EQUITY

SHARE CAPITAL	Note 6		
Authorized:			
Unlimited common shares without par value			
Issued:			
53,385,988 shares (2005: 53,310,988)		42,486,069	42,402,819
CONTRIBUTED SURPLUS		3,443,487	2,244,987
		45,929,556	44,647,806
DEFICIT		(21,330,517)	(16,766,711)
		24,599,039	27,881,095
		$ 24,823,238	$ 28,167,622

Commitments - Notes 5, 6 and 10

ON BEHALF OF THE BOARD:

signed , Director

signed , Director

Simon Ridgway

Mario Szotlender

SEE ACCOMPANYING NOTES

RADIUS GOLD INC.

(An Exploration Stage Company)

CONSOLIDATED STATEMENTS OF OPERATIONS

for the years ended December 31, 2006, 2005 and 2004

(Stated in Canadian Dollars)

		2006	2005	2004
EXPENSES				
Amortization		58,780	50,096	55,379
Consulting fees	Note 7	18,301	38,710	69,870
Donations		20,748	25,360	-
Legal and accounting fees		86,561	158,705	291,233
Management fees and salaries	Note 7	60,000	60,000	45,000
Non-cash stock compensation charge		1,230,750	40,850	1,173,784
Office and miscellaneous		36,609	46,888	33,521
Public relations		132,828	222,073	703,715
Property investigations		24,835	11,790	-
Rent and utilities		26,965	37,102	37,454
Repairs and maintenance		7,158	17,220	13,194

Salaries and wages	133,244	178,014	178,766
Telephone and fax	14,923	14,908	15,222
Transfer agent and regulatory fees	17,120	24,262	51,058
Travel and accommodation	61,654	100,580	98,513
Write-off of mineral properties	3,052,802	5,917,734	1,350,205
	(4,983,278)	(6,944,292)	(4,116,914)
OTHER INCOME (EXPENSES)			
Foreign currency exchange	42,413	(76,231)	(256,135)
Investment income	352,037	268,470	431,676
Other income	25,022	72,655	6,234
Gain on settlement of old debt	-	-	26,800
	419,472	264,894	208,575
Net loss for the year	$ (4,563,806)	$ (6,679,398)	$ (3,908,339)
BASIC AND DILUTED LOSS PER COMMON SHARE	$ (0.09)	$ (0.13)	$ (0.09)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	52,991,262	52,898,829	44,916,963

RADIUS GOLD INC.

(An Exploration Stage Company)

CONSOLIDATED STATEMENTS OF CASH FLOWS

for the years ended December 31, 2006, 2005 and 2004

(Stated in Canadian Dollars)

	2006	2005	2004
OPERATING ACTIVITIES			

Net loss for the year	$ (4,563,806)	$ (6,679,398)	$ (3,908,339)
Items not involving cash:			
Amortization	58,780	50,096	55,379
Write off of exploration costs	3,052,802	5,917,734	1,350,205
Non-cash stock compensation charge	1,230,750	40,850	1,173,784
Changes in non-cash working capital items:			
Advances and receivables	(532,275)	395,168	(482,081)
GST receivable	12,364	4,941	7,359
Prepaid expenses	5,897	(31,145)	(12,710)
Accounts payable and accrued liabilities	(37,709)	(60,867)	(257,763)
Net cash used in operating activities	(773,197)	(362,621)	(2,074,166)
INVESTING ACTIVITIES			
Acquisition of equipment	(5,022)	(60,864)	(253,876)
Mineral properties	(2,759,185)	(2,830,001)	(3,304,848)
Due from related parties	108,779	(175,809)	126,355
Due to related parties	(24,619)	-	(275,812)
Marketable securities	2,912,387	219,863	(12,156,140)
Net cash acquired on amalgamation	-	-	6,491,647
Net cash provided by (used in) investing activities	232,340	(2,846,811)	(9,372,674)
FINANCING ACTIVITY			
Proceeds on issuance of common shares	51,000	255,140	1,040,199
Net cash provided by financing activities	51,000	255,140	1,040,199
DECREASE IN CASH AND CASH EQUIVALENTS DURING THE YEAR	(489,857)	(2,954,292)	(10,406,641)
Cash and cash equivalents, beginning of year	1,423,554	4,377,846	14,784,487
CASH AND CASH EQUIVALENTS END OF YEAR	$ 933,697	$ 1,423,554	$ 4,377,846
Supplementary disclosure of cash flow information:			
Cash paid for interest	$ -	$ -	$ -
Cash paid for income taxes	$ -	$ -	$ -
Cash and cash equivalents is comprised of:			
Cash	$ 933,697	$ 1,173,554	$ 836,337

Term deposits	-	250,000	3,541,509
	$ 933,697	$ 1,423,554	$ 4,377,846

Non-cash Transactions Note 8

RADIUS GOLD INC.

(An Exploration Stage Company)

STATEMENTS OF SHAREHOLDERS' EQUITY

for the years ended December 31, 2006, 2005 and 2004

(Expressed in Canadian Dollars)

	Common Stock				Deficit Accumulated during the	
	Issued Shares	Amount	Share Subscriptions	Contributed Surplus	Exploration Stage	Total
Balance, December 31, 2003	38,395,242	$ 27,539,692	$ -	$ 234,500	$ (5,168,074)	$ 22,606,118
Accounting change for stock-based compensation	-	-	-	1,010,900	(1,010,900)	-
Amalgamation at $1.11	10,284,452	11,415,742	-	-	-	11,415,742
Pursuant to property acquisition agreement at $1.49	1,300,000	1,937,000	-	-	-	1,937,000
Issued for cash pursuant to the exercise of share purchase options						

at $0.60	35,000	21,000	-	-	-	21,000
at $0.65	117,000	76,050	-	-	-	76,050
at $0.68	69,000	46,920	-	-	-	46,920
at $0.90	30,000	27,000	-	-	-	27,000
at $0.95	55,000	52,250	-	-	-	52,250
at $0.99	79,444	78,650	-	-	-	78,650
at $1.10	65,000	71,500	-	-	-	71,500
Issued for cash pursuant to the exercise of share purchase warrants						
at $0.25	2,649,800	662,450	-	-	-	662,450
at $0.55	11,250	6,188	-	-	-	6,188
Non-cash compensation charge	-	-	-	1,173,784	-	1,173,784
Transfer of contributed surplus on exercise of options	-	128,350	-	(128,350)	-	-
Less: issue costs	-	(1,810)	-	-	-	(1,810)
Net loss for the year	-	-	-	-	(3,908,339)	(3,908,339)
Balance, December 31, 2004	53,091,188	42,060,982	-	2,290,834	(10,087,313)	34,264,503

/cont d

Continued

RADIUS GOLD INC.

(An Exploration Stage Company)

STATEMENTS OF SHAREHOLDERS' EQUITY

for the years ended December 31, 2006, 2005 and 2004

(Expressed in Canadian Dollars)

Deficit

Accumulated

	Common Stock				during the	
	Issued Shares	Amount	Share Subscriptions	Contributed Surplus	Exploration Stage	Total
Issued for cash pursuant to the exercise of share purchase options						
at $0.90	40,000	36,000	-	-	-	36,000
at $0.99	50,000	49,500	-	-	-	49,500
at $1.00	35,000	35,000	-	-	-	35,000
at $1.30	37,800	49,140	-	-	-	49,140
Issued for cash pursuant to the exercise of share purchase warrants						
at $1.50	57,000	85,500	-	-	-	85,500
Non-cash compensation charge	-	-	-	40,850	-	40,850
Transfer of contributed surplus on exercise of options	-	86,697	-	(86,697)	-	-
Net loss for the year	-	-	-	-	(6,679,398)	(6,679,398)
Balance, December 31, 2005	53,310,988	42,402,819	-	2,244,987	(16,766,711)	27,881,095
Issued for cash pursuant to the exercise of share purchase options						
at $0.68	75,000	51,000	-	-	-	51,000
Non-cash compensation charge	-	-	-	1,230,750	-	1,230,750
Transfer of contributed surplus on exercise of options	-	32,250	-	(32,250)	-	-
Net loss for the year	-	-	-	-	(4,563,806)	(4,563,806)
Balance, December 31, 2006	53,385,988	$ 42,486,069	$ -	$ 3,443,487	$ (21,330,517)	$ 24,599,039

RADIUS GOLD INC.

(An Exploration Stage Company)

CONSOLIDATED SCHEDULE OF MINERAL PROPERTIES

for the year ended December 31, 2006

(Stated in Canadian Dollars)

	Guatemala Mineral Concessions	Nicaragua General Exploration	Nicaragua Mineral Concessions	Mexico General Exploration	Mexico Mineral Concessions	Argentina General Exploration	Colombia General Exploration	Canada General Exploration	Ecuador Cerro Colorado	Tanzania General Exploration	Year Ended December 31, 2006
ACQUISTION COSTS											
Balance, beginning of year	$3,864,669	$ -	$ 19,315	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 3,986,273
Cash	278,195	-	-	-	-	-	-	-	113,130	-	391,325
Write-off acquisition costs	-	-	(19,315)	-	(102,289)	-	-	-	-	-	(121,604)
Balance, end of year	4,142,864	-	-	-	-	-	-	-	113,130	-	4,255,994
DEFERRED EXPLORATION COSTS											
Balance, beginning of year	$ 5,470,075	$ 2,848,219	$ 897,668	$ 307,330	$ 185,314	$ 29,441	$ 7,544	$ -	$ -	$ -	$ 9,745,591
Property Payment/Investigation	26,280	13,214	1,422	-	764	-	-	-	-	-	41,680
Automobile	4,773	51,515	15,136	19,357	5,425	-	-	-	22	799	97,027
Camp, food and supplies	6,491	29,583	20,058	22,867	6,142	-	-	-	-	-	85,141
Drafting, maps and printing	203	1,020	487	8,567	167	-	-	-	-	6	10,449
Exploration administration	4,303	30,488	11,276	9,435	743	-	-	-	-	102	56,347
Environment	-	6,156	485	-	-	-	-	-	-	-	6,641
Geochemistry	301	167,282	14,747	34,553	35,438	-	-	-	-	-	252,321
Geological consulting Note 7	77,043	[illegible]	[illegible]	259,309	[illegible]	[illegible]	[illegible]	4,129	3,904	1,390	896,503

Other consulting	16,365	394,5037 2	21,966	3,223 - -	-	-	102	125,76
Legal and accounting	7,427	21,2,908	45,223	1,425 - -	-	-	-	82,37
Licences, rights and taxes	24,703	56,8482	5,384	23,989 - -	-	-	-	126,35
Linecutting & trenching	4,265	94,766	9,538	- - -	-	-	-	37,14
Materials	868	54,494	4,288	2,829 - -	-	-	-	17,85
Maintenance	3,413	45,881	2,285	1,202 - -	-	-	-	16,83
Miscellaneous	2,326	12,460	527	4,088 - -	-	-	-	10,54
Medical expenses	7,263	10,881	10,051	2,184 - -	-	185	-	36,53
Rent and utilities	40,678	379,893	4,132	1,233 - -	-	-	-	83,57
Rental equipment	13,410	- -	1,235	- - -	-	-	-	14,64
Salaries and wages	40,698	861,000	25,954	11,152 - -	-	-	-	194,94
Shipping	888	85,905	3,352	311 - -	-	-	-	18,55
Telephone and communications	4,766	174,015	8,412	3,647 - -	-	-	2	38,51
Travel and accommodation	7,435	440,086	35,440	9,096 - -	-	622	5,436	118,12
	283,898	682,1,998	531,875	222,08,250	4,129	4,734	7,837	2,367,86
Less write-offs	-	(873,665)	(839,205)	(407,950,41)	-	-	(7,837)	(2,931,198
Balance, end of year	5,753,973	2,837,107	-	- - -	4,129	4,734	-	9,182,25
TOTAL MINERAL PROPERTIES END OF YEAR	$ 9,896,837	$ 682,112$ 2,737,306	$ -	$ -$$ - -	$ 4,129	$ 117,864	$ -	$13,438,24

Schedule I cess of $0.71 per share, which is greater than the consideration to be paid per share in the merger, if consummated. If the merger is consummated, such options will be cancelled at the closing of the merger. (8) Of the shares reported as beneficially owned by Jeffrey Peotter, 70,000 shares are stock options with an exercise price in excess of $0.71 per share, which is greater than the consideration to be paid per share in the merger, if consummated. If the merger is consummated, such options will be cancelled at the closing of the merger. (9) Of the shares reported as beneficially owned by Allan Spies, 85,000 shares are stock options with an exercise price in excess of $0.71 per share, which is greater than the consideration to be paid per share in the merger, if consummated. If the merger is consummated, such options will be cancelled at the closing of the merger.

(10) Of the shares reported as beneficially owned by Duane Wentworth, 80,000 shares are stock options with an exercise price in excess of $0.71 per share, which is greater than the consideration to be paid per share in the merger, if consummated. If the merger is consummated, such options will be cancelled at the closing of the merger.

(11) Of the shares reported as beneficially owned by Mark Geene, 546,000 shares are stock options with an exercise price in excess of $0.71 per share, which is greater than the consideration to be paid per share in the merger, if consummated. If the merger is consummated, such options will be cancelled at the closing of the merger.

(12) Of the shares reported as beneficially owned by Donald Kark, 670,115 shares are stock options with an exercise price in excess of $0.71 per share, which is greater than the consideration to be paid per share in the merger, if consummated. If the merger is consummated, such options will be cancelled at the closing of the merger. Don Kark s address is 2789 Timberchase Trail, Highlands Ranch, Colorado 80126.

(13) Of the shares reported as beneficially owned by James Medina, 95,106 shares are stock options with an exercise price in excess of $0.71 per share, which is greater than the consideration to be paid per share in the merger, if consummated. If the merger is consummated, such options will be cancelled at the closing of the merger.

Regulatory Matters

Other than compliance with applicable federal and state securities laws pursuant to the issuance of Halo common stock in connection with the merger, and compliance with applicable provisions of Nevada and Delaware law, no federal or state regulatory requirements must be satisfied in connection with the merger.

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Material U.S. Federal Income Tax Consequences of the Merger

The following discussion describes the material U.S. federal income tax consequences of the merger to U.S. holders of InfoNow common stock.

For purposes of this discussion, we use the term U.S. holder to mean (1) prior to completion of the merger, a beneficial owner of InfoNow common stock who has held that stock for investment, and (2) after the completion of the merger, a beneficial owner of Halo common stock, and in each case, that is, for U.S. federal income tax purposes:

- a citizen or individual resident of the United States;
- a corporation or other entity taxable as a corporation for U.S. federal income tax purposes, created or organized under the laws of the United States or any of its political subdivisions;
- an estate that is subject to U.S. federal income tax on its income regardless of the source of that income; or
- a trust that (i) is subject to the supervision of a court within the United States if one or more U.S. persons control all substantial decisions of the trust, or (ii) has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

If a partnership (including an entity treated as a partnership for U.S. federal income tax purposes) is a beneficial owner of InfoNow common stock or, after completion of the merger, a beneficial owner of Halo common stock, the tax treatment of a partner in the partnership will generally depend on the status of the partner and the activities of the partnership. If you are a partner of a partnership that is a beneficial owner of InfoNow common stock, you should consult your own tax advisors.

The following discussion is based on existing provisions of the Code, existing treasury regulations and current administrative rulings and court decisions, all of which are subject to change. Any such change, which may or may not be retroactive, could alter the tax consequences to InfoNow stockholders, InfoNow or Halo as described herein.

This section does not discuss all U.S. federal income tax considerations that may be relevant to InfoNow stockholders in light of their particular circumstances. Factors that could alter the tax consequences of the merger to a InfoNow stockholder include whether such a stockholder:

- is a dealer or broker in securities;
- is subject to the alternative minimum tax provisions of the Code;
- is a non-United States person or entity;
- is a financial institution, tax-exempt organization or insurance company;
- acquired InfoNow shares in connection with stock option or stock purchase plans or in other compensatory transactions;
- holds InfoNow shares as part of a hedge, appreciated financial position, straddle or conversion transaction;
- is an S corporation; or
- is a mutual fund.

In addition, this section does not discuss the tax consequences of the merger under foreign, state or local tax laws, the tax consequences of transactions effectuated prior or subsequent to, or concurrently with, the merger, whether or not any such transactions are undertaken in connection with the merger, including without limitation any transaction in which InfoNow shares are acquired or shares of Halo common stock are disposed of, or the tax consequences to holders of options or similar rights to acquire InfoNow shares. This discussion assumes that InfoNow stockholders

hold their shares of InfoNow stock as capital assets within the meaning of Section 1221 of the Code.

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Accordingly, InfoNow stockholders are urged to consult their own tax advisors concerning the specific tax consequences of the merger, including the applicable federal, state, local and foreign tax consequences to them of the merger.

The Merger

It is a condition of the closing of the merger that, based on representations contained in representation letters provided by Halo and InfoNow and on certain factual assumptions, all of which must continue to be true and accurate in all material respects as of the closing of the merger, Day, Berry and Howard LLP, tax counsel to Halo, and Hogan & Hartson, L.L.P., tax counsel to InfoNow, each issue an opinion that the merger qualifies as a reorganization under Section 368(a) of the Code. The merger should qualify as a reorganization if the value of the Halo stock received is at least 80% of the value of the total merger consideration. If the merger qualifies as a reorganization within the meaning of Section 368(a) of the Code:

InfoNow stockholders should not recognize any gain or loss upon their receipt of Halo common stock in exchange for InfoNow common stock pursuant to the merger;

InfoNow stockholders will recognize gain, but not loss, as a result of the merger, equal to the lesser of (i) the excess, if any, of the fair market value of the Halo common stock, the amount of cash, and the fair market value of CVRs determined at the time of the merger received by them over their adjusted tax basis in their InfoNow common stock exchanged in the merger, or (ii) the amount of cash and the fair market value of CVRs determined at the time of the merger received by them in the merger. Because of the contingent nature of the CVRs, the determination of the amount of the fair market value of the CVRs received by an InfoNow stockholder is not clear. Under applicable Treasury Regulations, InfoNow stockholders will be required to value the CVRs at the time of the merger based on all available facts and circumstances. Any gain recognized will be capital gain and will be long-term capital gain if the InfoNow stockholder has held the shares of InfoNow common stock for more than one year at the time the merger is completed;

the aggregate adjusted tax basis of the Halo common stock received by an InfoNow stockholder in the merger, including any fractional shares of Halo common stock an InfoNow stockholder is deemed to receive, should be the same as the aggregate adjusted tax basis of the shares of InfoNow stock surrendered in exchange therefor, increased by the amount of gain recognized by the InfoNow stockholder in the merger and reduced by the cash consideration and the fair market value of the CVRs received by the InfoNow stockholder in the merger;

the holding period of the Halo common stock received by a InfoNow stockholder in the merger should include the period for which the InfoNow stock surrendered by such stockholder in exchange therefor was considered to be held;

any cash payment received by a InfoNow stockholder for a fractional share of Halo common stock should be treated as if such fractional share had been issued in the merger and then redeemed by Halo. Such stockholder will recognize capital gain or loss on the deemed redemption in an amount equal to the difference between the amount of cash received and the holder s adjusted tax basis allocable to such fractional share. Any capital gain or loss will be long-term capital gain or loss if the InfoNow stockholder has held the shares of InfoNow common stock for more than one year at the time the merger is completed; and

Halo and InfoNow should not recognize gain or loss solely as a result of the merger.

If the merger fails to qualify as a reorganization within the meaning of Section 368(a) of the Code, InfoNow stockholders will recognize taxable gain or loss on the merger equal to the difference between the fair market value of the Halo stock, the cash, and the CVRs determined as of the time of the merger received in the merger and their adjusted tax basis in the InfoNow stock exchanged in the merger. Such gain or loss will be capital gain or loss and will be long-term capital gain or loss if the holding period for

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the InfoNow stock is greater than one year. Long-term capital gain of non-corporate stockholders is subject to reduced rates of taxation. The deductibility of capital losses is subject to limitations.

If you are a non-corporate holder of InfoNow common stock you may be subject to information reporting and backup withholding on any cash payments received in the merger or in lieu of a fractional share of Halo common stock. You will not be subject to backup withholding, however, if you:

furnish a correct taxpayer identification number and certify that you are not subject to backup withholding on the substitute Form W-9 or successor form included in the letter of transmittal to be delivered to you following the completion of the merger; or

prove that you are otherwise exempt from backup withholding.

Any amounts withheld under the backup withholding rules will be allowed as a refund or credit against your U.S. federal income tax liability, provided you furnish the required information to the IRS.

Ownership of CVRs

The U.S. federal income tax consequences to recipients of CVRs from the payment at or before maturity, lapse, or disposition of such CVRs will depend upon how the CVRs are characterized for U.S. federal income tax purposes. There is little authority under current tax law governing the characterization of instruments such as the CVRs for U.S. federal income tax purposes. In Revenue Ruling 88-31 and one subsequent private letter ruling, the IRS concluded that taxpayers should treat rights similar to the CVRs as cash settlement put options described in Section 1234(c)(2)(B) of the Code for U.S. federal income tax purposes. While Revenue Rulings are not binding on taxpayers or the courts, they are binding on the IRS where the facts and circumstances are substantially the same as those stated in the Revenue Ruling. Although the issue is not free from doubt, and no counsel opinion has been obtained on the proper tax consequence of the CVRs, Halo believes that it is reasonable to conclude that the IRS would treat the CVRs to be issued in the merger the same as contingent payment rights addressed in Revenue Ruling 88-31. However, it is possible that the CVRs might be treated as debt instruments or in some other manner. Subsequent legislation, regulations, court decisions or revenue rulings could affect the U.S. federal income tax treatment of the CVRs. Halo anticipates that it will treat the CVRs as cash settlement put options for U.S. federal income tax purposes, and the following summary assumes that the IRS will treat the CVRs as cash settlement put options for U.S. federal income tax purposes, except as specifically noted.

Subject to the straddle rules described below, upon the payment at or before maturity or sale or exchange of the CVRs, generally a holder of CVRs will recognize capital gain or loss in an amount equal to the difference between the cash paid in respect of the CVRs and the holder s adjusted tax basis in the CVRs. In the event a holder s CVRs lapse without any payment, the holder will recognize capital loss equal to the holder s adjusted tax basis in such CVRs. A holder s adjusted tax basis in a CVR will be the fair market value of the CVR at the time of the merger, which will be determined based on all available facts and circumstances in accordance with applicable Treasury Regulations. A holder s capital gain or loss will be long term if the holder s holding period in the CVRs is more than one year at the time of payment, lapse, sale, or exchange.

Section 1092 of the Code provides special rules concerning the recognition of losses and the determination of holding periods with respect to positions that are part of a straddle, which consists of offsetting positions with respect to personal property. The term position means an interest (including an option) in personal property. For this purpose, personal property would not include the Halo common stock unless the Halo common stock were part of a straddle where one of the offsetting positions was an option with respect to the Halo common stock or a position with respect to substantially similar or related property (other than stock). Positions are treated as offsetting where the risk of loss from holding one position is substantially diminished by reason of holding another position.

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In Revenue Ruling 88-31, the IRS in effect ruled that the holding of the Halo common stock and CVRs will be a straddle if the CVRs are treated as cash settlement put options. In the event a holder s CVRs and Halo common stock comprise a straddle:

Some or all of the capital loss otherwise recognized on a holder s CVRs may be deferred until a later tax year. The amount deferred would be equal to the amount by which the fair market value of the Halo common stock owned exceeds the holder s adjusted tax basis in the Halo common stock on the last trading day of the tax year in which the holder would otherwise recognize the capital loss.

For holders who had a holding period in their InfoNow common stock of one year or less when they received their CVRs, some or all of the capital gain or loss otherwise recognizable upon a payment at or before maturity, lapse, sale, or exchange of the CVRs may be short term capital gain or loss instead of long term capital gain or loss.

For holders who had a holding period of one year or less in their InfoNow common stock when they received their CVRs, some or all of the capital gain or loss otherwise recognizable on a disposition of Halo common stock may be short term instead of long term and some or all of such loss may be deferred.

For holders who had a holding period in their InfoNow common stock of more than one year when they received their CVRs, any capital gain or loss recognized on the disposition of the Halo common stock received in exchange should be long-term capital gain or loss, though some or all of the capital loss otherwise recognizable on the disposition of Halo common stock may be deferred. In addition, some or all of the capital gain otherwise recognizable upon a payment at or before maturity, lapse, sale, or exchange of the CVRs may be short term instead of long term, but any capital loss recognized by such holders on CVRs will be long term, regardless of their holding period in the CVRs.

Holders may not be able to deduct interest and carrying charges allocable to the CVRs or Halo common stock. These items will increase a holder s tax basis in the CVRs and Halo common stock, respectively.

For holders who are corporations, their holding period for Halo common stock will not include any day on which they also own CVRs. Therefore, the dividends received deduction may not be available for dividend income on Halo common stock.

Possible Treatment of the CVRs as Debt Instruments

If the IRS were to assert successfully that the CVRs should be treated as debt for U.S. federal income tax purposes, the character of income and loss recognized with respect to CVRs, as well as the timing of the recognition of income and loss, could be substantially different from the treatment discussed above. In particular, any gain recognized with respect to CVRs could be treated as ordinary income, and holders could be required to recognize such income before they receive any cash or stock with respect to the CVRs. We urge recipients of CVRs to consult their tax advisors regarding the consequences of the possible treatment of the CVRs as debt for U.S. federal income tax purposes.

Reporting Requirements

Each InfoNow stockholder that receives Halo common stock and CVRs in the transaction will be required to file a statement with his, her or its U.S. federal income tax return setting forth his, her or its basis in the InfoNow common stock surrendered and the fair market value of the Halo common stock, CVRs and cash, if any, received in the transaction and to retain permanent records of these facts relating to the merger.

Dissenting Stockholders

A dissenting holder of InfoNow common stock who perfects dissenter s rights will generally be treated as having received a distribution in redemption of his, her or its shares subject to the provisions and limitation of Sections 302 and 356(a)(2) of the Code. While the tax consequences of such a redemption depend on a stockholder s particular circumstances, a dissenting stockholder who, after the transaction, does not own (actually or constructively) any common stock of either InfoNow or Halo will generally recognize gain or loss with respect to a share of InfoNow common stock equal to the difference between the amount of cash received and his, her or its basis in such share. This gain or loss should be a capital gain or loss.

Accounting Treatment

Halo will record the merger using the purchase method of accounting in accordance with U.S. generally accepted accounting principles. This method assumes that for financial reporting purposes, Halo will treat both companies as one company beginning as of the date we complete the merger. In addition, under this method of accounting, Halo will record the fair value of InfoNow s net assets on its consolidated financial statements, with the remaining purchase price in excess of the fair value of InfoNow s net assets recorded as goodwill. See the section entitled Unaudited Pro Forma Consolidated Condensed Financial Statements of Halo Technology Holdings, Inc. Reflecting Acquisition of InfoNow Corporation beginning on page 114 of this proxy statement/prospectus.

Restrictions on Sale of Shares by Affiliates of InfoNow and Halo

The shares of Halo common stock to be received by InfoNow s stockholders in connection with the merger will be registered under the Securities Act and will be freely transferable, except for shares of Halo common stock issued to any person who is deemed to be an affiliate of either InfoNow or Halo at the time of the special meeting. Persons who may be deemed to be affiliates include individuals or entities that control, are controlled by, or are under common control with either InfoNow or Halo and may include the executive officers and directors, as well as the principal stockholders, of both companies. Affiliates may not sell their shares of Halo common stock acquired in connection with the merger except pursuant to:

- an effective registration statement under the Securities Act covering the resale of those shares;

- in accordance with Rules 144 and 145 under the Securities Act; or

- an opinion of counsel or under a no action letter from the SEC, that such sale will not violate or is otherwise exempt from registration under the Securities Act.

Within 30 days of the closing of the merger, Halo has agreed to file a post-effective amendment to the registration statement of which this proxy statement/prospectus is a part to register affiliates shares received in the merger for resale.

Over-the-Counter Bulletin Board Listing of Halo Common Stock

Shares of Halo s common stock are quoted on the OTC Bulletin Board, operated by the National Association of Securities Dealers, Inc. and after the completion of the merger the Halo common stock issued to InfoNow stockholders will be quoted on the OTC Bulletin Board as well.

APPRAISAL RIGHTS FOR INFONOW STOCKHOLDERS

InfoNow is a Delaware corporation and under Delaware law, you have the right to dissent from the merger and receive payment in cash for the fair value of your InfoNow common stock, as determined by the Delaware Court of Chancery. This right is often referred to as appraisal or dissenters rights. Appraisal rights are governed by Section 262 of the Delaware General Corporation Law, and strict compliance with the statutory procedures of Section 262 is required of stockholders in order to perfect their appraisal rights.

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The following is a brief summary of the material provisions of the statutory procedural requirements to be followed by an InfoNow stockholder in order to dissent from the merger and perfect the stockholder s appraisal rights under Section 262. This summary, however, is not a complete statement of all applicable requirements and is qualified in its entirety by reference to Section 262, a copy of which is attached to this proxy statement/ prospectus as Annex E. The following summary of Section 262 does not constitute any legal or other advice, nor does it constitute a recommendation that InfoNow stockholders exercise their appraisal rights. Should you wish to exercise your appraisal rights, you should carefully review the text of Section 262 contained in Annex E. Failure to timely and properly comply with the requirements of Section 262 will result in the loss of your appraisal rights under Delaware law.

Under Section 262, stockholders must be notified not less than 20 days before the special meeting to vote on the merger that appraisal rights will be available. This notice must be accompanied by a copy of Section 262. This proxy statement/ prospectus, including Annex E, constitutes InfoNow s notice to its stockholders regarding the availability of appraisal rights in connection with the merger in compliance with Section 262.

If you elect to exercise your dissenters rights and demand appraisal of your shares, you must satisfy each of the following conditions:

1. Before the vote is taken on the merger agreement at the InfoNow special meeting, you must deliver to InfoNow a written demand for appraisal of your shares. The requirement that you make written demand for appraisal is in addition to and separate from any proxy or vote abstaining from or voting against the merger. Under Section 262, voting against or failing to vote for the merger itself does not constitute a demand for appraisal.

2. You must not vote in favor of the merger by proxy or in person. A vote in favor of the merger, whether by proxy or in person, will constitute a waiver of your appraisal rights in respect of the shares so voted and will nullify any previously filed written demand for appraisal.

3. You must be the record holder of the shares of InfoNow common stock on the date the written demand for appraisal is made and continue to hold the shares as record holder through the completion of the merger.

If you fail to comply with any of these conditions, and the merger is completed, you will be entitled to receive the shares of Halo common stock, CVRs and cash, if any, for your shares of InfoNow common stock as provided for in the merger agreement, but will have no appraisal rights with respect to your shares of InfoNow common stock.

An InfoNow stockholder who wishes to exercise his, her or its appraisal rights and who votes by proxy must vote against the merger, or abstain from voting on the merger. A proxy that is signed but does not contain voting instructions will, unless revoked, be voted in favor of the merger, and will constitute a waiver of the stockholder s appraisal rights and will nullify any previously delivered written demand for appraisal.

All demands for appraisal should be delivered before the vote on the merger is taken at the InfoNow special meeting to the following address: InfoNow, Attention: Secretary, 1875 Lawrence Street, Suite 1100, Denver, Colorado 80202, and should be executed by, or on behalf of, the record holder of the shares of InfoNow common stock. Any demand must reasonably inform InfoNow of the identity of the stockholder and the stockholder s intention to demand appraisal of his, her or its shares, and should specify the stockholder s mailing address and the number of shares registered in the stockholder s name for which the stockholder is demanding appraisal.

Under Section 262, a stockholder s demand for appraisal must be made by, or in the name of, such record stockholder, fully and correctly, as the stockholder s name appears on his or her stock certificate(s) and cannot be made a the beneficial owner if he or she does not also hold the shares of record. In such cases, the beneficial holder must have the record owner submit the required demand with respect to such shares.

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If the InfoNow shares for which appraisal rights are demanded are owned of record in a fiduciary capacity, such as by a trustee, guardian or custodian, execution of demand for appraisal should be made in such capacity. If more than one person owns the shares of record, as in a joint tenancy or tenancy in common, the demand for appraisal should be executed by or for all joint owners. An authorized agent, including an authorized agent for two or more joint owners, may execute the demand for appraisal for an InfoNow stockholder of record. In order for such demand to be effective, the agent must identify the record owner(s) and expressly disclose the fact that, in executing the demand, he or she is acting as agent for the record owner(s). A record owner who holds shares as a nominee for others, such as a broker, may exercise his, her or its right of appraisal with respect to the shares held for one or more beneficial owners, while not exercising this right for other beneficial owners. The written demand in such case should state the number of shares as to which appraisal is demanded. In the case of demand where no number of shares is expressly stated, the demand will be presumed to cover all shares held in the name of such record owner.

If you wish to exercise appraisal rights and you hold your shares of InfoNow common stock in a brokerage or bank account or in other nominee form, you should consult with your broker or bank or such other nominee to determine the appropriate procedures for such nominee to make demand.

Within 10 days after the effective date of the merger, InfoNow must give written notice of the date the merger became effective to each InfoNow stockholder who has properly filed a written demand for appraisal and who did not vote in favor of the merger. Within 120 days after the effective date of the merger, either InfoNow or any InfoNow stockholder who has complied with the requirements of Section 262 may file a petition in the Delaware Court of Chancery to demand a determination of the fair value of the shares held by all InfoNow stockholders entitled to appraisal. Should any InfoNow stockholders exercise their dissenters rights, InfoNow has no obligation to file such a petition and has no present intention to do so. Therefore, the failure of an InfoNow stockholder to file such a petition under Section 262 could nullify such stockholder s previous written demand for appraisal.

Any InfoNow stockholder who has demanded an appraisal has the right to withdraw the demand at any time within 60 days after the effective date of the merger and to accept the shares of Halo common stock, CVRs and cash, if any, specified by the merger agreement for his or her shares of InfoNow common stock. An InfoNow stockholder s attempt to withdraw an appraisal demand more than 60 days after the effective date of the merger will require the written approval of InfoNow. Within 120 days after the effective date of the merger, any InfoNow stockholder who has complied with Section 262 will be entitled, upon written request, to receive a statement setting forth the aggregate number of shares of InfoNow common stock not voted in favor of the merger, and the aggregate number of shares for which demands for appraisal have been received, and the aggregate number of holders of such shares. Such statement must be mailed to the InfoNow stockholder exercising appraisal rights within ten days after a written request has been received by InfoNow or within ten days after the expiration of the period for delivery of demands for appraisal, whichever is later. If an InfoNow stockholder duly files a petition for appraisal and a delivers a copy of the petition to InfoNow, InfoNow will then be obligated within 20 days after receiving service of a copy of the petition to provide the Chancery Court with a duly verified list containing the names and addresses of all InfoNow stockholders who have demanded an appraisal of their shares. After providing notice to dissenting stockholders, the Chancery Court is empowered to conduct a hearing upon the petition, to determine those InfoNow stockholders who have complied with Section 262 and who are become entitled to appraisal rights. Under Section 262, the Chancery Court may require the InfoNow stockholders who have demanded payment for their shares to submit their stock certificates to the Register in Chancery for notation thereon of the pendency of the appraisal proceedings. If the Chancery Court so requires and if any InfoNow stockholder fails to comply with such direction, the Chancery Court may dismiss the proceedings with respect to such stockholder.

After determination of the InfoNow stockholders, if any, entitled to appraisal of their shares of InfoNow common stock, the Chancery Court will appraise the shares, determining their fair value exclusive of any element of value arising from the accomplishment or expectation of the merger, together with a fair rate of interest, if any, to be paid. The Chancery Court is required to take into account all

relevant factors in determining fair value of the shares. You should be aware that the fair value of your InfoNow shares as determined by the Chancery Court under Section 262 could be greater, the same, or less than the value that you are entitled to receive for your InfoNow shares pursuant to the merger agreement. After determining of the value of such shares and upon surrender by the holders of the certificates representing such shares, the Chancery Court will direct the payment of such value to the holders, with interest thereon accrued during the pendency of the proceeding, if any, as determined by the Chancery Court.

The Chancery Court may impose the costs of the appraisal proceeding upon InfoNow and the InfoNow stockholders participating in the appraisal proceeding as the Chancery Court deems equitable under the circumstances. Upon the application of a stockholder, the Chancery Court may order all or a portion of the expenses incurred by any InfoNow stockholder in connection with the appraisal proceeding, including, without limitation, reasonable attorneys fees and the fees and expenses of experts, to be charged pro rata against the value of all InfoNow shares entitled to appraisal. After the effective date of the merger, any InfoNow stockholder who had demanded appraisal rights will not be entitled to vote shares subject to such demand for any purpose or to receive payments of dividends or any other distribution with respect to such shares (other than with respect to payment as of a record date prior to the effective date); however, if no petition for appraisal is filed within 120 days after the effective date of the merger, or if such stockholder delivers a written withdrawal of his or her demand for appraisal and an acceptance of the merger within 60 days after the effective date of the merger, then the appraisal rights of such stockholder will cease and such stockholder will be entitled to receive the shares of Halo common stock, CVRs and cash, if any, for shares of his or her InfoNow common stock pursuant to the merger agreement. Any InfoNow stockholder s withdrawal of a demand for appraisal made more than 60 days after the effective date of the merger may only be made with the written approval of InfoNow. In order to be effective, such request for withdrawal must be made within 120 days after the effective date of the merger.

An InfoNow stockholder s failure to take any required step in exercising appraisal rights under Section 262 may result in the termination or waiver of such appraisal rights. Given the complexity of Section 262, and the strict compliance required by its provisions, InfoNow stockholders who wish pursue their appraisal rights under Section 262 should consult their legal advisors.

THE MERGER AGREEMENT

The following is a summary of the material provisions of the merger agreement. This summary does not purport to describe all the terms of the merger agreement and is qualified by reference to the complete merger agreement, which is attached as Annex A to this proxy statement/ prospectus and incorporated herein by this reference. You should read the merger agreement in its entirety, as it represents the legal document governing this merger.

The Merger

Pursuant to the merger agreement, Merger Sub will merge with and into InfoNow. InfoNow will survive the merger and, as a result, will become a wholly owned subsidiary of Halo. The directors and officers of Merger Sub immediately prior to the effective time of the merger shall be the directors and officers of the surviving corporation. The certificate of incorporation and bylaws of InfoNow shall be amended and restated to be the same in substance as those of Merger Sub as in effect immediately prior to the effective time.

Timing of Closing and Effective Time

The closing of the merger will take place no later than the second business day after satisfaction or waiver of the conditions to the merger agreement (except for those conditions to be satisfied at closing, unless another time or date is agreed to by the parties).

Halo and InfoNow cannot assure you when, or if, all the conditions to completion of the merger will be satisfied or waived or that the merger will be consummated. See the sections entitled Conditions to the Merger and Termination beginning on pages 73 and 74 of this proxy statement/prospectus. The parties intend to complete the merger as promptly as practicable, subject to the approval and adoption of the merger agreement by the InfoNow stockholders and receipt of all requisite regulatory approvals.

The merger will be completed and become effective when the certificate of merger is filed with the Secretary of State of Delaware or at such later date or time as the parties may agree and specify in the certificate of merger.

Merger Consideration

Cash and Stock Payment

At the completion of the merger, holders of InfoNow common stock issued and outstanding prior to the completion of the merger will have the right to receive a payment consisting of (i) Halo common stock, (ii) CVRs and (iii) cash, if any. The Halo common stock and cash payment portions of the merger consideration to be paid will be calculated based on a aggregate value equal to $7,200,000. The aggregate cash payments will equal the lesser of (a) the amount of cash InfoNow has on hand or (b) its net working capital, determined no less than three days before the closing. The remainder of the $7,200,000 in value will be paid in Halo common stock valued at the Conversion Price of Halo common stock. The number of shares of Halo common stock to be issued in the merger will be determined based on a Conversion Price equal to the greater of (1) the average closing price of Halo common stock as quoted on the OTC Bulletin Board (OTCBB: HALO.OB) for the 20-consecutive trading days ending two trading days prior to the closing of the merger, and (2) $1.00. InfoNow will not be obligated to consummate the merger if the Conversion Price is below $1.00.

Each holder of one share of InfoNow common stock will receive the following merger consideration:

- cash equal to the aggregate cash payment divided by the fully-diluted shares of InfoNow common stock outstanding at the closing of the merger;

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a number of shares of Halo common stock calculated by the following equation:

7,200,000 minus the aggregate cash payment

divided by

the product of

the fully diluted shares of InfoNow common stock

multiplied by

the Conversion Price of Halo common stock.

a number of CVRs equal to the number of shares of Halo common stock received.

For purposes of the above calculation, the fully diluted shares of InfoNow common stock includes all of the shares of InfoNow common stock outstanding immediately prior to the merger plus the total number of shares of InfoNow common stock that all currently outstanding options to purchase InfoNow common stock with an exercise price of less than $0.71 are exerciseable into based on a cashless exercise. See the section entitled Common Stock Options below.

Contingent Value Rights

As part of the merger consideration, Halo will issue one CVR along with each share of Halo common stock issued in the merger. The CVRs are separately transferable from the Halo common stock. A holder of a CVR is entitled to receive a cash payment on the 18-month anniversary date of closing of the merger equal to the amount by which the Conversion Price of Halo common stock exceeds the then-current market value of Halo common stock. The then current market value means volume-weighted average trading price of Halo common stock for the 20-consecutive trading days immediately preceding the CVR payment date. However, the CVRs will expire prior to the CVR payment date if during any consecutive 45 day trading period during which the trading volume of Halo s common stock is not less than 200,000 per day, the Halo common stock price is 175% of the Conversion Price of Halo common stock.

Common Stock Options

Each InfoNow common stock option outstanding immediately before completion of the merger with an exercise price less than $0.71 per share will be converted into the right to receive merger consideration in an amount equal to the excess, if any, of (A) (i) the consideration being paid in the merger per share of InfoNow common stock multiplied by (ii) the number of shares of InfoNow common stock for which such option is exercisable immediately prior to the closing of the merger, over (B) the aggregate exercise price of the option. Such consideration will be paid to the former option holders in the same proportions of cash and Halo common stock (and CVRs) as the aggregate merger consideration. All other outstanding options and warrant to purchase InfoNow common stock will be cancelled at the closing of the merger.

No Fractional Shares or CVRs

Halo will not issue certificates representing fractional shares of Halo common stock or CVRs. Each holder of InfoNow common stock that would otherwise be entitled to a fraction of a share of Halo common stock or CVR will be entitled to receive a cash payment equal to the product obtained by multiplying the fractional interest to which such holder otherwise would be entitled by the Conversion Price of Halo common stock.

Exchange Procedures

Exchange Agent

Halo has appointed   to serve as exchange and payment agent to handle the exchange of InfoNow certificates and stock options for cash, if any, Halo common stock, and CVRs. At or before the

completion of the merger, Halo will cause to be deposited with the exchange agent sufficient cash and certificates representing whole shares of Halo stock and certificates representing CVRs to make all payment and deliveries required under the merger agreement.

Payment Procedures

As soon as reasonably practicable after the closing of the merger, but no later than two days thereafter, the exchange agent will mail to each former InfoNow stockholder or optionholder a letter of transmittal and instructions explaining the procedure for exchanging InfoNow stock certificates or options for the merger consideration.

You should not surrender your stock certificates or options for exchange until you received a letter of transmittal and instructions from the exchange agent.

Upon delivery to the exchange agent of the InfoNow certificates or options, along with the properly completed letter of transmittal, the exchange agent will deliver to the holder:

- a stock certificate representing the number of whole shares of Halo common stock such holder has a right to receive pursuant to the merger;
- a certificate representing the number of CVRs that such holder has a right to receive pursuant to the merger; and
- after giving effect to any required tax withholdings, a check or wire transfer in the amount of the cash payment portion of the consideration payable, if any, to such holder plus unpaid dividends or distributions, if any, plus any cash payable in lieu of any fractional shares of Halo common stock and CVRs that such holder has a right to receive pursuant to the merger.

At the time of the completion of the merger, all shares of InfoNow common stock and options to purchase shares of InfoNow common stock will be cancelled, and all such shares and options will cease to have any rights except the right to receive the merger consideration. No interest will be paid or accrued on any amount payable to holders of InfoNow common stock. In addition, no holder of InfoNow common shares or options will receive any dividends or other distributions nor will they be permitted to exercise any voting rights with respect to Halo common stock to which the holder may be entitled, until such holder surrenders the certificates representing its shares of InfoNow common stock or options to the exchange agent with a properly executed letter of transmittal.

If any InfoNow stock certificate shall have been mutilated, lost, stolen or destroyed, Halo will require the person claiming such mutilated, lost, stolen or destroyed certificate to provide an appropriate affidavit and may require the delivery of a bond as indemnity against any claim that may be made against the exchange agent, Halo or InfoNow with respect to such certificate.

Halo stockholders will not exchange their certificates representing common stock, preferred stock or options.

Representations and Warranties

The merger agreement contains a number of representations and warranties, some of which are qualified as to materiality or knowledge, made by InfoNow to Halo and Merger Sub, and by Halo and Merger Sub to InfoNow, including those regarding:

- corporate organization and good standing;
- corporate power and authority to enter into the merger agreement and, subject to receipt of InfoNow stockholder approval, to consummate the transactions contemplated thereby;
- absence of breach of contract and laws at the time of the merger, and as a result of the merger;
- the receipt of all third party and other governmental consents and filings required for the merger;

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legal proceedings;

the absence of broker s fees, other than those specified in the merger agreement;

compliance of documents filed with the SEC with applicable securities laws and accounting requirements;

the absence of any change in accounting principles;

material indebtedness, obligations, and liabilities;

tax matters;

compliance with applicable laws;

accuracy of information supplied for use in this proxy statement/ prospectus and the registration statement of which it is a part;

the absence of any material adverse effect, or any condition, event, change or occurrence that is reasonably likely to result in a material adverse effect, except as disclosed in Halo s or InfoNow s reports filed with the SEC;

the absence of unlawful payments and contributions; and

the receipt of permits necessary to conduct business.

In addition, Halo and Merger Sub made representations and warranties to InfoNow as to:

Halo s capitalization;

the adequacy of Halo s financial resources;

the absence of undisclosed liabilities;

ownership of InfoNow common stock; and

the inapplicability of takeover statutes.

In addition, InfoNow made representations and warranties to Halo and Merger sub as to:

InfoNow s capitalization and the absence of outstanding warrants or similar rights;

employee benefit plans;

the absence of contracts materially restricting any line of business of the surviving corporation;

employment, consulting, and deferred compensation;

validity of material contracts;

environmental matters;

properties and assets;

insurance;

transactions with affiliates of InfoNow;

ownership of Halo common stock;

the receipt of a fairness opinion from Q Advisors;

intellectual property; and

the accuracy of information provided in the merger agreement and compliance with the Delaware General Corporation Law with regard to notice of the stockholders meeting.

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Covenants

Conduct of the Business of InfoNow Prior to Completion of the Merger

InfoNow has agreed to certain restrictions on the manner in which it will carry on its business until either completion of the merger or the termination of the merger agreement. In general, except as specifically contemplated by the merger agreement, or to the extent Halo consents in writing, InfoNow will conduct its business in the ordinary course consistent with past practices and use reasonable best efforts to preserve intact its business organization, keep available the present services of its employees, and preserve the goodwill of its customers and those having business relationships with it. In addition, InfoNow has agreed that, subject to specified exceptions or the written consent of Halo, it will not, among other things:

- declare or pay dividends on, or make any distributions in respect of, its capital stock;
- make changes in its share capital, including by stock splits, combinations, and reclassifications;
- issue, deliver or sell shares of its capital stock or securities convertible into or exercisable for any shares;
- repurchase or redeem its capital stock or other securities, or rights to any securities;
- amend its governing documents;
- make individual capital expenditures of $100,000 in the aggregate;
- enter into any new line of business or material partnership;
- acquire or agree to acquire an entity through a merger, or by purchasing an equity interest in, or the assets of, such other entity;
- take action that may reasonably be expected to result in any of its representations and warranties in the merger agreement being untrue or in any of the conditions to the merger not being satisfied, or in violation this agreement, except as may be required by law;
- change its methods of accounting in effect at December 31, 2004, except to comply with applicable accounting rules or principles;
- enter into or change employee benefit plans, or increase compensation or severance for any employee, except as required by law or the merger agreement;
- hire a new employee at a salary greater than $100,000 or promote an employee to rank of senior vice president or higher;
- incur any indebtedness;
- dispose of any properties or assets, except in the ordinary course of business;
- settle any claim, action, or investigation against InfoNow in excess of $100,000;
- transfer or license, or amend, rights to InfoNow s intellectual property, other than in the ordinary course of business; or

commence material litigation, except in specified circumstances.

Conduct of Halo s Business Prior to Completion of the Merger

Halo also has agreed to certain restrictions on the manner in which it will carry on its business until either completion of the merger or the termination of the merger agreement. In general, except as specifically contemplated by the merger agreement, or to the extent InfoNow consents in writing, Halo

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will conduct its business in the ordinary course consistent with past practices. In addition, Halo has agreed that, subject to specified exceptions or the written consent of InfoNow, it will, among other things:

- notify InfoNow of any change in the normal course of its or its subsidiaries businesses, or in the operation of its properties, and of complaints or investigations by government entities having a material adverse effect on Halo;
- notify InfoNow of any material transaction;
- not declare or pay dividends on, or make any distributions in respect of, its capital stock (other than dividends on Halo s outstanding series C and series D preferred stock);
- make changes in its share capital, including by stock splits, combinations, and reclassifications;
- not repurchase or redeem its capital stock or other securities, or rights to any securities;
- not amend its governing documents (except to change its name to Halo Technology Holdings, Inc.); and
- not, and will not permit its subsidiaries to, agree to take any of the actions set forth directly above, or except as allowed in the merger agreement, take action that could reasonably be expected to interfere with the merger agreement.

Other Agreements

Compliance with Antitrust Laws

Halo and InfoNow have agreed to use reasonable best efforts to resolve any objections asserted with respect to the merger under antitrust law. Halo and InfoNow also have agreed to use reasonable best efforts to take such action as may be required by a court or governmental entity with respect to the merger under antitrust law.

No Solicitation

The merger agreement provides that InfoNow will not, and will not permit its directors, officers, affiliates, or agents to:

- solicit, initiate, encourage, or otherwise facilitate any inquiries that relate to any alternative acquisition proposal;
- participate in any discussions or negotiations regarding an alternative acquisition proposal, except as required by law; or
- withdraw approval or recommendation by the InfoNow board, or approve or recommend or permit InfoNow to enter into an agreement relating to an alternative acquisition proposal.

The prohibition on solicitation does not prevent InfoNow s board, as required by its fiduciary duties, as determined by its board in good faith in consultation with its outside counsel, from engaging in discussions or negotiations with, and furnishing information concerning InfoNow to, a person or entity that makes a superior proposal. The merger agreement requires InfoNow to promptly notify Halo after receiving any request for information or any proposal which could lead to an alternative acquisition proposal, indicating the identity of the potential acquirer and the principal terms and conditions of the request or proposal, and to keep Halo informed of the status and details of that request or proposal.

A superior proposal is an unsolicited alternative acquisition proposal on terms which the InfoNow board determines in good faith, based on consultation with a financial advisor, among other things, would result in a transaction more favorable to InfoNow s stockholders than the merger with Halo and, in the good faith judgment of the board of InfoNow after consultation with its financial advisor, the persons or entity making such alternative acquisition proposal has the financial means to conclude such transaction.

Further, the prohibition on solicitation does not prevent InfoNow or its board from complying with SEC rules with regard to an alternative acquisition proposal by means of a tender offer or from making any disclosure to the InfoNow stockholders if InfoNow s board determines in good faith in consultation with its outside counsel, such disclosure is necessary for the InfoNow board to comply with its fiduciary duties under applicable law.

Other Covenants

The merger agreement contains certain other covenants and agreements, including agreements relating to preparation and distribution of this proxy statement/ prospectus, public announcements, and cooperation regarding certain filings with governmental and other agencies and organizations. In addition, the merger agreement contains a general covenant requiring each of the parties to use its reasonable best efforts to effectuate the merger.

Stockholder Meeting

InfoNow has agreed to convene and hold a meeting of its stockholders promptly after the date of the merger agreement to vote upon the approval of the merger agreement and the merger. The board of InfoNow, subject to its fiduciary duties, also will recommend that its stockholders approve the merger agreement and merger.

Indemnification and Insurance

Halo and InfoNow have agreed that, to the fullest extent permitted under applicable law and the certificate of incorporation and bylaws of InfoNow, after the merger has become effective, Halo and the surviving corporation in the merger will indemnify and hold harmless each present and former director and officer of InfoNow against all losses, costs, expenses, claims, judgments, fines, damages, or liabilities incurred in connection with any threatened or actual claim, action, suit, proceeding, or investigation based at least in part on, the fact that the indemnified party is or was a director of officer of InfoNow or any of its predecessors, or the merger agreement for a period of five years from the effective date of the merger. In addition, InfoNow will purchase directors and officers liability insurance for the benefit of those holding such positions in InfoNow immediately prior to the completion of the merger. The coverage will last five years after the completion of the merger and will be similar to InfoNow s current policy. However, InfoNow will not purchase such insurance for a premium of more than $250,000.

Conditions to the Merger

The obligations of all parties to complete the merger are subject to the satisfaction or waiver, at or before the closing of the merger, of each of the conditions described below:

- approval and adoption of the merger agreement by holders of a majority of the outstanding shares of InfoNow common stock entitled to vote thereon;
- absence of any legal restraints or prohibitions preventing consummation of the merger; and
- effectiveness of the registration statement of which this proxy statement/ prospectus is a part and the absence of any stop order suspending such effectiveness.

Additionally, unless waived by Halo, Halo s obligations to complete the merger are subject to a number of customary conditions, including the following:

- certain of the representations and warranties of InfoNow being true and correct in all respects, and the remaining representations and warranties being true and correct in all material respects, both as of the date of the merger agreement and the date of the closing of the merger;
- InfoNow s performance in all material respects of all of its covenants and agreements under the merger agreement, except where failure to perform would not likely have a material adverse effect on InfoNow;

InfoNow s having obtained consents from third parties that are necessary for the consummation of the merger, except as would not have a material adverse effect on InfoNow or the surviving corporation;

absence of any change in the business, operations, condition (financial or otherwise), assets or liabilities of InfoNow that individually or in the aggregate has had or would likely have a material adverse effect on InfoNow;

the stockholders agreement being in full force and effect; and

to the extent appraisal rights are available, the number of shares of InfoNow common stock whose holders exercise appraisal rights does not exceed ten percent (10%) of InfoNow s outstanding shares of common stock;

Further, unless waived by InfoNow, InfoNow s obligations to complete the merger are subject to the satisfaction or waiver, at or prior to the closing of the merger, of the following additional conditions:

certain of the representations and warranties of Halo and Merger Sub being true and correct in all respects, and the remaining representations and warranties being true and correct in all material respects, both as of the date of the merger agreement and the date of the closing of the merger;

Halo s performance in all material respects of all of its covenants and agreements under the merger agreement, except where failure to perform would not likely have a material adverse effect on Halo;

Halo s having obtained consents from third parties, other than governmental entities, which are required in connection with the merger under any loan agreement, note, mortgage, indenture or other agreement to which Halo is bound, except where failure to obtain such consent would not likely have a material adverse effect on Halo;

absence of any change in the business, operations, condition (financial or otherwise), assets or liabilities of Halo that individually or in the aggregate has had or would likely have a material adverse effect on Halo;

Halo s having entered into a contingent value rights agreement with respect to the CVRs;

the conversion of all of Halo s issued and outstanding shares of series C preferred stock into shares of Halo common stock; and

that the average closing price of Halo s common stock as reported on the OTC Bulletin Board for the 20-consecutive trading days ending two days prior to the closing of the merger equaling or exceeding one dollar ($1.00).

Termination

The merger agreement may be terminated at any time prior to the completion of the merger, whether before or after approval of InfoNow s stockholders:

by mutual consent of Halo and InfoNow if the board of directors of each so determines by a majority vote;

by either party, thirty (30) days after a request for regulatory approval is denied or withdrawn at the request of a governmental entity which must grant such approval, unless the denial or withdrawal request is due to failure of the party seeking to terminate the merger to observe the covenants and agreements of such party in the merger agreement;

by either party, if the merger is not consummated by July 31, 2006, unless the failure to close by such date is due to the failure of the party seeking to terminate the merger to observe the covenants and agreements of such party in the merger agreement;

by either party, if the approval of the merger by the stockholders is not obtained because of the failure to obtain the required vote at InfoNow s meeting of stockholders held for the purpose of voting on the approval of the merger agreement;

by either party, if the other party has breached any representation or warranty in the merger agreement, if such breach has had or is likely to have a material adverse effect on the breaching party, and such breach is not cured within thirty (30) days of notice by the breaching party of the breach or such breach cannot be cured prior to the closing of the merger agreement;

by Halo, if the management or board of directors of InfoNow fails to hold a stockholders meeting to consider the merger agreement, fails to recommend to its stockholders the approval of the merger agreement, fails to oppose a third party proposal that is inconsistent with the merger agreement, or violates the No Solicitation covenant of the merger agreement;

by either party, if InfoNow agrees to enter into a superior proposal in compliance with the No Solicitation covenant of the merger agreement, provided that InfoNow complies with the Termination Fee requirements in the merger agreement; or

by InfoNow, if the holders of series C preferred stock do not convert all such stock to Halo common stock prior to the InfoNow stockholders meeting.

Effects of Termination

If the merger agreement is terminated as described above, it will become void, without any liability or obligation on the part of Halo, Merger Sub, or InfoNow or their respective directors, officers, or stockholders, except with respect to the treatment of confidential information, payment of expenses as provided for in the merger agreement, to the extent that such termination results from the willful breach of a party s representations or warranties or covenants or agreements, or knowing misrepresentation in connection with the merger agreement.

Termination Fee

InfoNow will be required to pay a termination fee of $300,000 to Halo if the merger agreement is terminated under the following circumstances:

an alternative acquisition proposal is made to InfoNow s stockholders or is publicly announced, such proposal is not irrevocably and publicly withdrawn, and the merger agreement is then terminated by either party because the merger has not been consummated by July 31, 2006, due to the InfoNow stockholders meeting not occurring or the InfoNow stockholders failing to vote in favor of the adoption of the merger agreement;

InfoNow s board withdraws its recommendation, fails to call a stockholders meeting to consider the merger agreement, fails to oppose a third party proposal that is inconsistent with the merger agreement, or violates the No Solicitation clause of the merger agreement, and Halo terminates the agreement; or

If InfoNow agrees to enter into a superior proposal in compliance with the No Solicitation clause of the merger agreement, and the merger agreement is terminated by either party.

Halo will be required to pay InfoNow s reasonable documented out-of-pocket expenses, including professional fees, incurred in connection with the merger agreement and a liquidated damages fee of $50,000 if InfoNow terminates the merger agreement because the holders of Halo series C preferred stock do not convert all shares of such stock into Halo common stock prior the InfoNow stockholder meeting.

Expenses

All costs and expenses incurred in connection with the merger agreement will be paid by the party incurring such expense, except that:

Halo shall pay the registration statement filing fee; and

The cost of printing the registration statement and proxy materials will be borne seventy-five percent (75%) by Halo and twenty-five percent (25%) by InfoNow.

Amendment, Extensions, Waivers

InfoNow and Halo may amend the merger agreement in writing at any time before or after the InfoNow stockholders approve the merger agreement. However, after such approval by the InfoNow stockholders, the merger agreement cannot be amended in any way that would reduce the amount or change the form of merger consideration to be delivered to the InfoNow stockholders other than as contemplated by the merger agreement. Any amendment must be in writing signed on behalf of each of the parties.

At any time prior to the completion of the merger, InfoNow or Halo may extend the time for performance of any of the obligations or other acts of the parties, waive any inaccuracies in the representations and warranties in the merger agreement or in any document delivered pursuant to the merger agreement, or waive compliance with any of the agreements or conditions contained in the merger agreement. Any agreement of extension or waiver must be in writing.

AGREEMENTS RELATING TO THE MERGER

Contingent Value Rights Agreement

Contingent Value Rights

The contingent value rights will be issued under a Contingent Value Rights Agreement, to be entered into prior to the effective time of the merger, by and between Halo and , as trustee, the form of which is attached to this proxy statement/ prospectus as Annex B. In this section, we refer to contingent value rights as CVRs and the Contingent Value Rights Agreement as the CVR Agreement. Because this section is a summary, it does not describe every aspect of the material terms of the CVRs or the CVR Agreement. You are encouraged to carefully read this section and the CVR Agreement attached hereto as Annex B for a more complete understanding of their terms.

Payment in Cash; No Interest

Payment of any amounts on the CVRs, if any, will be made in cash after the maturity date, as further described below. Such payments will be made only upon presentation by the CVR holder of the CVR at the office or agency of or maintained by Halo for that purpose. To receive a payment, each CVR holder must furnish to Halo such forms, certificates, or other information as Halo may request to establish the legal entitlement of such holder to an exemption from withholding taxes. If Halo does not receive such forms, certificates, or other information, then all payments and disbursements made by Halo pursuant to the CVR Agreement or related to the CVRs will be reduced by and subject to withholding taxes. Halo will have no obligation to reimburse, equalize, or compensate the CVR holder or any other person for such taxes. Other than in the case of interest on the default amount payable to a CVR holder, no interest will accrue on any amounts payable to the CVR holders.

Payment at Maturity Date

The CVRs will mature on the date that is the 18-month anniversary of the effective time of the merger (the maturity date). On the third business day following the maturity date, Halo will pay each CVR holder in cash an amount, if any, as determined by Halo, by which the target price exceeds the

then-current market value of shares of Halo common stock. See the section entitled Current Market Value Calculations beginning on page 80 of this proxy statement/prospectus. The target price of Halo common stock will be the Conversion Price of Halo common stock. The target price and other price thresholds are subject to certain anti-dilution and disposition adjustments, described in more detail under the section entitled Anti-Dilution; Disposition Adjustments beginning on page 80 of this proxy statement/ prospectus.

The following table illustrates potential payments to CVR holders with respect to the CVRs following the maturity date assuming a target price of $1.42:

Average Current Market Values of Halo Common Stock(1)		Payment per CVR		If you receive 1,000 CVRs in the merger, your CVR payments would equal:	
$	1.80	$	0.00	$	0.00
$	1.60	$	0.00	$	0.00
$	1.40	$	0.02	$	20.00
$	1.20	$	0.22	$	220.00
$	1.00	$	0.42	$	420.00
$	0.80	$	0.62	$	620.00
$	0.60	$	0.82	$	820.00
$	0.40	$	1.02	$	1,020.00

(1) Average based on a 20-day trading period before and including the maturity date

All payment determinations by Halo shall be final and binding on Halo and the CVR holders, absent manifest error.

Payment Following an Event of Default

If an event of default under the CVR Agreement occurs and is continuing, unless all of the CVRs have already become due and payable, either the trustee or the CVR holders of not less than 25% of the then outstanding CVRs by giving written notice to Halo and the trustee (if given by the CVR holders) may declare the CVRs to be due and payable immediately. If an event of default occurs after the maturity date, either the trustee or the CVR holders of not less than 25% of the then outstanding CVRs by giving written notice to Halo and the trustee (if given by the CVR holders) may declare the CVRs to be due and payable immediately. Upon any such declaration, the default amount shall become immediately due and payable in cash, and thereafter shall bear interest at a rate of 8% per annum until payment is made to the trustee.

The default amount is the amount, if any, by which the discounted target price per share of Halo common stock exceeds the then-current market value (calculated with respect to the disposition payment date or default payment date, as the case may be) of a share of Halo common stock. For purposes of determining the default amount and for purposes of determining payments upon the occurrence of a disposition as described under the section entitled Payment Upon the Occurrence of a Disposition beginning on page 78 of this proxy statement/ prospectus, the discounted target price means, if a disposition or an event of default has occurred prior to the maturity date (the date that is 18 month anniversary of the effective time of the merger), the target price, as described above, discounted from the maturity date back to the disposition payment date or the default payment date, as the case may be, at a per annum rate of 8%. If the disposition payment date or default payment date has occurred on or after the maturity date, the discounted target price means the target price. This amount is subject to further anti-dilution and disposition adjustments, described in more detail under the section entitled Anti-Dilution; Disposition Adjustments beginning on page 80 of this proxy statement/ prospectus. The default payment date is the date on which the CVRs are declared due and payable following an event of default.

Payment Upon the Occurrence of a Disposition

Following the consummation of a disposition of Halo (of the type described below), Halo will give notice and pay to CVR holders a cash payment for each CVR, if any, as determined by Halo, by which the discounted target price exceeds the sum of (i) the cash amount received for each share of Halo common stock by the CVR holder as a result of the disposition, *plus* (ii) the average of the trading prices during the 20-consecutive trading day period immediately preceding the date on which the disposition was consummated of the publicly traded stock consideration, if any, received for each share of Halo common stock by the holder thereof as a result of such disposition, *plus* (iii) the fair market value, as determined by an independent financial expert, of any other non-cash consideration, if any, received for each share of Halo common stock by the holder thereof as a result of such disposition, in each case, assuming that such holder thereof did not exercise any right of appraisal granted under law with respect to such disposition.

Payments for CVRs with respect to dispositions will be made only if the disposition is consummated prior to the maturity date. The disposition payment date will be the date established by Halo for payment of the amount on CVRs upon a disposition of Halo, which shall not be more than 30 days after the disposition is consummated. If the fair market value of the consideration received as a result of a disposition is determined by an independent financial expert, Halo will cause the expert to deliver to Halo, with a copy to the trustee, a value report stating the methods of valuation considered or used and containing a statement as to the nature and scope of the examination or investigation upon which the determination of value was made. The trustee shall make available a copy of the value report to each CVR holder who requests the report. The determination of the expert as set forth in the report absent manifest error shall be final and binding on Halo and the CVR holders.

The types of dispositions for which a payment will be made are:

- the direct or indirect sale, lease, conveyance, or other disposition (other than by way of merger or consolidation) in one or a series of related transactions, of all or substantially all of the properties or assets of Halo and its subsidiaries taken as a whole to any person; or

- the consummation of any transaction (including, without limitation, any merger or consolidation) the result of which is that any person becomes the beneficial owner, directly or indirectly, of more than 50% of the voting stock of Halo, measured by voting power rather than the number of shares,

unless, in the case of a merger or consolidation, such transaction is in connection with a transaction in which:

- all of the shares of Halo common stock are exchanged solely for other publicly traded common stock of Halo or another person;

- the acquiror assumes Halo s obligations relating to the CVRs; and

- the appropriate adjustments are made to the target price, the discounted target price, and the terms of the CVR Agreement to reflect such transaction and the economic benefits intended to be conferred on the CVRs under the CVR Agreement.

Under the CVR Agreement, Halo shall not consolidate with or merge into any other person or convey, transfer, or lease its properties and assets substantially as an entirety to any person, unless:

- in case Halo shall consolidate with or merge into any other person or convey, transfer, or lease its properties and assets substantially as an entirety to any person, the person formed by such consolidation or into which Halo is merged or the person that acquires by conveyance or transfer, or that leases, the properties and assets of Halo substantially as an entirety shall be a corporation, partnership, or trust organized and existing under the laws of the United States, any state thereof or the District of Columbia and shall expressly assume payment of amounts on all the CVRs and the performance of every covenant of the CVR Agreement on the part of Halo to be performed or observed;

immediately after giving effect to such transaction, no event of default shall have happened and be continuing; and

Halo has delivered to the trustee an officer s certificate stating that such consolidation, merger, conveyance, transfer, or lease complies with these requirements and that all conditions precedent provided for relating to such transaction have been complied with.

Event of Default

Each of the following will constitute an event of default under the CVR Agreement:

a default in the payment of all or any part of the amounts payable in respect of any of the CVRs as and when the same shall become due and payable following the maturity date, the disposition payment date, or otherwise;

a material default in the performance, or material breach, of any material covenant or warranty of Halo relating to the CVRs (other than a payment default), and continuance of such material default or breach for a period of 30 days after written notice has been given, by registered or certified mail, to Halo by the trustee or to Halo and the trustee by the holders of at least 25% of the outstanding CVRs, specifying the material default or breach and requiring it to be remedied and stating that such notice is a Notice of Default ;

a court with proper jurisdiction enters a decree or order for relief in respect of Halo in an involuntary case under any applicable bankruptcy, insolvency, or other similar law, or appointing a receiver, liquidator, assignee, custodian, trustee, or sequestrator (or similar official) of Halo or for any substantial part of its property or ordering the winding up or liquidation of its affairs, and such decree or order shall remain unstayed and in effect for a period of 60 consecutive days; or

Halo commences a voluntary case under any applicable bankruptcy, insolvency, or similar law, or consents to the entry of an order for relief in an involuntary case under any such law, or consents to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, or sequestrator (or similar official) of Halo or for any substantial part of its property, or make any general assignment for the benefit of creditors.

Holders of a majority of all the outstanding CVRs may, by written notice to Halo and the trustee, waive all defaults with respect to the CVRs and rescind and annul the above declaration if, at any time after the CVRs have been declared due and payable, and before any judgment or decree for the payment of the moneys due have been obtained or entered, all of the following conditions are met:

Halo paid or deposited with the trustee a sum sufficient to pay all amounts that have become due other than by acceleration (with interest upon such overdue amount at 8% per annum to the date of such payment or deposit);

Halo paid or deposited with the trustee a sum sufficient to cover reasonable compensation to the trustee, its agents, attorneys, and counsel, and all other expenses and liabilities incurred and all advances made by the trustee, except as a result of negligence or bad faith; and

any and all events of default under the CVR Agreement, other than the nonpayment of the amounts that have become due by acceleration, have been cured, waived, or otherwise remedied as provided in the CVR Agreement.

No such waiver or rescission and annulment shall extend to or affect any subsequent default or impair any consequent right.

Automatic Extinguishment

If, during the period following the effective time of the merger and ending on the maturity date of the CVRs, the current market value of the shares of Halo common stock is greater than or equal to 175% of the target price for each trading day in any 45 consecutive trading day period during which the average

daily trading volume of Halo common stock is not less than 200,000 shares, the CVRs will automatically be extinguished without further consideration or action by Halo, the trustee or the CVR holders, and all of Halo s obligations under the CVR Agreement will terminate and be of no further force or effect; provided that Halo shall (i) promptly prepare a certificate stating that an automatic extinguishment has occurred and briefly stating the facts accounting for such extinguishment, (ii) promptly file a copy of such certificate with the trustee, (iii) issue a press release announcing such extinguishment and explaining the basis therefore, and (iv) mail a brief summary thereof to each CVR holder.

Certification of Determinations

In connection with any payment at maturity, no later than the second business day after the maturity date, Halo shall prepare and file with the trustee a certificate setting forth its determinations with respect to the amount of the payment and the facts accounting for its determinations and mail to each CVR holder a brief summary of the certificate indicating the location at which the CVRs may be presented for payment. In connection with any payment upon a disposition, as soon as practicable, Halo shall prepare and file with the trustee a certificate setting forth its determinations with respect to the amount of the payment upon the disposition and the facts accounting for its determinations and mail to each CVR holder a brief summary of the certificate, indicating the locations at which the CVRs may be presented for payment and the date on which the payment will be made.

In the event Halo determines that no amount is payable with respect to the CVRs on the maturity date or a disposition payment date, as the case may be, as a result of an automatic extinguishment or otherwise, Halo will give notice of such determination to each CVR holder and the trustee. Upon making such determination, absent manifest error, the CVR certificates will terminate, become null and void, and the CVR holders will have no further rights with respect to the CVR certificates. The failure to give notice or any defect in the notice will not affect the validity of the determination that no amount is payable.

Anti-Dilution; Disposition Adjustments

If Halo in any manner subdivides (by stock split, stock dividend or otherwise including any dividend or distribution of securities convertible into or exerciseable or exchangeable for shares of Halo common stock) or combines (by reverse stock split or otherwise) the number of outstanding shares of Halo common stock, Halo will similarly subdivide or combine the CVRs and will appropriately adjust the discounted target price, and the target price described above. In addition, in the case of a disposition that does not result in a payment as described under the section entitled Payment Upon the Occurrence of a Disposition beginning on page 78 of this proxy statement/ prospectus, appropriate adjustments will be made to the discounted target price and the target price.

Whenever an adjustment is made, Halo shall (i) promptly prepare a certificate setting forth such adjustment and a brief statement of the facts accounting for such adjustment, (ii) promptly file with the trustee a copy of such certificate, and (iii) mail a brief summary of the certificate to each holder. The trustee shall be fully protected in relying on any such certificate and on any adjustment contained in the certificate. Such adjustment, absent manifest error, shall be final and binding on Halo and the CVR holders. Each outstanding CVR certificate shall thereafter represent that number of adjusted CVRs necessary to reflect such subdivision or combination, and the adjustments to the discounted target price and the target price.

Current Market Value Calculations

For purposes of automatic extinguishment or determining the amount due, if any, on the maturity date or a disposition payment date, the current market value per share shall be calculated at the end of each trading day and shall be, for any given trading day:

the volume weighted mean of the sales prices, regular way, on the principal exchange on which such shares are then listed on such trading day, as quoted by Bloomberg LP;

if the shares are not then listed or admitted to trading on any securities exchange, the volume weighted mean of the sales prices over such trading day, as reported by Bloomberg LP or, if not so reported, as reported by a reputable quotation source designated by Halo; or

if the shares are not then listed or admitted to trade on any securities exchange and no such reported sale price or bid and asked prices are available, the mean of the averages of the reported high and low and opening and closing bid and asked prices on such trading day, as quoted in *The Wall Street Journal* (Eastern Edition), or if *The Wall Street Journal* (Eastern Edition) shall cease to be published or its publication or general circulation is suspended, such other English language newspaper as is selected by Halo with general circulation in the City of New York, New York.

Restrictions on Purchases by Halo and Affiliates

Halo has agreed that, during the period beginning 30 trading days before the maturity date and ending on the maturity date, neither it nor any of its subsidiaries or affiliates will:

offer to purchase, purchase, contract to purchase, purchase any option or contract to sell, sell any option or contract to purchase, grant any option, right, or warrant to sell, or otherwise acquire or purchase, directly or indirectly, any shares of Halo common stock or any securities convertible into or exercisable or exchangeable for shares of Halo common stock, or

enter into any swap or other arrangement that acquires from another, in whole or in part, any of the economic consequences of ownership of the shares of Halo common stock,

whether any such transaction described above is to be settled by delivery of Halo common stock or such other securities, in cash or otherwise.

The foregoing restrictions are expressly agreed to preclude Halo, its subsidiaries and affiliates during the applicable period from engaging in any hedging or other transaction that is designed to or reasonably expected to lead to or result in a purchase or acquisition of shares of Halo common stock even if those shares would be acquired by someone other than Halo or any of its subsidiaries or affiliates. Prohibited hedging or other transactions would include any purchase, or any purchase, sale or grant of any right (including, without limitation, any put option or put equivalent position or call option or call equivalent position) with respect to any of the shares of Halo common stock or with respect to any security that includes, relates to, or derives any significant part of its value from such shares of Halo common stock.

Issuance of the CVRs

Halo will issue the CVRs pursuant to the CVR Agreement between Halo and the trustee. Halo will not issue any fractional CVRs. If any provision of the CVR Agreement limits, qualifies, or conflicts with another provision that is required to be included in the agreement by the Trust Indenture Act, such required provision shall control.

Halo is registering the CVRs under the registration statement of which this proxy statement/ prospectus forms a part.

The CVRs shall be unsecured obligations of Halo and will rank equally with all other unsecured obligations of Halo. CVR holders will have no rights except for those expressly provided in the CVR Agreement, and shall not, by virtue of their ownership of CVRs, have any of the rights of a Halo stockholder.

Temporary CVRs

Until CVR certificates are ready for delivery, Halo may execute and, upon issuance of an order by Halo, the trustee shall authenticate and deliver, temporary CVRs that are printed, lithographed, typewritten, mimeographed, or otherwise produced, substantially of the tenor of the CVR certificates in lieu of which they are issued. Every temporary CVR shall be executed by Halo and be authenticated by

the trustee on the same conditions and in substantially the same manner, and with like effect, as the CVR certificates.

If temporary CVRs are issued, Halo shall cause CVR certificates to be prepared without unreasonable delay. After the preparation of such certificates, the temporary CVRs will be exchangeable for the certificates upon surrender of the temporary CVRs at the office or agency designated by Halo for that purpose. There will be no charge to the CVR holder for such exchange. Upon surrender of the temporary CVRs, Halo will execute and the trustee will authenticate and deliver, in exchange, a like amount of CVR certificates.

Book Entry, Delivery, and Form

The Depository Trust Company, or DTC, will act as securities depositary for the CVRs. The CVRs will initially be issued in the form of one or more permanent global securities in registered form provided that one or more definitive securities in certificated form may be issued initially to holders subject to restrictions on resale imposed by Rules 144 or 145 under the Securities Act or otherwise at the request of a holder. Upon issuance, the global securities will be deposited with the trustee, as custodian for DTC, in New York, New York, and registered in the name of DTC (or its nominee or successor) for credit to the accounts of DTC s direct and indirect participants. Ownership of beneficial interests in the global securities will be limited to DTC s direct and indirect participants, and will be shown on, and the transfer of those ownership interests will be effected only through, records maintained by DTC. The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of such securities in certificated form. Such limits and such laws may impair the ability to transfer or pledge beneficial interests in the global securities. Transfer and exchange of beneficial interests in the global securities will be completed through DTC in accordance with the CVR Agreement and the applicable rules and procedures of DTC.

Each global security will represent the number of outstanding CVRs specified in the security, and will provide that it represents the aggregate number of outstanding CVRs from time to time as endorsed on the security, and that the aggregate number of outstanding CVRs represented by the security may be reduced or increased, as appropriate, to reflect exchanges.

Initially, the trustee will act as paying agent and security registrar for Halo. In addition, Pacific Stock Transfer Company will act as an additional security registrar for Halo. Halo shall cause to be kept at the Corporate Trust Office of the trustee a register in which Halo shall register and transfer the CVRs.

Payments of principal and interest, if any, on CVRs represented by a global security will be made to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC). DTC s practice is to credit direct participants accounts upon DTC s receipt of funds and corresponding detail information from Halo, the trustee, or the paying agent on the date the payment is due and payable in accordance with their respective holdings shown on DTC s records. Payments by participants to beneficial owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in street name, and will be the responsibility of such participant and not of the DTC, the trustee, the paying agent or Halo, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest, if any, to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Halo or the paying agent, disbursement of such payments to direct participants will be the responsibility of DTC, and disbursement of such payments to beneficial owners will be the responsibility of direct and indirect participants.

Until a global security is exchanged in whole or in part in a certificated form, a global security may not be transferred, except as a whole by DTC to a nominee of DTC or by a nominee of DTC to DTC or another nominee of DTC. All global securities will be exchanged by Halo for certificated CVRs if:

Halo delivers to the security registrar a notice from DTC that it is unwilling or unable to continue to act as depositary or that it is no longer a clearing agency registered under the Exchange Act and,

in either case, a successor depositary is not appointed by Halo within 120 days after the date of such notice from DTC;

Halo, in its sole discretion, determines that the global securities (in whole but not in part) should be exchanged for CVRs in certificated form and delivers a written notice to such effect to the security registrar; or

an event of default has occurred and is continuing, and the security registrar has received a request from DTC to issue CVRs in certificated form.

Upon the occurrence of either of the first two conditions listed above, CVRs in certificated form shall be issued in such names as DTC instructs the trustee. In addition, global securities may also be exchanged or replaced in accordance with the sections entitled Temporary CVRs above and Mutilated, Destroyed, Lost, and Stolen CVRs beginning on pages 81 and 84, respectively, of this proxy statement/prospectus.

A holder of a beneficial interest in a global security may exchange such beneficial interest for or transfer such beneficial interest to a person who will take delivery as a certificated CVR. Upon such holder s request, the security registrar will cause the aggregate number of CVRs represented by the applicable global security to be reduced in accordance with the CVR Agreement. Halo will execute, and the security registrar will authenticate and deliver to the person designated in the instructions, an appropriate number of certificated CVRs. Any certificated CVR issued in exchange for a beneficial interest will be registered in the name(s) and authorized denomination(s) as requested by the holder of such beneficial interest through instructions to the security registrar from or through DTC and the participant or indirect participant. Similarly, a holder of a certificated CVR may exchange such security for a beneficial interest in a global security or transfer the certificated CVR to a person who takes delivery in the form of a beneficial interest in global securities. In such a case, the security registrar will, upon request, cancel the applicable certificated CVR and increase the number of CVRs represented by the global security.

Once all beneficial interests in a global security have been exchanged for certificated CVRs or have been repurchased and cancelled in whole, each such global security will be returned to or retained and canceled by the security registrar. Prior to the cancellation, if any beneficial interest in a global security is exchanged for or transferred to a person who accepts delivery in the form of a beneficial interest in another global security or certificated CVR, the appropriate increase or decrease will be made to the global security by the security registrar or DTC.

In respect of exchanges or transfers of global securities or certificated CVRs,

Halo will execute and the trustee will authenticate the global securities and the certificated CVRs upon receipt of an order from Halo;

the CVR holder of a beneficial interest in a global security or a certificated CVR will not be charged a service charge for any registration of exchange, but Halo may require payment of a sum sufficient to cover any transfer tax or similar governmental charge payable in connection therewith;

all global securities and certificated CVRs issued upon any registration of exchange of global securities or certificated CVRs will be the valid obligations of Halo, evidencing the same rights, and entitled to the same benefits under the CVR Agreement, as the global securities or certificated CVRs surrendered upon such exchange; and

the trustee will authenticate the global securities and certificated CVRs in accordance with the applicable provisions of the CVR Agreement.

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So long as DTC is the registered holder and owner of such global securities, DTC will be considered the sole owner and holder of the related CVRs for all purposes of such CVRs and for all purposes under the CVR Agreement. Except as set forth above, owners of beneficial interests in a global security:

will not be entitled to have the CVRs represented by such global security registered in their names;

will not receive or be entitled to receive physical delivery of CVRs in certificated form; and

will not be considered to be the owners or holders of any CVRs under the CVR Agreement or such global security.

Accordingly, each person owning a beneficial interest in a global security must rely on the procedures of DTC and the direct and indirect participants through which they hold their beneficial interest to exercise any rights of a CVR holder under the CVR Agreement or such global security.

DTC has advised Halo that DTC is:

a limited-purpose trust company organized under the Banking Law of the State of New York;

a banking organization within the meaning of the Banking Law of the State of New York;

a member of the Federal Reserve System;

a clearing corporation within the meaning of the Uniform Commercial Code of the State of New York; and

a clearing agency registered under the Exchange Act.

DTC was created to hold the securities of its participants and to facilitate the clearance and settlement of securities transactions among its participants in such securities through electronic book-entry changes in accounts of the participants, thereby eliminating the need for physical movement of securities certificates. DTC s participants include securities brokers, dealers, banks, trust companies, clearing corporations, and certain other organizations, some of whom (or their representatives) own DTC. Access to DTC s book-entry system is also available to others, such as banks, brokers, dealers, and trust companies, that clear through or maintain a custodial relationship with a participant, either directly or indirectly.

Although DTC has agreed to the foregoing procedures in order to facilitate transfers of interests in global securities among participants of DTC, it is under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. DTC may discontinue providing its services as depositary with respect to the CVRs at any time by giving reasonable notice to Halo. Under such circumstances, in the event that a successor depositary is not obtained, certificated CVRs are required to be printed and delivered.

Mutilated, Destroyed, Lost, and Stolen CVRs

Halo will execute, and the trustee will authenticate and deliver a new CVR certificate of like tenor and amount of CVRs, bearing a number not contemporaneously outstanding if either:

any mutilated CVR is surrendered to the trustee; or

Halo and the trustee receive evidence to their satisfaction of the destruction, loss, or theft of any CVR and there is delivered to Halo and the trustee such security or indemnity as may be required by them to save each of them harmless.

Upon the issuance of any new CVRs, Halo may require a payment sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the trustee).

Every new CVR issued under these circumstances will constitute an original additional contractual obligation of Halo, whether or not the mutilated, destroyed, lost, or stolen CVR shall be at any time

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enforceable by anyone, and shall be entitled to all benefits under the CVR Agreement and proportionately with any other CVR duly issued.

Cancellation of CVRs

All CVRs surrendered for payment, registration of transfer, or exchange shall, if surrendered to any person other than the trustee, be delivered to the trustee and promptly cancelled. Halo may, at any time, deliver to the trustee for cancellation any CVRs previously authenticated and delivered that Halo may have acquired in any manner, and all CVRs so delivered shall be promptly cancelled by the trustee. No CVRs shall be authenticated in lieu of or in exchange for any cancelled CVRs.

Amendment of the CVR Agreement Without Consent of CVR Holders

Without the consent of CVR holders, Halo and the trustee, at any time, may enter into one or more amendments for any of the following purposes:

to convey, transfer, assign, mortgage, or pledge to the trustee as security for the CVRs any property or assets;

to evidence the succession of another person to Halo and the assumption by any such successor of the covenants of Halo in the CVR Agreement and in the CVRs;

to add to Halo s covenants such further covenants, restrictions, conditions, or provisions as its board of directors and the trustee shall consider to be for the protection of CVR holders, and to make the occurrence, or the occurrence and continuance, of a default in any such additional covenants, restrictions, conditions, or provisions an event of default permitting the enforcement of all or any of the several remedies provided in the CVR Agreement, provided that in respect of any such additional covenants, restrictions, conditions, or provisions, such amendment may provide (i) for a particular grace period after default, (ii) an immediate enforcement upon such event of default, (iii) limit the remedies available to the trustee upon such event of default, or (iv) limit the right of the holders of a majority of the outstanding CVRs to waive an event of default;

to cure any ambiguity, to correct or supplement any provision in the CVR Agreement that may be defective or inconsistent with any other provision in the CVR Agreement, or to make any other provisions with respect to matters or questions arising under the CVR Agreement, provided that such provisions shall not adversely affect the interests of the CVR holders; or

to comply with SEC requirements to effect or maintain the qualification of the CVR Agreement under the Trust Indenture Act.

Amendment of the CVR Agreement With Consent of CVR Holders

With the consent of at least a majority of the holders of outstanding CVRs, and by an instrument of said holders delivered to Halo and the trustee, Halo, with board authorization, and the trustee may enter into one or more amendments for the following purposes:

to add, change, or eliminate any of the provisions of the CVR Agreement; or

modify in any manner the rights of the CVR holders under the CVR Agreement;

provided that no amendment may, without the consent of each holder of outstanding CVRs affected:

modify the definition of maturity date, disposition payment date, default payment date, current market value, valuation period, discounted target price, target price, default amount, or default interest rate or modify the anti-dilution provisions of the CVR Agreement or otherwise extend the maturity of the CVRs or reduce the amounts payable in respect of the CVRs;

reduce the amount of the outstanding CVRs, the consent of whose holders is required for any such amendment; or

modify any of the provisions of the amendment section of the CVR Agreement, except to increase the percentage of outstanding CVRs required for an amendment or to provide that certain other provisions of the CVR Agreement cannot be modified or waived without the consent of each CVR holder affected by such modification or waiver.

Termination of the CVR Agreement

The CVR Agreement shall terminate and cease to be of further effect when:

Halo delivers to the trustee all outstanding CVRs (other than CVRs replaced due to mutilation, destruction, loss, or theft) for cancellation;

all outstanding CVRs have become due and payable and Halo irrevocably deposits with the trustee or the paying agent (if the paying agent is not Halo or one of its affiliates) cash sufficient to pay all amounts due and owing on all outstanding CVRs (other than CVRs replaced or CVRs held by Halo or any of its affiliates); or

an automatic extinguishment has occurred; and

if, in all cases, Halo pays any other sums payable hereunder by it.

The trustee shall join in the execution of a document prepared by Halo acknowledging satisfaction and discharge of the CVR Agreement upon demand of Halo accompanied by an officer s certificate and opinion of counsel, and at the cost and expense of Halo.

Stockholder Agreement

As an inducement to Halo entering into the merger agreement, each of the directors of InfoNow have executed and delivered a stockholder agreement. Pursuant to the stockholder agreement, InfoNow s directors have agreed to vote all of their shares of InfoNow common stock beneficially owned:

for adoption and approval of the merger agreement, the merger and all agreements related to the merger and any actions related to or contemplated by the merger; and

not in favor of any other proposal to acquire InfoNow (other than an unsolicited superior proposal, as defined in the merger agreement and described in the section entitled The Merger Agreement Other Agreements No Solicitation beginning on page 72 of this proxy statement/ prospectus), any reorganization, recapitalization, liquidation or winding up of InfoNow or any other extraordinary transaction involving InfoNow, any corporate action the consummation of which would frustrate the purposes of, or prevent or delay the consummation of the merger or other transactions contemplated by the merger agreement or any other related matters.

In addition, each director has irrevocably appointed Halo as its lawful attorney and proxy to vote all InfoNow stock owned by such director in favor of the approval and adoption of the merger agreement and all transactions contemplated by the merger agreement. The directors have also agreed not to sell or otherwise encumber the shares covered by the stockholder agreement. The stockholder agreement terminates upon the termination of the merger agreement.

The stockholder agreement collectively covers shares of InfoNow common stock representing approximately % of the outstanding InfoNow common stock as of the record date.

A copy of the form of stockholder agreement is attached as Annex D to this proxy statement/ prospectus.

Ownership of Halo Following the Merger

If the merger is consummated, the actual number of shares of Halo common stock that you will receive in the merger for each share for InfoNow common stock that you own, the actual amount of cash that you will receive from InfoNow in the cash distribution immediately prior to the closing of the merger,

if any, and the percent of issued and outstanding Halo common stock that you will own will be determined by the number of shares of Halo common stock and InfoNow common stock issued and outstanding prior to the closing date, the Conversion Price of Halo common stock, and the net cash and working capital InfoNow has on hand at the time of the merger.

Assuming (1) Halo has 31,183,913 shares of common stock issued and outstanding as of the closing of the merger (assuming that all shares of Series C preferred stock have converted to common stock and that no shares have yet been issued in the Unify transaction described herein), (2) that InfoNow has $941,000 in net working capital and $1,671,000 in cash on hand determined no less than three days prior to the closing of the merger, (3) that 10,406,898 shares of InfoNow common stock are issued and outstanding as of the closing of the merger (including shares of common stock that in-the-money stock options are exerciseable into), and that (4) Halo s volume-weighted average trading price for the 20-day trading period ending two days before the closing of the merger is $1.399, InfoNow stockholders would receive 0.4299 of a share of Halo common stock, 0.4299 CVR s, and $0.09 for each share of InfoNow common stock that they then own, and would hold approximately 12.55% of the issued and outstanding common stock of Halo after the merger.

If InfoNow has no net working capital or cash on hand at the time of the merger, the entire merger consideration will be paid in Halo common stock.

InfoNow intends to issue a press release announcing the anticipated per share amount of the distribution on the second trading day prior to the InfoNow special meeting. Approximately 15 days prior to the closing date of the merger, InfoNow intends to provide a toll-free number for its stockholders to call and receive an exchange ratio and per share cash distribution based upon then-current share counts, share prices and option proceeds.

CERTAIN INFORMATION CONCERNING HALO

Halo is sometimes referred to throughout this section as we, us, our and the Company.

Historical Background

Halo 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. Halo obtained an interest in one mining property with mining claims on land located near Vancouver in British Columbia, Canada. To finance its exploration activities, Halo 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. Halo 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

On May 24, 2002, Halo and Warp Solutions closed a share exchange transaction (the Warp Solutions Share Exchange) pursuant to a share exchange agreement dated as of May 16, 2002, by and among Halo, Carlo Civelli, Mike Muzylowski, Warp Solutions, Karl Douglas, John Gnip and related sellers. Following the closing of the Warp Solutions Share Exchange, Warp Solutions became a subsidiary of Halo and the operations of Warp Solutions became the sole operations of Halo.

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

The Upstream Merger and Name Change

On August 19, 2002, the board of directors of Halo authorized and approved the upstream merger of WARP Technology Holdings, Inc., a wholly owned subsidiary of Halo which had no operations, with and into Halo pursuant to Chapter 92A of the Nevada Revised Statutes. The upstream merger became

effective on August 21, 2002, when Halo 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, Halo changed its name from Abbott Mines Ltd. to WARP Technology Holdings, Inc.

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 from our shareholders the consent 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, Halo, 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 Halo 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. Halo 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 Halo. As a result, following the closing, Spider became a wholly-owned subsidiary of 6043577 Canada Inc. and thereby an indirect, wholly-owned subsidiary of Halo.

Acquisition of Gupta Technologies, LLC

On January 31, 2005, Halo 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 was made pursuant to a Membership Interest Purchase Agreement (as amended, the Gupta Agreement) between Halo and Gupta Holdings, LLC.

Under the Gupta Agreement, the total purchase price was $21,000,000, excluding transaction costs, of which Halo delivered $15,750,000 in cash on or before the closing. The remainder of the purchase price was paid in Halo equity and debt securities. As a result, following the closing, Gupta became a wholly-owned subsidiary of Halo.

Acquisition of Kenosia Corporation

On July 6, 2005 Halo purchased Kenosia, 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. The purchase price paid for Kenosia was $1,800,000 (net of a working capital adjustment).

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).

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, 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. 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.

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 payable no later than March 31, 2006 and evidenced by a promissory note to Platinum Equity, LLC (the Platinum Note). Additionally, Halo is 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. At December 31, 2005, Halo accrued $50,000 of 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.

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.

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 $603,571 in cash and cash equivalents and 330,668 shares of Halo s common stock (with a value of $558,829 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.

Agreement to Acquire Unify Corporation

On March 14, 2006, Halo entered into an Agreement and Plan of Merger (the Unify Merger Agreement) with Unify Corporation (Unify) in a transaction valued at approximately $20.6 million.

Unify provides business automation solutions, including market leading applications for the alternative risk insurance market. Upon completion of the merger, Unify will become a wholly owned subsidiary of Halo. The Unify Business Solutions division will work closely with Halo s Gupta subsidiary, a leading producer of embeddable databases and enterprise application development tools, who together will have more than 7,000 worldwide customers and a broad offering of Java, J2EE and relational database products. Unify s Insurance Risk Management Division will work closely with Halo s DAVID Corporation subsidiary, a leading claims software provider with a large customer base in the alternative risk market.

In connection with the Unify Merger Agreement, two shareholders of Unify representing approximately thirty-three percent (33%) of outstanding voting rights of Unify have executed voting agreements that, subject to limited exceptions, require these stockholders to vote their Unify shares in favor of the Merger.

Under the terms of the Unify Merger Agreement, which was approved by the boards of directors of each of Halo and Unify, each share of Unify s common stock outstanding immediately prior to the merger will be converted into the right to receive 0.437 shares of common stock of Halo (the Unify Exchange Ratio). The merger is intended to qualify as a tax-free reorganization under Section 368(a) of the Code.

In addition, each outstanding option to purchase shares of common stock of Unify that has an exercise price of less than $1.00 per share shall become and represent an option to purchase the number of

shares of Halo s common stock (rounded down to the nearest full share) determined by multiplying (X) the number of shares of Unify common stock subject to the option immediately prior to the effective time of the Merger by (Y) the Unify Exchange Ratio, at an exercise price per share of Halo s common stock equal to the result of dividing (A) the exercise price of the Unify option by (B) the Unify Exchange Ratio, and rounding the result up to the nearest tenth of one cent. All other outstanding options to purchase Unify common stock shall be cancelled at the effective time of the Merger. Halo options issued in substitution of Unify options shall contain substantially the same terms and conditions as the applicable Unify options.

Each outstanding warrant to purchase shares of common stock of Unify shall become and represent a warrant to purchase the number of shares of Halo s common stock (rounded down to the nearest full share) determined by multiplying (X) the number of shares of Unify common stock subject to the warrant immediately prior to the effective time of the merger by (Y) the Unify Exchange Ratio. The exercise price for Halo s shares issuable upon exercise of Halo warrants issued in replacement of the Unify warrants shall be $1.836 per share. Halo warrants issued in substitution of Unify warrants shall contain substantially the same terms and conditions as the applicable Unify warrants.

Consummation of the merger is subject to several closing conditions, including, among others, approval by a majority of Unify s common shares entitled to vote thereon, holders of less than ten percent (10%) of Unify s outstanding common stock exercising appraisal or dissenter s rights, Halo receiving a new equity investment of at least $2.0 million, Halo converting certain of its outstanding convertible debt into common stock, no material adverse change in the business or condition of either company prior to the effective time of the merger, and the effectiveness of a registration statement on Form S-4 to be filed by Halo registering the shares of common stock to be issued in the merger. In addition, the Unify Merger Agreement contains certain termination rights allowing Unify, Halo or both parties to terminate the agreement upon the occurrence of certain conditions, including the failure to consummate the merger by September 30, 2006.

Business of Halo

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, Foresight Software, Inc., 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.

Gupta Business

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. Applications developed using Gupta products are used in mission-critical processes in thousands of businesses worldwide. Everyday, people rely on Gupta products when filling a prescription at their local pharmacy, banking online, shipping a package, riding a train, or shopping at a convenience store. Businesses rely on Gupta products to run their manufacturing operations, track their finances and organize their data.

Gupta s flagship products, Team Developer and SQLBase, are specifically designed to meet the demands for enterprise performance and functionality combined with low total cost of ownership. SQLBase is a low/zero-administration relational database that features a high level of security with more than one million copies in use worldwide. It is ideal for rich client applications and environments where it is impractical to have a database administrator. Team Developer is used by over 10,000 developers worldwide and offers an object-oriented, 4GL toolset with built-in version control, customizable coding environment, and native connectivity to most popular databases. It can be used by a single developer or by large teams to develop robust applications in a managed environment. Gupta s primary customers are independent

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software vendors (ISVs), value-added resellers (VARs), systems integrators and corporate IT departments.

While Gupta products can be used independently with other tools and databases, the majority of Gupta s customers use them in conjunction with each other to develop business applications. A typical customer uses Team Developer to create a software application for a business solution, with SQLBase as the embedded database, and deploys that application within their organization (a corporate user), or sells the application as a proprietary product (ISVs and VARs).

Gupta sells its products using a traditional software licensing model. Developers buy Team Developer licenses by the seat. SQLBase licenses are sold as either a single workstation version or a multi-user server version on a per seat basis. Gupta additionally offers maintenance and support contracts that allow customers to receive product upgrades and telephone support on an annual basis.

Gupta in its present form originated in February 2001 when Platinum, a private equity firm in Los Angeles, California, acquired certain assets and liabilities from Centura Software Corporation (Centura). These assets and liabilities related principally to the SQLBase and Team Developer product lines and included all rights to the intellectual property, the working capital, fixed assets, contracts, and operating subsidiaries that supported these products. Gupta also hired certain employees from Centura to support the development, sales, technical support, and administration of the acquired assets. Originally founded in 1983 as Plum Computers, Inc., the entity became Gupta Technologies, Inc. in 1984, then Gupta Corporation in 1992, then Centura Software Corporation in 1996. Gupta is a limited liability company formed under the laws of the State of Delaware. In January 2005, Gupta was acquired by the Company from Gupta Holdings, LLC, a wholly owned subsidiary of Platinum.

Gupta is based in Redwood Shores, California with offices in Munich, London, and Paris. It has over 1,000 customers in over 50 countries.

Warp Solutions Business

In addition to the Gupta businesses, Halo operates in the United States, Canada and the U.K. through its subsidiaries, Warp Solutions, Inc. a Delaware corporation, Warp Solutions, Ltd., a U.K. corporation, 6043577 Canada, Inc., a Canadian corporation, and Spider Software, Inc., a Canadian corporation. These subsidiaries are collectively referred to in this prospectus as Warp Solutions. Warp Solutions 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. These 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.

The primary product offered is the SpiderSoftware product, which is a software solution designed to enable caching of pure dynamic content at the web server layer. This product is installed on the web server of an enterprise to allow network administrators to select certain sections of its content to remain dynamic, a feature known as partial page caching.

The benefits of the SpiderSoftware solution are increased speed, performance, scalability, availability and efficiency of a network infrastructure s informational and transactional data flow. The primary advantages of the SpiderSoftware solution include highly granular cache control, support for both static and dynamic page caching, partial page caching, database trigger support for dynamic cache management, clustering support, cross platform web administration tool, real-time cache efficiency performance monitoring, automatic image optimization, and support for multiple operating systems including Windows NT, Linux, Solaris, and Unix.

Kenosia Business

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.

Tesseract Business

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 Business

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

Process Business

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 Business

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 Business

Foresight 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.

Empagio Business

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 has integrated the operations of Empagio and Tesseract and has merged those entities. The intent is to create a premier human resources management solutions provider. Halo also intends to integrate the operations of ECI and merge ECI into Empagio.

ECI Business

ECI is a human resource solutions provider. Halo is integrating the business of ECI, including its clients and delivery assets, into its Empagio subsidiary.

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Sales and Marketing

Halo currently uses both indirect and direct sales models, based on geography. In Europe, Halo uses an indirect sales channel relying on VARs and distributors to sell its products to end users. Halo s sales and marketing team in Europe works directly with its VAR partners to help them market and sell Halo s products by engaging in joint efforts to meet with their customers, attend their roadshows, provide technical support and training and attending major technology trade events. In North America, Halo relies on direct sales force to sell its products. Halo is currently working on developing an indirect channel in North America. Halo is targeting VARs and ISVs, similar to ones Halo is successfully working with in Europe, to partner with in selling Halo s products. Throughout Latin America and AsiaPacific, Halo uses an indirect sales model similar to Europe. It is Halo s intent to increase its marketing activities worldwide in fiscal 2006 to increase Halo brand awareness, attract new partners and customers and generate increased revenues.

Software Product Development

Halo s software development effort is based in its North American offices with another 30 full-time contractors based in India. It is Halo s intent to continue developing enhanced functionality in Halo s existing products.

Intellectual Property and Proprietary Rights

We regard certain aspects of Halo s operations, products and documentation as proprietary. We rely on a combination of patent, copyright, trademark and trade secret laws and other measures to protect our proprietary rights. We also rely on contractual restrictions in Halo s agreements with customers, employees and others to protect our intellectual property rights. However, in certain foreign countries, effective copyright and trade secret protection may be unavailable or the laws of these other jurisdictions may not protect our proprietary technology rights to the same extent as the laws of the United States. Failure to obtain and/or maintain appropriate patent, copyright or trade secret protection either in the United States or in certain foreign countries, for any reason, may have a material adverse effect on Halo s business, operating results and financial condition.

Halo licenses software and technology from third parties, including some competitors, and incorporates them into its own software products, some of which are critical to the operation of Halo s software.

The source code for Halo s software products is protected both as a trade secret and as a copyrighted work. Some of Halo s customers are beneficiaries of a source code escrow account arrangement which enables the customer to obtain a contingent future limited right to use Halo s source code solely for the customer s internal use. If Halo s source code is accessed, the likelihood of misappropriation or other misuse of Halo s intellectual property may increase.

We believe that Halo s copyrights, trademarks and other proprietary rights do not infringe upon the proprietary rights of third parties. However, there can be no assurance that third parties will not assert infringement claims against Halo in the future with respect to current or future products or that any such assertion will not require Halo to enter into royalty arrangements or result in litigation.

Competition

The market for Halo s products and services is extremely competitive and contains a number of companies that are larger, more established and better financed than Halo. Competitors include Microsoft, Oracle, Sybase, Cisco and many other companies. To the extent that our products or services have a competitive advantage, due to the fact that there are larger, better capitalized companies in the marketplace, there is no assurance that Halo can maintain a competitive position.

Raw Materials

Halo does not use any raw materials in its business.

Dependence on Major Customers

Halo has no customer that accounted for more than 10% of Halo s revenues in fiscal 2004. In fiscal 2005, Halo had one customer that accounted for approximately 15% of Halo s revenue.

Research and Development

During the fiscal year 2004, Halo spent approximately $812,000 on research and development of its products. During the fiscal year 2005, Halo spent approximately $1,589,000 on research and the development of its products. The pricing of Halo s products reflects, among other things, the cost of their development as well as the cost of the component parts and applicable license fees.

Personnel

As of June 30, 2005, Halo employed 57 people, including 25 in sales and marketing, 12 in research and development, 5 in technical support and 15 in administration. As of March 1, 2006, Halo employed 234 people, including 50 in sales and marketing, 99 in research and development, 40 in technical support and 45 in administration, all of whom are full-time employees. None of Halo s employees are covered by a labor union or collective bargaining agreement.

HALO MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis provides information that Halo s management believes is relevant to an assessment and understanding of Halo s results of operations and financial condition. This discussion is based on, and should be read together with, Halo s consolidated financial statements, and the notes to such financial statements, which are included in this proxy statement/prospectus. This proxy statement/ prospectus contains forward-looking statements that involve risks and uncertainties. Halo s actual results may differ materially from those projected in the forward-looking statements. References to we, us and our throughout this Halo Management s Discussion and Analysis of Financial Condition and Results of Operations section are references to Halo.

Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 123(Revised), *Share-Based Payment,* (SFAS No. 123(R)), 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 Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees* (APB No. 125). SFAS No. 123(R) will be effective for the period beginning January 1, 2006. The impact on this new standard, if it had been in effect on the net loss and related per share amounts of our three and six months ended December 31, 2005 and 2004 is disclosed above in Index to Financial Statement Schedules Note 2, Summary of Significant Accounting Policies Stock-Based Compensation . We believe the adoption will have an effect on our results of operations.

On March 29, 2005, the Staff of the Securities and Exchange Commission (SEC or the Staff) issued Staff Accounting Bulletin (SAB) No. 107, *Share-Based Payment* (SAB 107). Although not altering any conclusions reached in SFAS No. 123(R), SAB 107 provides the views of the Staff regarding the interaction between SFAS No. 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. Halo intends to follow the interpretative guidance on share-based payment set forth in SAB 107 during Halo s adoption of No. 123(R).

Critical Accounting Policies

The discussion and analysis of Halo s financial condition and results of operations is based on Halo 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 Halo s business operations and the understanding of Halo s results of operations. We believe the following critical accounting policies and the related judgments and estimates affect the preparation of Halo s consolidated financial statements:

Revenue Recognition

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

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, Halo 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. In arrangements in which Halo does not have vendor-specific objective evidence of fair value of maintenance, and maintenance is the only undelivered item, Halo 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 Gupta 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.

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

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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 Emerging Issues Task Force (EITF) Issue No. 01-03, *Accounting in a Business Combination for Deferred Revenue of an Acquiree*. Under this guidance, Halo 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 Halo continues to acquire more businesses in the enterprise software industry, the effect of this deferred revenue valuation will have significant effect on Halo 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. 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 Halo s product development process, technological feasibility is established upon the completion of a working model. Costs incurred by Halo 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 No. 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.

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We have recorded a significant amount of goodwill on our balance sheet. As of December 31, 2005, goodwill was approximately $29 million, representing approximately 46% of our total assets and approximately 52% 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

Halo uses the intrinsic value method to account for stock-based compensation in accordance with APB No. 25 and have 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*. Accordingly, no compensation cost has been recognized for fixed stock option grants. Had compensation costs for Halo s stock option grants been determined based on the fair value at the grant dates for awards under these plans in accordance with SFAS No. 123, Halo s net loss and loss per share would have been reduced to amounts disclosed in Index to Financial Statements and Financial Statement Schedules Note 2, Summary of Significant Accounting Policies Stock Based Compensation. SFAS No. 123(R) became effective for the period beginning January 1, 2006. The adoption of this standard will generally result in increased compensation expense as it values any unvested options previously not recognized by APB No. 25.

Results of Operations

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 $5.3 million to $5.4 million for the three months ended December 31, 2005 from $107,000 for the three months ended December 31, 2004. Total revenue increased by $8.3 million to $8.6 million for the six months ended December 31, 2005 from $265,000 for the six months ended December 31, 2004. During the twelve months ending June 30, 2005, Halo recognized approximately $5,124,000 of revenues, compared to $882,000 for the twelve months ended June 30, 2004. The total revenue of $5.4 million for the three months ended December 31, 2005 was primarily due to the acquisitions of Gupta, $2.8 million, Kenosia, $183,000, Tesseract, $737,000, and Process and Affiliates, $1.6 million. The total revenue of $8.6 million for the six months ended December 31, 2005 was due to the acquisitions of Gupta, $5.8 million, Kenosia, $468,000, Tesseract, $737,000, and Process and Affiliates, $1.6 million. The increase in revenue during the twelve months ending June 30, 2004 as compared to the twelve months ended June 30, 2004 was due primarily to the acquisition of Gupta, which accounted for approximately $4,781,000 of the fiscal 2005 revenues.

License revenue increased by $1.4 million to $1.5 million for the three months ended December 31, 2005 from $85,000 for the three months ended December 31, 2004. License revenue increased by $2.6 million to $2.8 million for the six months ended December 31, 2005 from $212,000 for the six months ended December 31, 2004. The total license revenue of $1.5 million for the three months ended December 31, 2005 was primarily due to the acquisitions of Gupta, $1.1 million, and Process and Affiliates, $429,000. The total license revenue of $2.8 million for the six months ended December 31, 2005 was primarily due to the acquisitions of Gupta, $2.3 million, Kenosia, $90,000, and Process and Affiliates, $429,000.

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Services revenue increased by $3.8 million to $3.9 million for the three months ended December 31, 2005 from $21,000 for the three months ended December 31, 2004. Services revenue increased $5.7 million to $5.8 million for the six months ended December 31, 2005 from $53,000 for the six months ended December 31, 2004. The total service revenue increase of $3.9 million for the three months ended December 31, 2005 was primarily due to the acquisitions of Gupta, $1.8 million, Kenosia, $178,000, Tesseract, $736,000, and Process and Affiliates, $1.2 million. The total revenue of $5.8 million for the six months ended December 31, 2005 was due to the acquisitions of Gupta, $3.5 million, Kenosia, $378,000, Tesseract, $736,000, and Process and Affiliates, $1.2 million.

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, Halo s operating strategy is to continue to acquire technology companies. Each of such transactions will cause a change to our future financial results. Halo believes such transactions will have a positive effect on Halo s revenues and income (loss) before interest.

Cost of Revenue

Total cost of revenue increased by $919,000 to $959,000 for the three months ended December 31, 2005 from $40,000 for the three months ended December 31, 2004. Total cost of revenue increased by $1.2 million to $1.3 million for the six months ended December 31, 2005 from $54,000 for the six months ended December 31, 2004. Total cost of revenue for the twelve months ended June 30, 2005 was approximately $548,000, as compared to $425,000 for the same period in 2004. The total cost of revenue of $959,000 for the three months ended December 31, 2005 was due to the acquisitions of Gupta, $270,000, Kenosia, $107,000, Tesseract, $179,000, and Process and Affiliates, $403,000. The total cost of revenue of $1.3 million for the six months ended December 31, 2005 was due to the acquisitions of Gupta, $525,000, Kenosia, $164,000, Tesseract, $179,000, and Process and Affiliates, $403,000. The increase in cost of revenue for the twelve months ended June 30, 2005 compared to the same period in 2004 is directly related to the increase in revenues. In addition, for the twelve months ended June 30, 2004, the cost of sales included a write-off of approximately $238,000 of obsolete and damaged WARP 2063 servers.

The principal components of cost of license fees are manufacturing costs, shipping costs, and royalties paid to third-party software vendors. Cost of license revenue increased by $115,000 to $155,000 for the three months ended December 31, 2005 from $40,000 for the three months ended December 31, 2004. Cost of license revenue increased by $147,000 to $201,000 for the six months ended December 31, 2005 from $54,000 for the six months ended December 31, 2004. The total cost of license fees of $155,000 for the three months ended December 31, 2005 was primarily due to the acquisitions of Gupta, $47,000, Kenosia, $8,000, and Process and Affiliates, $100,000. The total cost of license fees of $201,000 for the six months ended December 31, 2005 was primarily due to the acquisitions of Gupta, $92,000, Kenosia, $8,000, and Process and Affiliates, $100,000.

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 $804,000 for the three months ended December 31, 2005 from $0 for the three months ended December 31, 2004. Cost of services revenue increased by $1.1 million for the six months ended December 31, 2005 from $0 for the six months ended December 31, 2004. The cost of service revenue increase of $804,000 for the three months ended December 31, 2005 was a result of an increase in employee compensation directly related to additional headcount added in conjunction with the acquisitions of Gupta, $224,000, Kenosia, $99,000, Tesseract, $178,000, and Process and Affiliates, $303,000. The cost of service revenue increase of $1.1 million for the six months ended December 31, 2005 was a result of an increase in employee compensation directly related to additional headcount added in conjunction with the acquisitions of Gupta, $460,000, Kenosia, $156,000, Tesseract, $178,000, and Process and Affiliates, $303,000.

Gross profit margins were 82% for the three months ended December 31, 2005, compared to 63% for the three months ended December 31, 2004. Gross profit margins increased to 85% for the six months ended December 31, 2005, compared to 80% for the six months ended December 31, 2004. The gross margin increase was mainly due to the change in the product mix (increase in the proportion of maintenance and services revenue) Halo sells from the new subsidiaries during 2005. Gross profit margins increased to 89% for the year ended June 30, 2005, compared to 52% for the year ended June 30, 2004. The gross margin increase was mainly due to the change in the product mix Halo sells due to its Gupta subsidiary, which was acquired in January 2005.

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 $1.5 million to $1.6 million for the three months ended December 31, 2005 from $36,000 for the three months ended December 31, 2004. Research and development expenses increased by approximately $2.4 million to $2.5 million for the six months ended December 31, 2005 from $113,000 for the six months ended December 31, 2004. Product development expenses were approximately $1,589,099 and $812,000 for the twelve months ended June 30, 2005 and June 30, 2004, respectively. The increase for the six months ended December 31, 2004 was almost entirely attributable to an increase in employee compensation, and third party off shore consulting costs. The increase of $1.5 million for the three months ended December 31, 2005 was mainly resulted from the acquisition of Gupta, $793,000, Kenosia, $60,000, Tesseract, $237,000, and Process and Affiliates, $438,000. The increase of $2.4 million for the six months ended December 31, 2005 mainly resulted from the acquisitions of Gupta, $1.7 million, Kenosia, $125,000, Tesseract, $237,000, and Process and Affiliates, $438,000. The increase in product development expenses for the twelve months ended June 30, 2005 was due to the acquisition of Gupta, which accounted for approximately $1,397,000 of the 2005 product development expense. 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, tradeshows, travel and overhead costs for Halo s sales and marketing personnel. Sales and marketing expenses increased by approximately $1.8 million to $2 million for the three months ended December 31, 2005 from $223,000 for the three months ended December 31, 2004. Sales and marketing expenses increased by approximately $3 million to $3.4 million for the six months ended December 31, 2005 from $477,000 for the six months ended December 31, 2004. Sales, marketing and business development expenses were approximately $3,652,000 and $2,310,000 for the twelve months ended June 30, 2005 and June 30, 2004, respectively. The increase of $1.8 million in sales and marketing expense was directly attributable to the acquisitions of Gupta, $1.4 million, Kenosia, $17,000, Tesseract, $49,000, and Process and Affiliates, $267,000 for the three months ended December 31, 2004. The increase of $3.0 million in sales and marketing expense was directly attributable to the acquisitions of Gupta, $2.7 million, Kenosia, $40,000, Tesseract, $49,000, and Process and Affiliates, $267,000 for the six months ended December 31, 2005. The increase in sales, marketing and business development expenses for the twelve months ended June 30, 2005 was due to the acquisition of Gupta, which accounted for approximately $2,171,000 of the 2005 sales and marketing expense.

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 $3.4 million to $3.7 million for the three months ended December 31, 2005 from $251,000 for the three months ended December 31, 2004. General and administrative expenses increased by approximately $4.2 million to $5.5 million for the

six months ended December 31, 2005 from $1.2 million for the six months ended December 31, 2004. General and administrative expense was approximately $4,989,000 and $8,468,000 for the twelve months ended June 30, 2005 and June 30, 2004 respectively. The increase for the six months ended December 31, 2005 is attributable to increased headcount to manage the increasing size and complexity of Halo s operations, as Halo has acquired new subsidiaries, as well as professional services fees associated with the acquisitions and securities laws and tax compliance. For the three months ended December 31, 2005, general and administrative expenses increased by $2.7 million was directly attributable to the acquisitions of Gupta, $1.1 million, Kenosia, $160,000, Tesseract, $446,000, and Process and Affiliates, $957,000. For the six months ended December 31, 2005, general and administrative expenses increased by $4 million was directly attributable to the acquisitions of Gupta, $2.3 million, Kenosia, $332,000, Tesseract, $446,000, and Process and Affiliates, $957,000. The decrease of $3,479,000 in general and administrative expense from the twelve months ended June 30, 2004 to the twelve months ended June 30, 2005 was due primarily to a decrease in non-cash compensation of $4,464,000, which was off set by increased cost due to the acquisition of Gupta.

Interest Expense

Interest expense increased by $2.2 million to $2.3 million for the three months ended December 31, 2005 from $46,000 for the three months ended December 31, 2004. Interest expense increased by $3.5 million to $3.6 million for the six months ended December 31, 2005 from $46,000 for the six months ended December 31, 2004. The increase was primarily due to the following: accretion of fair values of warrants issued in connection with Halo s debt, amortization of deferred financing costs (such as legal fees, due diligence fees, etc), and cash interest. The accretion of the fair values of the warrants accounted for approximately $1.1 million and $1.8 million for the three and six months ended December 31, 2005, respectively. The amortization of the deferred financing costs accounted for $139,000 and $374,000 for the three and six months ended December 31, 2005, respectively. And, the cash interest and the conversion of interest into common stock accounted for $1.0 million and $1.3 million for the three and six months ended December 31, 2005, respectively.

Net Operating Loss Carryforwards

Halo has a U.S. federal net operating loss carryforward of approximately $41,128,000 as of December 31, 2005, which may be used to reduce taxable income in future years through the year 2025. The deferred tax asset primarily resulting from net operating losses was approximately $16,700,000. Due to uncertainty surrounding the realization of the favorable tax attributes in future tax returns, Halo 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 Code.

Halo has foreign subsidiaries based in the United Kingdom, Canada and Germany and is responsible for paying certain foreign income taxes. As a result, there is an income tax provision of $34,000 and $86,000 for the three and six months ended December 31, 2005 as compared to $0 and $0 for the three and six months ended December 31, 2004.

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, 2005 and December 31, 2004, Halo used approximately $265,000 and $1,297,000, respectively to fund its operations. The cash was used primarily to fund operating losses, as well as approximately $16,374,000 for acquisitions, $8,325,000 for repayment of the principle

portion of outstanding debt. For the years ended June 30, 2005 and 2004 Halo used approximately $3.4 and $4.8 million, respectively to fund its operations.

As of June 30, 2005 Halo used approximately $15.8 million for investing activities. Halo paid approximately $15 million in cash for the acquisition of Gupta and deposited approximately $.8 million for the Kenosia acquisition.

As of June 30, 2005 Halo raised approximately $20.8 million, of which $12.2 million was from the sale of preferred stock, $2.5 million from issuance of subordinated notes and $6.1 million from the issuance of senior notes.

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 theses purposes, LIBOR means the rate offered in the London interbank market for 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. Halo anticipates that due to recent transactions, as well as the InfoNow and Unify acquisitions, certain of the covenants under the Credit Agreement may have to be modified in order for Halo to continue to comply. Halo has engaged in discussions with Fortress, and Halo anticipates negotiating appropriate modifications to the covenants to reflect these changes in Halo s business. In the event Halo completes further acquisitions, Halo and the other parties to the credit agreement will agree upon modifications to the financial covenants to reflect the changes to Halo s consolidated assets, liabilities, and expected results of operations in amounts to be mutually agreed to by the parties. 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 September 20, 2005, Halo issued a $500,000 principal amount promissory note (the September 2005 Note). The maturity on this note was December 19, 2005, unless it was converted prior to that date into equity. On January 11, 2006, the holder of this note converted the $500,000 principal (plus accrued interest) into the Series E Subscription Agreement described under Recent Developments Series E Notes and Series E Subscription Agreements beginning on page 105 of this proxy statement/prospectus. Under the Series E Subscription Agreement, the holder of the September 2005 note had the right, in the event that Halo completed or entered into agreements to sell equity securities on or before February 15, 2006, to convert the securities received under the Series E Subscription Agreement into such other equity securities as if the investor had invested the amount invested in such securities. The holder of the September 2005 Note has indicated to Halo that it intends to exercise this right and receive the same securities as were issued under the January 2006 Subscription Agreements. The terms of the January 2006 Subscription Agreements are described more fully below under Recent Developments January 2006 Subscription Agreements beginning on page 107 of this proxy statement/prospectus.

On October 26, 2005, as part of the acquisition of Tesseract, Halo issued a promissory note in the amount of $1,750,000 to Platinum (the Platinum Note). 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 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.

On October 21, 2005, Halo entered into certain convertible promissory notes to various accredited investors (the October 2005 Notes) in the aggregate principal amount of One Million Dollars ($1,000,000). Interest accrues under the October 2005 Notes at the rate of ten percent (10%) per annum. The principal amount of the October 2005 Notes, together with accrued interest, was due February 19, 2006, or 90 days after the date it was entered into, unless the October 2005 Notes were converted into debt or equity securities of Halo in Halo s next financing involving sales by Halo of a class of its preferred stock or convertible debt securities, or any other similar or equivalent financing transaction. Five hundred thousand dollars ($500,000) in principal amount (plus accrued interest) of the October 2005 Notes was repaid by Halo in early March. On January 11, 2006, the holder of the remaining $500,000 October 2005 Note converted the $500,000 principal (plus accrued interest) under this October 2005 Note into the Series E Subscription Agreement described under Recent Developments Series E Notes and Series E Subscription Agreements beginning on page 105 of this proxy statement/prospectus. Under the Series E Subscription Agreement, the holder of this October 2005 Note had the right, in the event that

Halo completed or entered into agreements to sell equity securities on or before February 15, 2006, to convert the securities received under the Series E Subscription Agreement into such other equity securities as if the investor had invested the amount invested in such securities. The holder of the October 2005 Note has indicated to Halo that it intends to exercise this right and receive the same securities as were issued under the January 2006 Subscription Agreements. The terms of the January 2006 Subscription Agreements are described more fully below under Recent Developments January 2006 Subscription Agreements beginning on page 107 of this proxy statement/prospectus.

Also on October 21, 2005, Halo issued warrants (the October 2005 Warrants) to purchase an aggregate of 363,636 shares of common stock, par value $0.00001 per share of Halo. The October 2005 Warrants were issued in connection with the October 2005 Notes described above. The exercise price for the October 2005 Warrants is $1.375, subject to adjustment as provided in the October 2005 Warrants. The October 2005 Warrants are exercisable until October 21, 2010. The October 2005 Warrants contain an automatic exercise provision in the event that the warrant has not been exercised but the Fair Market Value of the Warrant Shares (as defined in the October 2005 Warrants) is greater than the exercise price per share on the expiration date. The October 2005 Warrants also contain a cashless exercise provision. The October 2005 Warrants also contain a limitation on exercise which limits the number of shares of Halo common stock that may be acquired by the holder on exercise to that number of shares as will insure that, following such exercise, the total number of shares of common stock then beneficially owned by such holder and its affiliates will not exceed 9.99% of the total number of issued and outstanding shares of Halo common stock. This provision is waivable by the holder on 60 days notice.

On October 14, 2005, one of Halo s directors, David Howitt, made a short-term loan to Halo for $150,000. On January 11, 2006, Mr. Howitt converted the principal (plus accrued interest) under this loan into the Series E Subscription Agreement described under Recent Developments Series E Notes and Series E Subscription Agreements beginning on page 105 of this proxy statement/prospectus. Under the Series E Subscription Agreement, Mr. Howitt has the right, in the event that Halo completed or entered into agreements to sell equity securities on or before February 15, 2006, to convert the securities received under the Series E Subscription Agreement into such other equity securities as if he had invested the amount invested in such securities. Mr. Howitt has indicated to Halo that he intends to exercise this right and receive the same securities as were issued under the January 2006 Subscription Agreements. The terms of the January 2006 Subscription Agreements are described more fully below under Recent Developments January 2006 Subscription Agreements beginning on page 107 of this proxy statement/prospectus.

As of December 31, 2005 Halo had approximately $1,844,000 in cash and cash equivalents, $4,550,000 in net accounts receivable, $8,658,000 in accounts payable and accrued expenses, and $4,842,000 in short-term notes and loans payable, net of warrants fair value discount of $108,000 and $1,293,000 to ISIS and affiliated companies.

For the six months ended December 31, 2005, Halo used approximately $16,425,928 for investing activities. During the same period, Halo paid approximately $507,000 in cash as part of consideration to acquire Kenosia and approximately $15,867,102 in cash as part of consideration to purchase Tesseract, Process, DAVID Corporation, Profitkey, and Foresight from Platinum Equity, LLC.

As of December 31, 2005, Halo had debt that matures in the next 12 months in the amount of $4,950,000. This consists of $500,000 of note payable to Bristol Technology, Inc. (seller of Kenosia), $2,750,000 payable to Platinum Equity, LLC (seller of Tesseract, Process, DAVID Corporation, Profitkey, and Foresight), and $1,700,000 in notes payable to other investors. As of the date hereof, $500,000 of the $1,700,000 notes have been paid, and the $500,000 note payable to Bristol Technology, Inc has been paid. Halo has also taken additional debt in the amount of $700,000 and $1,375,000 in January 2006, both of which are expected to be paid in equity securities.

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.

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 and debt. 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.

Recent Developments

Options Granted to Mark Finkel

In connection with his employment by Halo, and under the Halo Technology Holdings 2005 Equity Incentive Plan, on January 4, 2006, Mr. Finkel received stock options for 600,000 shares of Halo s common stock. The exercise price for Mr. Finkel s options is $1.22 per share (the Fair Market Value on the date of grant by the Compensation Committee). The options granted to Mr. Finkel have a ten year term. 25% of these options vest on the first anniversary of the award, provided Mr. Finkel remains in his position through that date, and the remaining options vest ratably over the following 36 months, provided that Mr. Finkel remains with Halo.

Series E Notes and Series E Subscription Agreements

On January 11, 2006, Halo entered into certain convertible promissory notes (the Series E Notes) in the aggregate principal amount of Seven Hundred Thousand Dollars ($700,000). Interest accrues under the Series E Notes at the rate of ten percent (10%) per annum. The Notes provide that they automatically convert into (i) such number of fully paid and non-assessable shares of Halo s Series E Preferred Stock (the Series E Stock) equal to the aggregate outstanding principal amount due under the Series E Notes plus the amount of all accrued but unpaid interest under the Series E Notes divided by $1.25, and (ii) warrants (the Series E Warrants) to purchase a number of shares of Halo s common stock equal to 40% of such number of shares of Series E Stock issued to the holder. Under the terms of the Series E Notes, the automatic conversion was to occur upon the effectiveness of the filing of the Certificate of Designations, Preferences and Rights (the Certificate of Designations) pertaining to Halo s Series E Stock, and, in the event that the Certificate of Designations was not filed 30 days after the Series E Notes were issued (February 10, 2006) then the holders of the Series E Notes may demand that Halo pay the principal amount of the Series E Notes, together with accrued interest. No demand for payment has been made.

Under the Series E Subscription Agreements described below, holders of the Series E Notes had the right, in the event that Halo completed or entered into agreements to sell equity securities on or before February 15, 2006, to convert the Series E Notes into such other equity securities as if the investor had invested the amount invested in such securities. The holders of the Series E Notes have indicated to Halo that they intend to exercise this right and receive the same securities as were issued under the January 2006 Subscription Agreements. The terms of the January 2006 Subscription Agreements are described more fully below under January 2006 Subscription Agreements beginning on page 107 of this proxy statement/prospectus.

Also on January 11, 2006, Halo entered into certain Subscription Agreements (the Series E Subscription Agreements) for the sale of Series E Stock and Series E Warrants. In addition to the conversion of the principal and interest under the Series E Notes described above, investors under the

Series E Subscription Agreements agreed to invest $150,000 in cash and committed to convert the $500,000 principal (plus accrued interest) under the September 2005 Note, and the $500,000 principal (plus accrued interest) under the outstanding October 2005 Note (each as described above). Accordingly, Halo has taken the position that these notes were amended by the Series E Subscription Agreement. Also under the Series E Subscription Agreement, an investor agreed to convert $67,500 in certain advisory fees due from Halo into Series E Stock and Warrants.

The material terms of the Subscription Agreements are as follows. Halo designates the closing date. The closing is anticipated to occur when the Series E Certificate of Designations becomes effective. The obligations of the investors under the Series E Subscription Agreement are revocable if the closing has not occurred within 30 days of the date of the agreement. No later than seventy five (75) days after the completion of the offering, Halo agreed to file with the SEC a registration statement covering the Halo common stock underlying the Series E Stock and the Series E Warrants, and any common stock that Halo may elect to issue in payment of the dividends due on the Series E Stock.

Upon the completion of this offering, with a full round of investment of $10,000,000, the Series E investors will have the right for 15 months to invest, in the aggregate, an additional $10,000,000 in common stock of Halo, at $2.00 per share of common stock (as adjusted for stock splits, reverse splits, and stock dividends) or a 20% discount to the prior 30 day trading period, whichever is lower. Each such investor s right shall be his, her or its pro rata amount of the initial offering.

In the event that Halo completes or enters into agreements to sell equity securities on or before February 15, 2006, investors in Series E Stock may convert the securities received under the Series E Subscription Agreement into such other equity securities as if the investor had invested the amount invested in such securities. Halo will provide the Series E investors with five business days notice of such right. The investor will be required to execute and deliver all such transaction documents as required by Halo in order to convert such securities into such other securities.

Certain of the transactions in connection with the Series E Subscription Agreement were entered into by Mr. David Howitt, a director of Halo. Mr. Howitt invested $350,000 under the Series E Notes, and agreed to invest another $150,000 under the Series E Subscription Agreement. Mr. Howitt recused himself from the Halo board of directors decisions approving these transactions.

Investors under the Series E Subscription Agreements have indicated to Halo that they intend to exercise the right described above and receive the same securities as were issued under the January 2006 Subscription Agreements. The terms of the January 2006 Subscription Agreements are described more fully below under January 2006 Subscription Agreements beginning on page 107 of this proxy statement/prospectus

Issuance of common stock in connection with the Acquisition of Empagio

Halo entered into a merger agreement dated December 19, 2005, with Empagio, certain stockholders of Empagio, and a wholly owned subsidiary of Halo. On January 13, 2006, the closing under the merger agreement occurred and Empagio became a wholly owned subsidiary of Halo.

Upon the closing of the Empagio merger, Halo issued 1,438,455 shares of its common stock. Halo has delivered to the Empagio stockholders 1,330,571 shares of Halo common stock and retained 107,884 shares of Halo common stock as security for Empagio stockholder indemnification obligations under the merger agreement (the Empagio Indemnity Holdback Shares). The Empagio Indemnity Holdback Shares shall be released to the Empagio stockholders on the later of (i) the first anniversary of the closing date of the transaction and (ii) the date any indemnification issues pending on the first anniversary of the closing date are finally resolved.

January 2006 Convertible Promissory Notes

On January 27 and on January 30, 2006, Halo entered into certain convertible promissory notes (the January 2006 Convertible Notes) in the aggregate principal amount of One Million Three Hundred

Seventy-Five Thousand Dollars ($1,375,000). The principal amount of the January 2006 Convertible Notes, together with accrued interest, shall be due and payable on demand by the holder thereof on the maturity date which is no earlier than sixty (60) days after the date such January 2006 Convertible Notes were issued (the Original Maturity Date), unless the January 2006 Convertible Notes are converted into common stock and warrants as described below. In the event that the January 2006 Convertible Notes are not converted by their Original Maturity Date, interest will begin to accrue at the rate of ten percent (10%) per annum.

Each January 2006 Convertible Note shall convert into (i) such number of fully paid and non-assessable shares of Halo s common stock equal to the aggregate outstanding principal amount due under the January 2006 Convertible Note plus the amount of all accrued but unpaid interest on the January 2006 Convertible Note divided by $1.25, and (ii) warrants (the January 2006 Warrants) to purchase a number of shares of Halo s common stock equal to 75% of such number of shares of common stock. The January 2006 Convertible Notes shall so convert automatically (Mandatory Conversion) and with no action on the part of the holder on their Original Maturity Date to the extent that upon such conversion, the total number of shares of common stock then beneficially owned by such holder does not exceed 9.99% of the total number of issued and outstanding shares of Halo common stock. For such purposes, beneficial ownership shall be determined in accordance with Section 13(d) of the Exchange Act and the rules and regulations promulgated thereunder. In the event that a portion of the principal and interest under the January 2006 Convertible Notes has not been converted on the first Mandatory Conversion (and the holder has not demanded payment), there will be subsequent mandatory conversions until all of the principal and interest has been converted, provided that at each such Mandatory Conversion the total number of shares of common stock then beneficially owned by such lender does not exceed 9.99% of the total number of issued and outstanding shares of common stock. Prior to any such mandatory conversion the holder may at its option by writing to Halo, convert all or a portion of the principal and interest due under such holder s January 2006 Convertible Notes into common stock and January 2006 Warrants provided that at each such conversion the total number of shares of common stock then beneficially owned by such holder does not exceed 9.99% of the total number of issued and outstanding shares of Halo common stock. By written notice to Halo, each holder may waive the foregoing limitations on conversion but any such waiver will not be effective until the 61st day after such notice is delivered to Halo.

January 2006 Subscription Agreements

Also on January 27 and January 30, 2006, Halo entered into certain Subscription Agreements (the January 2006 Subscription Agreements) for the sale of the January 2006 Convertible Notes and the underlying common stock and January 2006 Warrants.

The material terms of the January 2006 Subscription Agreements are as follows. Halo and the investors under the January 2006 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.

The January 2006 Subscription Agreements further provide that Halo shall register the shares of common stock issuable upon conversion of the January 2006 Convertible Notes and upon conversion of the January 2006 Warrants (together, the Registrable Shares) via a suitable registration statement. If a registration statement covering the Registrable Shares has not been declared effective after 180 days following the closing, the holders shall receive a number of shares of common stock equal to 1.5% of the number of shares received upon conversion of the January 2006 Convertible Notes for each 30 days thereafter during which the Registrable Shares have not been registered, subject to a maximum penalty of 9% of the number of shares received upon conversion of the January 2006 Convertible Notes.

The January 2006 Subscription Agreements allow the Investors to piggyback on the registration statements filed by Halo. Halo agreed that it will maintain the registration statement effective under the Securities Act until the earlier of (i) the date that all of the Registrable Shares have been sold pursuant to such registration statement, (ii) all Registrable Shares have been otherwise transferred to persons who

may trade such shares without restriction under the Securities Act, or (iii) all Registrable Shares may be sold at any time, without volume or manner of sale limitations pursuant to Rule 144(k) under the Securities Act.

Upon the completion of the offering under the January 2006 Subscription Agreements, with a full round of investment of $10,000,000, the investors will have the right for 15 months after the final closing to invest, in the aggregate an additional $10,000,000 in common stock of Halo. The price of such follow-on investment will be $2.00 per share of common stock or a 20% discount to the prior 30 day trading period, whichever is lower; provided that the price per share shall not be less than $1.25. Each investor s portion of this follow-on right shall be such investor s pro rata amount of the January 2006 Convertible Notes issued pursuant to the January 2006 Subscription Agreements. Once Halo has issued a total of $5,000,000 of January 2006 Convertible Notes, the investors will be able to invest up to 50% of the amount which they may invest pursuant to this follow-on right; subsequent to the completion of the full round of $10,000,000 the investors may invest the remainder of the amount which they may invest pursuant to this follow-on right.

Notwithstanding anything to the contrary in the January 2006 Subscription Agreements, the number of shares of common stock that may be acquired by any investor upon any exercise of this follow-on right (or otherwise in respect hereof) shall be limited to the extent necessary to insure that, following such exercise (or other issuance), the total number of shares of common stock then beneficially owned by such investor and its Affiliates and any other persons whose beneficial ownership of common stock would be aggregated with such investor for purposes of Section 13(d) of the Exchange Act, does not exceed 9.99% of the total number of issued and outstanding shares of Halo common stock. By written notice to Halo, any investor may waive this provision, but any such waiver will not be effective until the 61st day after such notice is delivered to Halo.

In addition to the $1,375,000 in January 2006 Convertible Notes issued January 27 and January 30, 2006, pursuant to the January 2006 Subscription Agreements, the following investors have expressed an intention to exercise their right to accept the terms of the January 2006 Subscription Agreements in lieu of the Series E Subscription Agreements:

the holder of the $500,000 principal amount September 2005 Note;

the holder of the $500,000 principal amount October 2005 Note that is still outstanding;

the holders of the $700,000 principal amount of Series E Notes;

David Howitt, who made a $150,000 short term loan to Halo;

the investor who had agreed to convert $67,500 in certain advisory fees due from Halo into a Series E Subscription Agreement.

It is a condition to the closing of the merger with Unify that all such convertible notes and all shares of Halo preferred stock shall have been converted into common stock of Halo.

Acquisition of ECI

On January 30, 2006, Halo entered into a Merger Agreement (the Merger Agreement) with ECI Acquisition, Inc., a Maryland corporation and wholly owned subsidiary of Halo (MergerSub), Executive Consultants, Inc., a Maryland corporation (ECI), and certain stockholders of ECI (the Sellers). On March 1, 2006, the closing occurred under the Merger Agreement. Accordingly, under the terms of the Merger Agreement, MergerSub was merged with and into ECI (the Merger) and ECI survived the Merger and is now a wholly-owned subsidiary of Halo. The total merger consideration for all of the equity interests in ECI (the Purchase Price) was $603,571 in cash and cash equivalents and 330,668 shares of Halo s common stock (the Halo Shares), subject to adjustment based on the Net Working Capital (as defined in the Merger Agreement) on the Closing Date.

Acquisition Agreement for the Acquisition of Unify Corporation

On March 13, 2006, Halo entered into an agreement and plan of merger (the Unify Merger Agreement) to acquire Unify Corporation, a Delaware corporation (Unify) (OTCBB:UNFY) in a transaction valued at approximately $20.6 million. In connection with the Unify Merger Agreement, two shareholders of Unify representing approximately thirty-three percent (33%) of outstanding voting rights of Unify have executed voting agreements that, subject to limited exceptions, require these stockholders to vote their Unify shares in favor of the merger.

Under the terms of the Unify Merger Agreement, which was approved by the boards of directors of each of Halo and Unify, each share of Unify s common stock outstanding immediately prior to the merger (the Unify Merger) will be converted into the right to receive 0.437 shares of common stock of Halo. The Unify Merger is intended to qualify as a tax-free reorganization under Section 368(a) of the Code.

In addition, each outstanding option to purchase shares of common stock of Unify that has an exercise price of less than $1.00 per share shall become and represent an option to purchase the number of shares of Halo common stock (rounded down to the nearest full share) determined by multiplying (X) the number of shares of Unify common stock subject to the option immediately prior to the effective time of the Unify Merger by (Y) the exchange ratio, at an exercise price per share of Halo common stock equal to the result of dividing (A) the exercise price of the Unify option by (B) the exchange ratio, and rounding the result up to the nearest tenth of one cent. All other outstanding options to purchase Unify common stock shall be cancelled at the effective time of the Unify Merger. The Halo options issued in substitution of Unify options shall contain substantially the same terms and conditions as the applicable Unify options.

Each outstanding warrant to purchase shares of common stock of Unify shall become and represent a warrant to purchase the number of shares of Halo common stock (rounded down to the nearest full share) determined by multiplying (X) the number of shares of Unify common stock subject to the warrant immediately prior to the effective time of the Unify Merger by (Y) the exchange ratio. The exercise price for the Halo shares issuable upon exercise of the Halo warrants issued in replacement of the Unify warrants shall be $1.836 per share. The Halo warrants issued in substitution of Unify warrants shall contain substantially the same terms and conditions as the applicable Unify warrants.

The Unify Merger Agreement includes representations and warranties regarding, among other things, Unify s corporate organization and capitalization, the accuracy of its reports and financial statements filed under the Exchange Act, the absence of certain changes or events relative to Unify since January 31, 2006, and Unify s receipt of a fairness opinion regarding the merger from its financial advisor. Similarly, Halo makes representations and warranties regarding, among other things, its corporate organization and capitalization and the accuracy of its reports and financial statements filed under the Exchange Act.

The Unify Merger Agreement also includes covenants governing, among other things, Unify s and Halo s operations outside the ordinary course of business prior to the closing.

Consummation of the Unify Merger is subject to several closing conditions, including, among others, approval by a majority of Unify s common shares entitled to vote thereon, holders of less than ten percent (10%) of Unify s outstanding common stock exercising appraisal or dissenter s rights, Halo receiving a new equity investment of at least $2.0 million, Halo converting certain of its outstanding convertible debt into common stock of Halo, no material adverse change in the business or condition of either company prior to the effective time of the Unify Merger, and the effectiveness of a registration statement on Form S-4 filed by Halo, registering the shares of Halo common stock to be issued in the Unify Merger. In addition, the Unify Merger Agreement contains certain termination rights allowing Unify, Halo or both parties to terminate the agreement upon the occurrence of certain conditions, including the failure to consummate the Unify Merger by September 30, 2006.

MANAGEMENT

Directors and Executive Officers

Directors of Halo

Rodney A. Bienvenu, Jr., 40, has been Chief Executive Officer of Halo, a Director of Halo and Chairman of Halo s Board of Directors since August 4, 2004. From September 2003 through the present, Mr. Bienvenu has been a founder and Managing Partner of ISIS Capital Management, LLC (ISIS), an investment firm specializing in active investment strategies and strategic transactions in information technology and other sectors. Prior to ISIS, Mr. Bienvenu founded Strategic Software Holdings, LLC, a successful investment vehicle that initiated a takeover attempt of Mercator Software, Inc., and invested in other public and private enterprise software companies. Mr. Bienvenu acted as Chief Executive Officer of Strategic Software Holdings, LLC, from August 2002 through September 2003. Prior to Strategic Software Holdings, LLC, Mr. Bienvenu served as President of Software at Halo, a publicly traded software company, from May 2001 through July 2002. During his tenure at Halo, Mr. Bienvenu led the planning, acquisition and consolidation of over thirty companies, including five public companies. Prior to Halo, Mr. Bienvenu served as CEO and President of SageMaker, Inc., a provider of digital asset management solutions for Global 2000 companies that he founded in 1992. Under his guidance, SageMaker raised more than $33 million in venture capital funding and acquired several technology companies in the U.S. and Europe. SageMaker was sold to Halo in early 2001. Mr. Bienvenu s previous industry experience includes the founding of a successful electronic publishing company and sale to a major publisher in 1991. Mr. Bienvenu has a seventy percent interest in ISIS, and ISIS has entered into transactions with Halo as described below under the section entitled Executive Compensation Certain Relationships and Related Transactions beginning on page 117 of this proxy statement/prospectus.

John A. Boehmer, 42, has been a director since March 30, 2005. Mr. Boehmer is an executive recruitment and human resources professional with more than 20 years experience. Mr. Boehmer is a Managing Partner with the Barlow Group, LLC, an executive search firm, specializing in matching early and mature growth-stage technology businesses with executive leadership and industry partnerships. Mr. Boehmer has been with the Barlow Group since September, 2005. Previously, Mr. Boehmer was a Managing Director with Korn/ Ferry International, a position he has held since September 2003. Prior to joining Korn/ Ferry, from January 2002 through September 2003, Mr. Boehmer was the Founder and Managing Director of Matlin Partners LLC. Previously, from July 1999 through December 2001, Mr. Boehmer served as Vice President of Executive Recruiting at Internet Capital Group. Mr. Boehmer holds a B.A. from Denison University.

Mr. David M. Howitt, 37, has been a director since March 30, 2005. Mr. Howitt is the President and CEO of The Meriwether Group, Inc., a boutique brand consulting and marketing firm which he founded in May 2004. From May 2001 until April 2004, Mr. Howitt served as director of licensing and business development at adidas America, Inc. Mr. Howitt also worked for several years as corporate counsel with adidas. Mr. Howitt holds a B.A. from Denison University, and a J.D. from the Lewis & Clark Northwestern School of Law. Mr. Howitt has a fifty percent interest in ISIS Acquisition Partners II, LLC, (IAP II) an entity which has entered into transactions with Halo as described below under the section entitled Executive Compensation Certain Relationships and Related Transactions beginning on page 117 of this proxy statement/prospectus.

Mark J. Lotke, 37, has been a director since March 30, 2005. Mr. Lotke is a Partner with FT Ventures, which he joined in 2005, and where he leads the Software Team. Mr. Lotke currently serves on the boards of ProfitLine, a provider of outsourced telecommunications expense management services, and of Digital Harbor, a composite applications company. Mr. Lotke has over 15 years experience in the information technology industry including over 10 years of private equity experience. Prior to joining FT Ventures, he has invested over $350 million in leading enterprise software, e-commerce and IT-enabled services companies generating over $1.2 billion in realized gains. From January 2003 through December 2004, Mr. Lotke was a General Partner with Pequot Ventures. From January 2001 through December

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2002, Mr. Lotke was a General Partner with Covalent Partners. Prior to that, Mr. Lotke was a Managing Director with Internet Capital Group. Mr. Lotke also worked for several years as a principal with General Atlantic Partners. Mr. Lotke began his professional career as a strategy consultant at Corporate Decisions, Inc. and also worked at LHS Group, a mobile billing and customer care software company. Mr. Lotke received a B.S. in Economics summa cum laude from the Wharton School of the University of Pennsylvania and an MBA from the Stanford University Graduate School of Business.

Other Executive Officers of Halo

Mark Finkel, 51, has been Halo s Chief Financial Officer since December 28, 2005. Mr. Finkel has over 20 years of senior financial and operational experience at both public and private companies. Prior to joining Halo, Mr. Finkel, served as chief executive officer of ISD Corporation from 2003 through February 2004, after being part of a group that purchased ISD from its founders. ISD is a leader in the payment technology industry. From 2001 through 2002, Mr. Finkel served as chief executive officer of RightAnswers, Inc., which provides enterprise customers with Self Service solutions for IT support. Mr. Finkel led a group of investors in acquiring Halo in 2001, which was then a division of a public company. After serving as CEO, Mr. Finkel continued to serve as non-executive chairman of ISD Corporation and RightAnswers, Inc. Since 1996, Mr. Finkel has also served as president of Emerging Growth Associates, a consulting firm for early stage, high growth companies, where he has provided counsel on strategic planning, business model development, market positioning, and operational execution. Mr. Finkel also serves as a venture partner with the Prism Opportunity Fund, a $50 million venture fund focused on early stage companies. Previously, Mr. Finkel has taken three companies public as CFO: Consilium, Inc, Logic Works, Inc. and ServiceWare Technologies, Inc. He also served as CFO of BackWeb Technologies, Inc. and Neuron Data, Inc. Mr. Finkel holds a J.D. from the University of California, Davis, an M.B.A. from New York University, and a B.A. from Oberlin College.

Ernest C. Mysogland, 40, has been Chief Legal Officer, Executive Vice President and Secretary of Halo since August 4, 2004. Mr. Mysogland has more than 15 years experience in mergers and acquisitions, equity and debt financing and investment. From September, 2003 through the present, Mr. Mysogland has been a founder and Managing Partner of ISIS Capital Management, LLC (ISIS), an investment firm specializing in active investment strategies and strategic transactions in information technology and other sectors. Prior to ISIS, Mr. Mysogland managed the legal and administrative matters of Strategic Software Holdings, LLC from May, 2003 through September, 2003. Prior to Strategic Software Holdings, LLC, from September, 1990 through April, 2003, Mr. Mysogland engaged in private legal practice representing investors, issuers, acquirers and targets in hundreds of public and private mergers and acquisitions, equity and debt financings, and other strategic transactions ranging in size up to $3.5 billion. Mr. Mysogland s clients have included numerous software and technology companies, private equity funds and institutional investors. Mr. Mysogland graduated from the University of Notre Dame and the Columbia University School of Law.

Brian J. Sisko, 44, has been Chief Operating Officer of Halo since March 2005. Mr. Sisko has 20 years of experience in the areas of corporate finance, mergers and acquisitions and strategic development. From February 2002 to March 2005, Mr. Sisko ran B/ T Business and Technology, which served as an advisor and strategic management consultant to a variety of public and private companies, including Halo. From April 2000 to January 2002, he was Managing Director of Katalyst, LLC, a venture capital and operational advisory firm where he was responsible for business development and client/portfolio company engagement management in that firm s Philadelphia and Boston offices. Mr. Sisko also previously served as Senior Vice President Corporate Development and General Counsel of National Media Corporation, a large public company with international operations. In addition, Mr. Sisko was a partner in the Corporate Finance/ Mergers and Acquisitions practice group of the Philadelphia-based law firm, Klehr Harrison, Harvey Branzburg & Ellers. Mr. Sisko also teaches as an adjunct professor in the MBA program of the Fox School of Business at Temple University. He earned his Juris Doctorate from The Law School of the University of Pennsylvania and his B.S. from Bucknell University.

Jeff Bailey, 52, Chief Executive Officer of Gupta Technology Holdings LLC (Gupta), a significant operating subsidiary of Halo since March 2005, and served as Interim Chief Financial Officer and Principal Financial Officer for Halo from March 2005 to December 2005. Since January 2002, Mr. Bailey served as Gupta s Chief Executive Officer, responsible for guiding Gupta s strategic direction as well as day-to-day operations. Mr. Bailey joined Gupta in October 2001 as its Chief Financial Officer. From August 2001 through October 2001, Mr. Bailey was also the CEO of DAVID Corporation. Prior to that experience, Mr. Bailey served as vice president of finance and CFO at Vivant Corporation until August 2001. He has also held positions as vice president of finance and CFO at Uniteq Application Systems Inc. and Phoenix Network Inc. He earned his B.S. in Business Administration from the University of California, Berkeley, and is a certified public accountant.

Takeshi Taniguchi, 34, has been interim Principal Accounting Officer for Halo since March 2005. Since July 2004 through the present, Mr. Taniguchi has served as Corporate Controller of Gupta, responsible for the overall financial management of Gupta. Mr. Taniguchi has worked at Gupta or its predecessors since 2000, serving as a senior financial analyst prior to his current position. He earned his Master of Business Administration from the University of Nevada, Reno, and is a Certified Management Accountant.

No director, executive officer, promoter or control person of Halo has, within the last five years: (i) had a bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time; (ii) been convicted in a criminal proceeding or is currently subject to a pending criminal proceeding (excluding traffic violations or similar misdemeanors); (iii) been subject to any order, judgment or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities or banking activities; (iv) been found by a court of competent jurisdiction (in a civil action), the SEC or the Commodity Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended or vacated. There are no family relationships among any directors and executive officers of Halo.

EXECUTIVE COMPENSATION

Compensation Committee and Compensation Report

The Halo board of directors appointed a Compensation Committee on September 13, 2005, consisting of Mr. Boehmer and Mr. Lotke, both of whom meet the requirements of non-employee directors under the rules under section 16(b) of the Securities Exchange Act of 1934, as amended, and the requirements of outside directors under section 162(m) of the Code. The Compensation Committee does not yet have a written charter. The Compensation Committee will administer the Halo Technology Holdings 2005 Equity Incentive Plan. The Compensation Committee did not meet during the fiscal year ended June 30, 2005.

Since Halo did not have a compensation committee of the board of directors for the fiscal year ended June 30, 2005, the entire board of directors reviewed all forms of compensation provided to our executive officers, directors, consultants and employees including stock compensation. The board of directors had no existing policy with respect to the specific relationship of corporate performance to executive compensation. The board of directors has set executive compensation at what the board of directors considered to be the minimal levels necessary to retain and compensate the officers of Halo for their activities on Halo s behalf.

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Summary Compensation Table

The following Summary Compensation Table sets forth information concerning the annual and long-term compensation earned by our Chief Executive Officer and each of the four other most highly compensated executive officers (collectively the named executive officers) at the end of the fiscal year ended June 30, 2005. This information includes the dollar value of base salaries and bonus awards and the number of stock options granted, and certain other compensation, if any.

Summary Compensation Table

		Annual Compensation			Long-Term Compensation Awards		Long-Term Compensation Payouts	
Executive Officer and Principal Position	**Year**	**Salary (US$)**	**Bonus (US$)**	**Other Annual Compensation (US$)**	**Restricted Stock Awards (US$)**	**Securities Underlying Options/SAR (#)**	**LTIP Payouts (US$)**	**All Other Compensation (US$)**
Rodney A. Bienvenu, Jr.(1)	2005	275,000	270,500	0	0	301,372	0	0
Chairman & Chief Executive	2004	0	0	0	0	0	0	0
Officer	2003	0	0	0	0	0	0	0
Ernest C. Mysogland(2)	2005	160,417	65,625	0	0	100,456	0	0
Executive Vice President,	2004	0	0	0	0	0	0	0
Chief Legal Officer, and	2003	0	0	0	0	0	0	0
Secretary								
Brian J. Sisko(3)	2005	67,436	0	94,000	0	0	0	0
Chief Operating Officer	2004	0	0	0	0	0	0	0
	2003	0	0	0	0	0	0	0
Jeff Bailey(4)	2005	93,656	202,322	0	0	0	0	0
Former Chief Financial	2004	0	0	0	0	0	0	0
Officer	2003	0	0	0	0	0	0	0
Gus Bottazzi(5)	2005	106,667	0	500,000	0	187,520	0	0
Former President and Director	2004	198,693	0	0	0	0	0	0
	2003	56,250	0	0	0	2,000	0	0

(1) *Rodney A. Bienvenu, Jr.* Mr. Bienvenu was appointed Chief Executive Officer and Chairman of Halo on August 4, 2004. Mr. Bienvenu did not receive any compensation for fiscal 2004 or for fiscal 2003.

(2) *Ernest C. Mysogland.* Mr. Mysogland was appointed Executive Vice President and Chief Legal Officer of Halo on August 4, 2004. Mr. Mysogland did not receive any compensation for fiscal 2004 or for fiscal 2003.

(3) *Brian J. Sisko.* Mr. Sisko was appointed Chief Operating Officer of Halo in March 2005. Mr. Sisko did not receive any compensation for fiscal 2004 or for fiscal 2003. Amount under Other Annual Compensation includes

consulting and transaction fees paid to or earned by Mr. Sisko during the fiscal year ended June 30, 2005 for his work as a consultant to Halo prior to March 2005 when he became Halo s Chief Operating Officer.

(4) *Jeff Bailey.* Mr. Bailey served as interim Chief Financial Officer of Halo from March 2005 through December 2005. Mr. Bailey did not receive any compensation for fiscal 2004 or for fiscal 2003. Bonus amounts include bonuses paid to Mr. Bailey in the fiscal year ended June 30, 2005, bonuses earned by Mr. Bailey due to the change in control of Gupta, and a performance bonus paid to Mr. Bailey in fiscal 2005, which related to the period prior to Halo s acquisition of Gupta on January 31, 2005. Mr. Bailey continues to serve as Chief Executive Officer of Halo s subsidiary, Gupta.

(5) *Gus Bottazzi.* The compensation shown in this Summary Compensation Table represents the total compensation paid to Mr. Bottazzi for all executive positions held by him at Halo beginning April 15, 2003. As of June 30, 2005, Mr. Bottazzi was no longer employed with Halo. Amount under Other Annual Compensation represents the value of 200,000 shares of Series C Preferred Stock issued to Mr. Bottazzi pursuant to the terms of the Separation Agreement dated March 3, 2005.

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Options Granted in Last Fiscal Year

The following table contains certain information regarding stock options we have granted to our named executive officers during the fiscal year ended June 30, 2005.

Name	Number of Securities Underlying Options Granted	Percent of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price ($/share)	Expiration Date
Rodney A. Bienvenu, Jr.	301,372	45%	6.75	8/4/2014
Ernest C. Mysogland	100,456	15%	6.75	8/4/2014
Gus Bottazzi	187,520.00	28%	6.75	8/4/2014

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values

The following table contains certain information regarding stock options exercised during the past twelve months and stock options held as of June 30, 2005, by each of our named executive officers. The stock options listed below were granted without tandem stock appreciation rights. We have no freestanding stock appreciation rights outstanding.

Option Exercise Table

			Number of Securities Underlying Unexercised Options at 6/30/05 (#)($)		Value of Unexercised In the Money Options at 6/30/05(1)	
Name	Shares Acquired On Exercise (#)	Value Realized	Exercisable	Non-Exercisable	Exercisable	Non-Exercisable
Rodney A. Bienvenu, Jr.				301,372		
Ernest C. Mysogland				100,456		
Gus Bottazzi			189,520			

(1) Calculated on the basis of $1.75 per share, the last reported bid price of the common stock on the over-the-counter market on June 30, 2005, less exercise price payable for such shares.

Long-Term Incentive Plan (LTIP) Awards Table

Halo made no long-term incentive awards in the fiscal year ended on June 30, 2005.

Compensation of Directors

Halo has a verbal agreement with each of the non-employee directors pursuant to which Halo has agreed to pay each non-employee director (Messrs. Howitt, Boehmer and Lotke) either $30,000 in cash annually or options to acquire 45,000 shares of common stock. Directors receive no additional compensation for serving on committees of the board of directors. The Compensation Committee determines annually whether the non-employees directors will receive cash or options. With respect to the fiscal year ending June 30, 2006, on September 13, 2005, the Compensation Committee as compensation for serving as members of the board of directors granted each of Messrs. Howitt, Boehmer and Lotke an option to acquire 45,000 shares of common stock at an exercise price of

1.08 per share. The options have a ten year term and vest 25% on December 31, 2005 and ratably each month over the next 36 months provided that the director remains a director of Halo. These options were awarded subject to the approval of the Halo Technology Holdings 2005 Equity Incentive Plan. Mr. Bienvenu, Halo s Chief Executive Officer, receives no additional compensation for his service on the board of directors.

Employment Contracts, Termination of Employment and Change in Control Arrangements

Halo entered into a written employment agreement with Rodney A. Bienvenu, Jr., its Chairman and Chief Executive Officer as of August 4, 2004. Under the terms of this agreement, Halo agreed to pay Mr. Bienvenu a monthly salary of $25,000 beginning on August 4, 2004 through December 31, 2005. Upon

execution of the agreement, Mr. Bienvenu was entitled to receive a payment equal to $37,500. In addition, Mr. Bienvenu agreed to defer 20% of his base salary for a period of time while Halo had little operating capital. This period lasted through March 2005. Under the agreement, Mr. Bienvenu was also entitled to receive an amount equal to 25% of his annual base salary upon the completion of the Gupta acquisition. This amount has not yet been paid. Halo expects to pay these deferred amounts in the second quarter of fiscal 2006. Mr. Bienvenu s base salary is subject to upward adjustment pursuant to the terms of the employment agreement. In addition to the foregoing, the Board voted to award Mr. Bienvenu a discretionary bonus in the amount of $158,000 for fiscal 2005, and awarded him options to acquire 158,000 shares of common stock under Halo s 2002 Equity Incentive Plan. The employment agreement automatically renews for successive one-year terms unless either party gives notice of his or its intention to terminate at least 60 days prior to the end of the term. Halo may terminate Mr. Bienvenu s employment at any time for Cause (as defined in the employment agreement) or at any time on or after June 30, 2005 upon 60 days prior written notice other than for Cause. Mr. Bienvenu may terminate his employment at any time for Good Reason (as defined in the employment agreement) or upon 30 days written notice without Good Reason. Mr. Bienvenu is eligible for up to 12 months severance if he is terminated by Halo without Cause or terminates his employment with Good Reason. Pursuant to the terms of the employment agreement, Mr. Bienvenu was also required to execute Halo s standard form of Non-Competition Agreement and Confidential Information Agreement. Mr. Bienvenu is permitted to continue his activities with respect to ISIS Capital Management, LLC, Bienvenu Management, LLC, their affiliates and portfolio companies. In addition, under the employment agreement, any investment, acquisition or other opportunities that Mr. Bienvenu may become aware of, other than through an employee, agent or representative of Halo, are not to be considered opportunities of Halo but shall be considered his personal opportunities.

Also as of August 4, 2004, Halo entered into a written employment agreement with Ernest C. Mysogland, its Executive Vice President, Chief Legal Officer, and Secretary. Under the terms of this agreement, Halo agrees to pay Mr. Mysogland a monthly salary of $14,583.33 beginning on August 4, 2004 through December 31, 2005 as well as an annual bonus upon the achievement of specified financial and business objectives as determined by the board of directors. Upon execution of the employment agreement, Mr. Mysogland was entitled to receive a payment equal to $21,875. In addition, Mr. Mysogland agreed to defer 20% of his base salary for a period of time while Halo had little operating capital. This period lasted through March 2005. Under the agreement, Mr. Mysogland was also entitled to receive an amount equal to 25% of his annual base salary upon the completion of the Gupta acquisition. This amount has not yet been paid. Halo expects to pay these deferred amounts in the second fiscal quarter. Mr. Mysogland s base salary is subject to upward adjustment pursuant to the terms of the employment agreement. The agreement automatically renews for successive one-year terms unless either party gives notice of his or its intention to terminate at least 60 days prior to the end of the term. Halo may terminate Mr. Mysogland s employment at any time for Cause (as defined in the employment agreement) or at any time on or after June 30, 2005 upon 60 days prior written notice other than for Cause. Mr. Mysogland may terminate his employment at any time for Good Reason (as defined in the employment agreement) or upon 30 days written notice without Good Reason. Mr. Mysogland is eligible for up to 12 months severance if he is terminated by Halo without Cause or terminates his employment with Good Reason. Pursuant to the terms of the employment agreement, Mr. Mysogland was also required to execute Halo s standard form of Non-Competition Agreement and Confidential Information Agreement. Mr. Mysogland is permitted to continue his activities with respect to ISIS Capital Management, LLC, Bienvenu Management, LLC, their affiliates and portfolio companies. In addition, under the employment agreement, any investment, acquisition or other opportunities that Mr. Mysogland may become aware of, other than through an employee, agent or representative of Halo, are not to be considered opportunities of Halo but shall be considered his personal opportunity.

On October 31, 2003, Gupta Technologies, LLC, a wholly-owned subsidiary of Halo, entered into a letter agreement with Jeffrey A. Bailey, Chief Executive Officer of Gupta and interim Chief Financial Officer and Principal Financial Officer of Halo, under which Mr. Bailey became entitled to severance benefits as described therein. In the event Gupta terminates Mr. Bailey s employment without Cause or

Mr. Bailey terminates his employment for Good Reason (as defined in the letter agreement), Gupta shall pay Mr. Bailey an amount equal to 12 months of his then current base salary and he and his dependents will remain eligible to receive medical, dental, vision health benefits during the term of the severance payments at the same rates and under the same conditions applicable to current employees of Gupta.

On March 3, 2005, Halo entered into an agreement (Separation Agreement) with Gus Bottazzi related to Mr. Bottazzi s resignation as an officer and director of Halo. Under the Separation Agreement, Halo committed to issue to Mr. Bottazzi 200,000 shares of Halo s Series C Preferred Stock. In connection with this Separation Agreement, Halo recorded a non-cash charge of $500,000.

On September 13, 2005, Rodney A. Bienvenu, Jr., Halo s Chief Executive Officer, received stock options for 158,000 shares of Halo s common stock. The exercise price for these options is $1.08 per share (the Fair Market Value on the date of grant by the Compensation Committee). These options have a ten year term. 25% of these options vested on December 31, 2005, and the remaining options vest ratably over the following 36 months, provided that Mr. Bienvenu remains with Halo.

At the Annual Meeting of Stockholders of Halo, held October 21, 2005, the stockholders of Halo approved the Halo Technology Holdings 2005 Equity Incentive Plan (the 2005 Plan) previously approved by the board of directors of Halo. The Compensation Committee of the board of directors of Halo will administer the 2005 Plan, including selecting the employees, consultants and directors to be granted Awards under the 2005 Plan and determining the type and size of each Award and the terms and conditions of each Award. Halo s employees, consultants and directors, or the employees, consultants and directors of Halo s related companies, may receive Awards under the 2005 Plan. The types of Awards that may be granted under the 2005 Plan are stock options (both incentive and non-qualified), stock appreciation rights, restricted stock, restricted stock units, performance stock, contract stock, bonus stock and dividend equivalent rights.

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. No incentive stock option will be granted under the 2005 Plan after September 13, 2015.

As a result of stockholder approval of the 2005 Plan on October 21, 2005, certain executive officers and directors of Halo received options previously approved by the board of directors of Halo. Rodney A. Bienvenu, Jr., Brian Sisko, Ernest Mysogland and Jeff Bailey received stock options for 1,800,000 shares, 600,000 shares, 200,000 shares and 25,000 shares, respectively. The exercise price for Messrs. Bienvenu and Mysogland s options is $1.19 per share (110% of Fair Market Value on the date of grant by the Compensation Committee) and the exercise price for Messrs. Sisko and Bailey s options is $1.08 per share (the Fair Market Value on the date of grant by the Compensation Committee). The options granted to Messrs. Bienvenu and Mysogland have a five year term and the options granted to Messrs. Sisko and Bailey have a ten year term. John A. Boehmer, David M. Howitt and Mark J. Lotke, the non-employee directors, each received a stock option for 45,000 shares. These options all have an exercise price of $1.08 per share and a ten year term. Additionally, Jeff Bailey, Chief Executive Officer of Gupta Technologies, LLC, Halo s subsidiary, and Takeshi Taniguchi, Corporate Controller of Gupta received performance-vesting stock options for 225,000 and 10,000 shares, respectively. These options will vest if Gupta achieves specified increases in EBITDA as determined by the Compensation Committee for the fiscal year July 1, 2005 through June 30, 2006. These options have an exercise price of $1.08 per share and a ten year term.

Also as a result of the stockholder s approval of the 2005 Plan, the Compensation Committee of the Halo board of directors determined to award cash bonus amounts, options and/or shares pursuant to the Fiscal 2006 Halo Senior Management Incentive Plan.

On January 4, 2006, Mark Finkel, Halo s Chief Financial Officer, received stock options for 600,000 shares of Halo s common stock. The exercise price for Mr. Finkel s options is $1.22 per share (the fair market value on the date of grant by the Compensation Committee). The options granted to

Mr. Finkel have a ten year term. Twenty-five percent (25%) of these options vest on the first anniversary of the award, provided Mr. Finkel remains in his position through that date, and the remaining options vest ratably over the following 36 months, provided that Mr. Finkel remains employed by Halo.

Certain Relationships and Related Transactions

On August 4, 2004, IAP II entered into that certain Series B-2 Preferred Stock Purchase Agreement (the Series B-2 Purchase Agreement) between and among Halo and the persons listed on Schedule 1.01 thereto. Under the Series B-2 Purchase Agreement, IAP II agreed to purchase 750 shares of Halo s Series B-2 Preferred Stock (the Series B-2 Preferred Stock) and warrants to acquire 750 shares of Series B-2 Preferred Stock, for a purchase price of $750,000 (the Series B-2 Warrants). Upon the closings under the Series B-2 Purchase Agreement, IAP II received 750 shares of Series B-2 Preferred Stock and the Series B-2 Warrants, exercisable over five (5) years, to purchase an aggregate of 750 shares of Series B-2 Preferred Stock at an exercise price of $1,000 per share. On January 31, 2005, the 750 Shares of Series B-2 Preferred Stock converted into 389,114 shares of common stock. Also on January 31, 2005, the Series B-2 Warrants became warrants, exercisable over five (5) years, to purchase an aggregate of 375,000 shares of common stock at an exercise price of $1.00 per share.

Mr. David Howitt, a director of Halo, invested $500,000 in IAP II and currently has approximately a fifty percent interest therein. ISIS Capital Management, LLC (ISIS), is the managing member of IAP II. The managing members of ISIS are Mr. Rodney A. Bienvenu, Jr., Chairman and Chief Executive Officer of Halo, and Mr. Ernest C. Mysogland, Halo s Chief Legal Officer. Mr. Bienvenu holds a seventy percent equity interest in ISIS. Mr. Mysogland holds a thirty percent equity interest in ISIS. ISIS s interest in IAP II provides for ISIS to receive twenty percent of the net profits received from IAP II s investments.

On August 4, 2004, ISIS and Halo entered into a Consulting Agreement, pursuant to which Halo will pay ISIS for services requested of ISIS from time to time, including, without limitation, research services, at ISIS s regular rates or at the cost incurred by ISIS to provide such services, and will reimburse ISIS for any costs incurred by ISIS on behalf of Halo.

On August 4, 2004, Halo granted ISIS certain non-qualified options to acquire 200,914 shares of common stock. All such options have an exercise price of $6.75 per share. The exercise of such options is subject to the achievement of certain vesting and milestone terms (subject to the terms of the stock option agreement). Any of the above-described options not previously exercisable shall be vested and exercisable on August 4, 2009.

Halo has entered into a written employment agreements with Rodney A. Bienvenu, Jr., its Chairman and Chief Executive Officer, and Ernest C. Mysogland, its Executive Vice President, Chief Legal Officer and Secretary, each as of August 4, 2004. Under the terms of these agreements, any investment, acquisition or other opportunities that Mr. Bienvenu or Mr. Mysogland may become aware of, other than through an employee, agent or representative of Halo, are not to be considered opportunities of Halo but shall be considered personal opportunities.

As of October 13, 2004, Halo entered into that certain Purchase Agreement Assignment (the Assignment). Under the Assignment, Halo acquired all of the rights and assumed all of the liabilities of the Purchaser under that certain Membership Interest Purchase Agreement (as amended by the Extension, the Purchase Agreement) made and entered into as of September 2, 2004, by and between ISIS Capital Management, LLC (as the Purchaser) and Gupta Holdings, LLC (the Seller).

In contemplation of the Assignment to Halo ISIS negotiated for an extension of the closing date (originally scheduled for September 30, 2004) until October 15, 2004, and paid the Seller $1,000,000 in exchange for such right. Under the Assignment, Halo agreed to repay ISIS (or its assignees), for the $1,000,000 ISIS paid to the Seller. Halo has issued certain notes to ISIS evidencing such obligations in the principal amount of $1,000,000. On January 31, 2005, the notes were automatically converted into Series C Notes. On March 31, 2005, in accordance with their terms, the Series C Notes converted into

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1,000,000 shares of Series C Preferred Stock and warrants to acquire 1,000,000 shares of common stock. These warrants have an exercise price of $1.25 per share and are exercisable for a period of five years from the date of issuance.

Furthermore, upon the acquisition of Gupta, in consideration of the Assignment and services in connection with due diligence, financing contacts and structure, for its efforts in negotiating the terms of the acquisition (including the specific right to assign the Purchase Agreement to Halo), and undertaking the initial obligation regarding the purchase of Gupta, Halo paid ISIS and its investors, as allocated by ISIS, a transaction fee equal to $1,250,000, payable either in cash or, at the election of ISIS, in Series B-2 Securities, or senior debt or senior equity issued in connection with the acquisition of Gupta. As of September 30, 2005, this transaction fee has not been paid to ISIS. Halo will also reimburse ISIS for any amount it has incurred in connection with the negotiation and consummation of the transaction.

One of the Senior Noteholders under the Senior Note Agreement entered into in connection with the acquisition of Gupta, was B/T Investors, a general partnership. B/T Investors lent Halo a total of $975,000 under the Senior Note Agreement, and received Senior Notes in that principal amount. One of the partners in B/T Investors is Brian J. Sisko who is now Halo s Chief Operating Officer. B/T Investors assigned its Senior Notes to its various partners, and Mr. Sisko received a Senior Note in the principal amount of $100,000. This note held by Mr. Sisko was paid off in August, 2005 when Halo refinanced its debt when it entered into the long term credit facility with Fortress Credit Corp.

Convertible Promissory Notes and Effect on Previously Issued Convertible Notes

On January 11, 2006, Halo entered into certain convertible promissory notes (the Series E Notes) in the aggregate principal amount of Seven Hundred Thousand Dollars ($700,000) that automatically convert into (i) such number of fully paid and non-assessable shares of Halo s Series E Preferred Stock (the Series E Stock) equal to the aggregate outstanding principal amount due under the Series E Notes plus the amount of all accrued but unpaid interest under the Series E Notes divided by $1.25, and (ii) warrants (the Series E Warrants) to purchase a number of shares of Halo s common stock equal to 40% of such number of shares of Series E Stock issued to the holder.

Also on January 11, 2006, Halo entered into certain Subscription Agreements (the Series E Subscription Agreements) for the sale of Series E Stock and Series E Warrants. In addition to the conversion of the principal and interest under the Series E Notes described above, investors under the Series E Subscription Agreements agreed to invest $150,000 in cash and committed to convert principal and interest due under certain other promissory notes issued by Halo.

Certain of these transactions were entered into by Mr. David Howitt, a director of Halo. Mr. Howitt invested $350,000 under the notes, and agreed to invest another $150,000 under the Subscription Agreement. Mr. Howitt recused himself from the board of directors decisions approving these transactions.

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth as of March 23, 2006, certain information regarding the beneficial ownership (1) of Halo s capital stock outstanding by (i) each person who is known to Halo to own 5% or more of Halo s Common Stock, Series C Preferred Stock or Series D Preferred Stock, the outstanding voting securities, (ii) each director of Halo, (iii) certain executive officers of Halo and (iv) all executive officers and directors of Halo as a group. Unless otherwise indicated, each of the stockholders shown in the table below has sole voting and investment power with respect to the shares beneficially owned. Unless otherwise indicated, the address of each person named in the table below is c/o Halo Technology Holdings, 200 Railroad Avenue, Greenwich, CT 06830. As of March 23, 2006, Halo had 7,810,840 shares of Common Stock issued and outstanding, 13,362,688 shares of Series C Preferred Stock issued and outstanding and 7,045,454 shares of Series D Preferred Stock issued and outstanding. As of March 23, 2006, the outstanding shares of Common Stock were held by approximately 400 stockholders of record, the outstanding shares of Series C Preferred Stock were held by 26 stockholders of record, and the outstanding shares of Series D Preferred Stock were held by one stockholder of record. The Series C Preferred Stock and Series D Preferred Stock vote together with the Common Stock as a single class on all matters submitted to a vote of the stockholders of Halo, each share of Series C Preferred Stock, each share of Series D Preferred Stock and each share of Common Stock is entitled to one vote per share.

Title of Class	Name and Address of Beneficial Owner(1)	Amount and Nature of Beneficial Ownership	Percent of Class	Percent of Outstanding Voting Securities(2)
Common	Rodney A. Bienvenu, Jr.(3)	5,192,625	9.99%	17.74%
Series C	Rodney A. Bienvenu, Jr.(3)	1,813,261	13.31%	17.74%
Common	Ernest C. Mysogland(4)	4,679,873	9.99%	15.96%
Series C	Ernest C. Mysogland(4)	1,813,261	13.31%	15.96%
Common	Brian J. Sisko(5)	175,000	2.19%	*
Common	Jeff Bailey(6)	7,290	*	*
Common	Gus Bottazzi(7)	603,863	7.18%	2.12%
Common	John A. Boehmer(8)	13,124	*	*
Common	David M. Howitt(9)	1,196,805	9.99%	4.12%
Common	Mark J. Lotke(10)	13,124	*	*
Common	Mark Finkel			
Common	All directors and executive officers as a group (9 persons)(11)	6,483,383	40.73%	20.08%
Series C	All directors and executive officers as a group (9 persons)(11)	2,117,913	15.28%	20.08%
Common	Asset Managers International Ltd.(12)	2,406,319	9.99%	8.13%
Common	Manuel D. Ron(13)	2,389,781	9.99%	8.13%
Series C	Asset Managers International Ltd.	1,000,000	7.22%	8.13%
Series C	Manual D. Ron(13)	1,000,000	7.22%	8.13%
Common	Carmignac Infotech(14)	627,828	7.46%	2.20%
Common	Carmignac Technologies(15)	1,425,692	9.99%	4.93%
Series C	Carmignac Technologies	707,000	5.10%	4.93%
Common	Rajesh Varma(16)	2,053,520	17.45%	7.28%
Series C	Rajesh Varma(16)	1,010,000	7.29%	7.28%
Common	Carnegie Fund(17)	455,533	5.75%	1.61%
Common	Mikael Kadri(18)	455,533	5.75%	1.61%

Common	Viktor Rehnqvist(19)	455,533	5.75%	1.61%
Common	Crestview Capital Master, LLC(20)	7,661,407	9.99%	23.76%

Title of Class	Name and Address of Beneficial Owner(1)	Amount and Nature of Beneficial Ownership	Percent of Class	Percent of Outstanding Voting Securities(2)
Common	Robert Hoyt(21)	7,661,407	9.99%	23.76%
Series C	Crestview Capital Master, LLC	2,020,000	14.58%	23.76%
Series C	Robert Hoyt(21)	2,020,000	14.58%	23.76%
Common	CAMOFI Master LDC(22)	5,827,449	9.99%	18.21%
Common	Richard Smithline(23)	5,827,449	9.99%	18.21%
Series C	DCOFI Master LDC	2,000,000	14.43%	18.21%
Series C	Richard Smithline(23)	2,000,000	14.43%	18.21%
Common	Gibralt Capital Corporation(24)	472,873	5.88%	1.66%
Common	John Ciampi(25)	472,873	5.88%	1.66%
Common	Gupta Holdings, LLC(26)	4,384,316	9.99%	14.36%
Common	Tom T. Gores(27)	11,429,770	19.98%	39.33%
Common	Jerome N. Gold(28)	4,384,316	9.99%	14.36%
Common	Robert J. Joubran(29)	4,384,316	9.99%	14.36%
Common	Eva Kawalski(30)	4,384,316	9.99%	14.36%
Series C	Gupta Holdings, LLC	2,020,000	14.83%	14.36%
Series C	Tom T. Gores(27)	2,020,000	14.83%	39.33%
Series C	Jerome N. Gold(28)	2,020,000	14.83%	14.36%
Series C	Robert J. Joubran(29)	2,020,000	14.83%	14.36%
Series C	Eva Kawalski(30)	2,020,000	14.83%	14.36%
Common	ISIS Acquisition Partners II, LLC(31)	1,344,465	9.99%	4.66%
Common	ISIS Acquisition Partners, LLC(32)	485,085	5.85%	1.70%
Common	ISIS Capital Management, LLC(33)	4,621,541	25.83%	15.76%
Series C	ISIS Capital Management, LLC(34)	1,813,261	13.31%	15.94%
Common	Fortress Credit Corp.(35)	2,109,042	21.26%	6.95%
Common	OXA Trade and Finance, Inc.(36)	917,425	9.99%	3.19%
Common	Pogue Capital International Ltd.(37)	513,218	6.23%	1.80%
Common	DCI Master LDC(38)	1,476,727	9.99%	4.97%
Common	SEB Investments(39)	4,073,406	9.99%	13.47%
Common	Tobias Hagstrom(40)	4,073,406	9.99%	13.47%
Series C	SEB Investments	2,020,000	14.83%	13.47%
Series C	Tobias Hagstrom(40)	2,020,000	14.83%	13.47%
Common	Vision Opportunity Master Fund, Ltd.(41)	1,005,834	9.99%	3.44%
Common	Mai N. Pogue(42)	1,459,052	16.59%	5.09%
Common	Platinum Equity, LLC(43)	7,045,454	9.99%	24.97%
Series D	Platinum Equity, LLC	7,045,454	100%	24.97%
Series D	Tom T. Gores(27)	7,045,454	100%	39.33%

* Indicates less than one percent.

(1) As used in this table, a beneficial owner of a security includes any person who, directly or indirectly, through contract, arrangement, understanding, relationship or otherwise has or shares (a) the power to vote, or direct the

voting of, such security or (b) investment power which includes the power to dispose, or to direct the disposition of, such security. In addition, a person is deemed to be the

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beneficial owner of a security if that person has the right to acquire beneficial ownership of such security within 60 days.

(2) Considers Common Stock, Series C Preferred Stock and Series D Preferred Stock voting together as a single class, with the Common Stock entitled to one vote per share, the Series C Preferred Stock entitled to one vote per share of Series C Preferred Stock, and the Series D Preferred Stock entitled to one vote per share of Series D Preferred Stock.

(3) *Rodney A. Bienvenu, Jr.* Amount includes the securities or rights to acquire securities held or deemed to be held by ISIS Acquisition Partners II LLC (IAP II), ISIS Acquisition Partners LLC (IAP), and by ISIS Capital Management, LLC (ISIS) as described in notes 31, 32, 33 and 34 below. Mr. Bienvenu is a managing member of ISIS, and ISIS is the managing member of IAP and IAP II. Mr. Bienvenu may be deemed to have voting and investment power with respect to shares beneficially owned by IAP II, IAP and/or ISIS and disclaims beneficial ownership of such shares, except to the extent of his respective proportionate pecuniary interest therein. Amount also includes(i) vested options to acquire 46,084 shares of Common Stock at an exercise price of $1.08 per share, and (ii) vested options to acquire 525,000 shares of common stock at an exercise price of $1.19 per share.

(4) *Ernest C. Mysogland.* Amount includes the securities or rights to acquire securities held by ISIS Acquisition Partners II LLC (IAP II), ISIS Acquisition Partners LLC (IAP), and by ISIS Capital Management, LLC (ISIS) a described in notes 31, 32, 33 and 34 below. Mr. Mysogland is a managing member of ISIS, and ISIS is the managing member of IAP and IAP II. Mr. Mysogland may be deemed to have voting and investment power with respect to shares beneficially owned by IAP II, IAP and/or ISIS and disclaims beneficial ownership of such shares, except to the extent of his respective proportionate pecuniary interest therein. Amount also includes vested options to acquire 58,332 shares of common stock at an exercise price of $1.19 per share.

(5) *Brian J. Sisko.* Amount includes vested options to acquire 175,000 shares of common stock at an exercise price of $1.08 per share.

(6) *Jeff Bailey.* Amount includes vested options to acquire 7,290 shares of Common Stock at an exercise price of $1.08 per share.

(7) *Gus Bottazzi.* Amount includes (i) vested options to acquire 187,520 shares of Common Stock at an exercise price of $6.75 per share, (ii) vested options to acquire 2,000 shares of common stock at an exercise price of $25.00 per share, (iii) 304,652 shares of Series C Preferred Stock, convertible into 304,652 shares of Common Stock and (iv) Warrants to acquire 104,652 shares of Common Stock at $1.25 per share. Mr. Bottazzi was a director and President of the Company until March, 2005.

(8) *John A. Boehmer.* Amount includes vested options to acquire 13,124 shares of Common Stock at an exercise price of $1.08 per share.

(9) *David M. Howitt.* Amount includes amounts held by IAP II as described in note 31 below, to the extent of Mr. Howitt s interest in IAP II. Amount also includes vested options to acquire 13,124 shares of Common Stock at an exercise price of $1.08 per share, and 406,901 shares of Common Stock issuable upon conversion of principal and interest under a convertible promissory note held by Mr. Howitt.

(10) *Mark J. Lotke.* Amount includes vested options to acquire 13,124 shares of Common Stock at an exercise price of $1.08 per share.

(11) *Officers and Directors as a group.* Amount includes shares held or deemed to be held by Messrs. Bienvenu, Mysogland and Howitt, without duplication, as described in notes 3, 4 and 7 above, and amounts held by

Mr. Sisko and Mr. Bottazzi as described in notes 5 and 6 above.

(12) *Asset Managers International Ltd.* Amount includes 1,000,000 shares of Series C Preferred Stock convertible into 1,000,000 shares of Common Stock, and warrants to acquire 1,389,781 shares of Common Stock at an exercise price of $1.25 per share.

(13) *Manuel D. Ron.* Amount includes securities or rights to acquire securities held by Asset Managers International Ltd. as described in note 12 above. Mr. Manuel D. Ron exercises voting and investment power over the shares held by this entity. Mr. Ron disclaims beneficial ownership of the shares, except to the extent of his pecuniary interests therein.

(14) *Carmignac Infotech.* Amount includes 21,828 shares of Common Stock, 303,000 shares of Series C Preferred Stock convertible into 303,000 shares of Common Stock, and warrants to acquire 303,000 shares of Common Stock at an exercise price of $1.25 per share.

(15) *Carmignac Technologies.* Amount includes 707,000 shares of Series C Preferred Stock convertible into 707,000 shares of Common Stock, and warrants to acquire 707,000 shares of Common Stock at an exercise price of $1.25 per share.

(16) *Rajesh Varma.* Amount includes securities and rights to acquire securities held by Carmignac Infotech and Carmignac Technologies as described in notes 14 and 15. Mr. Rajesh Varma exercises voting and investment power over the shares held by these entities. Mr. Varma disclaims beneficial ownership of the shares, except to the extent of his pecuniary interests therein.

(17) *Carnegie Fund.* Amount includes 341,149 shares of Common Stock, warrants to acquire 8,000 shares of Common Stock for an exercise price of $2.00 per share, and warrants to acquire 104,653 shares of Common Stock at an exercise price of $1.25 per share.

(18) *Mr. Mikael Kadri.* Amount includes securities and rights to acquire securities held by Carnegie Fund as described in note 17. Mr. Kadri exercises voting and investment power over the shares held by this entity. Mr. Kadri disclaims beneficial ownership of these shares except to the extent of his pecuniary interests therein.

(19) *Mr. Viktor Rehnqvist.* Amount includes securities and rights to acquire securities held by Carnegie Fund as described in note 17. Mr. Rehnqvist exercises voting and investment power over the shares held by this entity. Mr. Rehnqvist disclaims beneficial ownership of these shares except to the extent of his pecuniary interests therein.

(20) *Crestview Capital Master, LLC.* Amount includes 2,020,000 shares of Series C Preferred Stock convertible into 2,020,000 shares of Common Stock, warrants to acquire 2,020,000 shares of Common Stock at an exercise price of $1.25 per share, subordinated debt convertible into 2,000,000 shares of Common Stock, and 1,621,407 shares of Common Stock at an exercise price of $1.25 per share.

(21) *Robert Hoyt.* Amount includes securities or rights to acquire securities held by Crestview Capital Master, LLC as described in note 20. Mr. Robert Hoyt exercises voting and investment power over the shares held by this entity. Mr. Hoyt disclaims beneficial ownership of the shares, except to the extent of his pecuniary interests therein.

(22) *CAMOFI Master LDC.* Amount includes 2,000,000 shares of Series C Preferred Stock convertible into 2,000,000 shares of Common Stock, warrants to acquire 2,000,000 shares of Common Stock at an exercise price of $1.25 per share, warrants to acquire 779,562 shares of Common Stock at an exercise price of $1.25 per share, subordinated debt convertible into 500,000 shares of Common Stock, warrants to acquire 500,000 shares of Common Stock at an exercise price of $1.25 per share, and 47,887 shares of Common Stock.

(23) *Richard Smithline.* Amount includes securities or rights to acquire securities held by DCOFI Master LDC as described in note 22. Mr. Smithline exercises voting and investment power over the shares held by this entity.

Mr. Smithline disclaims beneficial ownership of the shares, except to the extent of his pecuniary interests therein.

(24) *Gibralt Capital Corporation.* Amount includes 234,497 shares of Common Stock, warrants to acquire 234,497 shares of Common Stock at an exercise price of $1.25 per share, and 3,879 additional shares of Common Stock.

(25) *John Ciampi.* Amount includes the securities and rights to acquire securities held by Gibralt Capital Corporation as described in note 24. Mr. Ciampi exercises voting and investment power over

the shares held by this entity. Mr. Ciampi disclaims beneficial ownership of the shares, except to the extent of his pecuniary interests therein.

(26) *Gupta Holdings, LLC.* Amount includes 2,020,000 shares of Series C Preferred Stock convertible into 2,020,000 shares of Common Stock, warrants to acquire 2,020,000 shares of Common Stock at an exercise price of $1.25 per share, warrants to acquire 292,336 shares of Common Stock at an exercise price of $1.25 per share, and 51,980 shares of Common Stock.

(27) *Tom T. Gores.* Amount includes securities and rights to acquire securities held by Gupta Holdings, LLC as described in note 26, and Platinum Equity, LLC as described in note 45. Mr. Gores exercises voting and investment power over the shares held by these entities. Mr. Gores disclaims beneficial ownership of the shares, except to the extent of his pecuniary interests therein.

(28) *Jerome N. Gold.* Amount includes securities and rights to acquire securities held by Gupta Holdings, LLC as described in note 26. Mr. Gold exercises voting and investment power over the shares held by this entity. Mr. Gold disclaims beneficial ownership of the shares, except to the extent of his pecuniary interests therein.

(29) *Robert J. Joubran.* Amount includes securities and rights to acquire securities held by Gupta Holdings, LLC as described in note 26. Mr. Joubran exercises voting and investment power over the shares held by this entity. Mr. Joubran disclaims beneficial ownership of the shares, except to the extent of his pecuniary interests therein.

(30) *Eva Kawalski.* Amount includes securities and rights to acquire securities held by Gupta Holdings, LLC as described in note 26. Ms. Kawalski exercises voting and investment power over the shares held by this entity. Ms. Kawalski disclaims beneficial ownership of the shares, except to the extent of her pecuniary interests therein.

(31) *ISIS Acquisition Partners II, LLC.* Amount includes 389,114 shares of Common Stock, warrants to acquire 375,000 shares of Common Stock for an exercise price of $1.00 per share, 287,795 shares of Series C Preferred Stock convertible into 287,795 shares of Common Stock, and warrants to acquire 287,795 shares of Common Stock at an exercise price of $1.25 per share.

(32) *ISIS Acquisition Partners, LLC.* Amount includes 240,553 shares of shares of Series C Preferred Stock convertible into 240,553 shares of Common Stock, and warrants to acquire 240,553 shares of Common Stock at an exercise price of $1.25 per share.

(33) *ISIS Capital Management, LLC (ISIS).* Amount includes 1,284,913 shares of Series C Preferred Stock convertible into 1,284,913 shares of Common Stock, and warrants to acquire 1,284,913 shares of Common Stock at an exercise price of $1.25 per share. Amount also includes the securities or rights to acquire securities held by ISIS Acquisition Partners II LLC (IAP II) and by ISIS Acquisition Partners LLC (IAP) as described in footnotes 31 and 32. ISIS is the managing member of IAP and IAP II and has voting and investment power with respect to shares beneficially owned by IAP II and/or IAP.

(34) *ISIS Capital Management, LLC (ISIS).* Amount includes 1,284,913 shares of Series C Preferred Stock. Amount also includes the Series C Preferred Stock held by ISIS Acquisition Partners II LLC (IAP II) and by ISIS Acquisition Partners LLC (IAP) as described in footnotes 31 and 32. ISIS is the managing member of IAP and IAP II and has voting and investment power with respect to shares beneficially owned by IAP II and/or IAP.

(35) *Fortress Credit Corp.* Amount includes warrants to acquire 2,109,042 shares of Common Stock at an exercise price of $0.01 per share.

(36) *Oxa Trade and Finance, Inc.* Amount includes 52,500 shares of Common Stock, warrants to acquire 50,000 shares of Common Stock for an exercise price of $1.00 per share, 313,958 shares of Series C Preferred Stock convertible into 313,958 shares of Common Stock, warrants to acquire 313,958 shares of Common Stock at an exercise price of $1.25 per share, 5,193 shares of Common Stock, and warrants to acquire 181,818 shares of Common Stock at $1.25 per share.

(37) *Pogue Capital International Ltd.* Amount includes 88,348 shares of Common Stock, warrants to acquire 6,260 shares of Common Stock for an exercise price of $2.00 per share, 209,305 shares of

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Series C Preferred Stock convertible into 209,305 shares of Common Stock, and warrants to acquire 209,305 shares of Common Stock at an exercise price of $1.25 per share.

(38) *DCI Master LDC.* Amount includes warrants to acquire 363,636 shares of Common Stock, and 1,113,091 shares of Common Stock issuable upon the conversion of debt.

(39) *SEB Asset Management.* Amount includes 2,020,000 shares of Series C Preferred Stock convertible into 2,020,000 shares of Common Stock, warrants to acquire 2,020,000 shares of Common Stock at an exercise price of $1.25 per share, and 33,406 shares of Common Stock.

(40) *Tobias Hagstrom.* Amount includes securities and rights to acquire securities held by SEB Asset Management as described in note 39. Mr. Hagstrom exercises voting and investment power over the shares held by this entity. Mr. Hagstrom disclaims beneficial ownership of the shares, except to the extent of his pecuniary interests therein.

(41) *Vision Opportunity Master Fund, Ltd.* Amount 1,005,834 shares of Common Stock issuable upon the conversion of debt.

(42) *Mai N. Pogue.* Ms. Pogue, jointly with her husband, Gerald A. Pogue, owns 28,408 shares of Common Stock. In addition, the amount includes securities held by Oxa Trade and Finance, Inc. and Pogue Capital International as described in notes 36 and 37.

(43) *Platinum Equity, LLC.* Amount includes 7,045,054 shares of Series D Preferred Stock, convertible into 7,045,054 shares of Common Stock.

DESCRIPTION OF PROPERTIES

The principal executive offices of Halo are located at 200 Railroad Avenue, 3rd Floor, Greenwich, Connecticut 06830. Halo has a four-year lease on its current office space. The property has a general-purpose use for sales and administration, and Halo believes it will be sufficient for our needs for the foreseeable future.

Halo s wholly-owned subsidiary, Gupta, leases 6,319 square feet of office space at its headquarters in Redwood Shores, California, and 5,349 square feet of office space in Munich, Germany. Gupta additionally leases small sales offices in Paris and London.

The principal executive offices of Halo s Process subsidiary are located in Framingham, Massachusetts. Halo s subsidiary ProfitKey International leases 9,000 square feet of office space at its headquarters in Salem, New Hampshire. The Foresight Software subsidiary leases 5,920 square feet of office space at its headquarters in Atlanta, Georgia. Halo s DAVID Corporation subsidiary leases 5,180 square feet of office space at its headquarters in San Francisco, California. Empagio leases 1,788 square feet of office space at its headquarters in Atlanta, Georgia, and 13,500 square feet of office space in San Francisco, California. Halo believes these premises will be sufficient for our needs for the foreseeable future.

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 proxy statement/ prospectus, 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.

MARKET PRICE OF AND DIVIDENDS ON REGISTRANT S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Halo s common stock, par value $.00001 per share, is quoted on the OTC Bulletin Board operated by the National Association of Securities Dealers, Inc. under the symbol HALO.OB .

The following table sets forth the range of high and low closing bid prices for Halo s common stock for the periods indicated as reported by the National Quotation Bureau, Inc. These prices represent quotations between dealers, do not include retail markups, markdowns or commissions, and do not necessarily represent actual transactions.

		Bid Price	
Fiscal Year	**Quarter Ended**	**Low**	**High**
2004	March 31, 2004	17.00	31.00
	June 30, 2004	6.00	18.00
2005	September 30, 2004	3.00	8.00
	December 31, 2004	1.50	5.00
	March 31, 2005	1.51	5.00
	June 30, 2005	1.60	4.00
2006	September 30, 2005	.92	2.85
	December 31, 2005	1.10	1.75
	March 31, 2006	1.20	1.80

As of March 31, 2006, the National Quotation Bureau, Inc. reported that the closing bid and ask prices on the Halo s common stock were $1.20 and $1.28 respectively.

Holders

As of December 31, 2005, Halo s financial statements show 5,601,548 shares of common stock outstanding.

At March 31, 2006, there were approximately 400 common stockholders of record, including shares held by brokerage clearing houses, depositories or otherwise in unregistered form. The beneficial owners of such shares are not known to Halo.

Dividends

Halo has not declared any cash dividends, nor does it intend to do so. Halo is not subject to any legal restrictions respecting the payment of dividends, except as provided under the rights and preferences of its Series C Preferred Stock (the Series C Stock) and its Series D Preferred Stock (the Series D Stock) which restrict, the payment of any dividend with respect to the common stock without paying dividends on the Series C Stock and Series D Stock, and which provide for a preference in the payment of the dividends on the Series C Stock and Series D Stock requiring such dividends to be paid before any dividend or distribution is made to the common stockholders. Dividends on the Series C Preferred Stock accrue at the rate of 6% of the stated value of the preferred stock per annum, and are payable in cash or in shares of common stock at the time of conversion of the Series C Stock. In addition, dividends may not be paid so as to render us insolvent. Dividends on the Series D Stock accrue at the rate of 13% of the stated value of the preferred stock per annum, and are payable in cash or in shares of common stock. Dividends on each share of Series D Stock shall be paid initially on March 31, 2006 and quarterly in arrears thereafter, in either cash or additional shares of common stock, at the election of Halo.

Halo s dividend policy will be based on our cash resources and needs and it is anticipated that all available cash will be needed for its operations in the foreseeable future.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth as of June 30, 2005, certain information regarding the securities authorized for issuance under the 2002 Stock Incentive Plan, which is the sole equity compensation plan of Halo as of June 30, 2005.

	Equity Compensation Plan Information		
	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans
Equity compensation plans approved by security holders	0	0	0
Equity compensation plans not approved by security holders	628,453	$ 6.84	148,158
Total	628,453	$ 6.84	148,158

In November 2002, Halo s board of directors approved and adopted the Warp Technology Holdings, Inc. 2002 Stock Incentive Plan (the 2002 Plan) as a means through which Halo and its subsidiaries may attract, retain and compensate employees and consultants. So that the appropriate incentive can be provided, the 2002 Plan provides for granting Incentive Stock Options, Nonqualified Stock Options, Restricted Stock Awards and Stock Bonuses, or a combination of the foregoing. A total of 776,611 Shares have been reserved for issuance pursuant to the 2002 Plan plus shares that are subject to: (a) issuance upon exercise of an option but cease to be subject to such option for any reason other than exercise of such option; (b) an award granted under the 2002 Plan but forfeited or repurchased by the Company at the original issue price; and (c) an award that otherwise terminates without shares being issued. The 2002 Plan is administered by the board of directors. The board of directors may at any time terminate or amend the 2002 Plan in any respect, including without limitation amendment of any form of award agreement or instrument to be executed pursuant to the 2002 Plan; provided, however, that the board of directors will not, without the approval of the stockholders, amend the 2002 Plan in any manner that requires stockholder approval. Unless earlier terminated as provided under the 2002 Plan, the 2002 Plan will terminate November 2012. As of June 30, 2005, there were outstanding options to purchase 628,453 shares and 148,158 shares available for award under the 2002 Plan.

CERTAIN INFORMATION CONCERNING THE MERGER SUB

Merger Sub is a wholly owned subsidiary of Halo. If the merger is completed, Merger Sub will be merged with and into InfoNow and its separate corporate existence will cease. As a result, InfoNow will become a wholly owned subsidiary of Halo. Merger Sub was incorporated by Halo in Delaware in December 2005 with minimal capitalization and has conducted no business since its incorporation other than executing the merger agreement.

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CERTAIN INFORMATION CONCERNING INFONOW

Description of Business

InfoNow provides channel visibility(1) and channel management(2) solutions(3), in the form of software and services, to large global corporations that sell their products through complex networks of distributors, dealers, resellers, retailers, agents or branches, which are sometimes referred to as channel partners.

Companies that sell in a business-to-business, which is sometimes referred to as B2B, environment through large distribution networks face unique business challenges. They need to communicate efficiently with hundreds, or even thousands, of channel partners around the globe. They need to understand the unique capabilities of each channel partner and help those channel partners find and capitalize on sales opportunities. More importantly, they need to understand who their end customers are, so they can deliver competitive products and services to meet end customers needs and work with their channel partners to deliver increased revenues and efficiencies.

Companies that sell through complex channel partner networks often do not have specific information, or what is sometimes referred to as clear visibility, into who their end customers are and what products they are buying. This lack of information regarding end customers puts these companies at a distinct competitive disadvantage versus companies that sell direct and maintain direct relationships with their end customers.

InfoNow s channel visibility solution, Channel Insight, gives channel-focused companies visibility into who their resellers are, what they are selling, and at what prices. InfoNow also gives them visibility into who their end customers are and what they are buying, with high levels of accuracy. InfoNow augments end customer sales information with rich market data, including customer affiliations and hierarchy (the relationship between parent companies and their subsidiaries or affiliate companies), business size, geography and vertical market. InfoNow offers data modules to help its customers use this information to enhance their competitiveness and improve their business. InfoNow also offers channel management solutions for partner profiling, partner referrals and locators, and lead generation and management. These solutions are more fully described in the section entitled InfoNow s Software and Services beginning on page 129 of this proxy statement/ prospectus.

InfoNow s software can be integrated with virtually any client s existing software applications and infrastructure. InfoNow s solutions enable its clients to interact with channel partners and end customers via the Web, call centers, interactive voice response systems, wireless phones and other hand-held wireless devices, in up to 28 different languages and dialects. InfoNow s solutions are based on a modular design that allows flexible configuration(4) of software to meet a wide variety of clients needs. InfoNow s solutions delivery model follows this flexible approach, allowing clients to buy all or part of a solution, adding modules as needed.

1 *Channel visibility:* The term channel is used to refer to the different ways products or solutions can be sold to a market. Channels can be direct (owned by the manufacturer) or indirect (owned by a third party). Typical indirect channels include distributors, dealers, resellers, retailers, agents and branches. Channel visibility refers to gathering sales data from channel partners and giving clients timely and accurate data about the identity of their resellers and end customers and what products these customers are buying.

2 *Channel management:* The term channel management refers to working with a company, its channel partners and end customers to improve business execution and performance.

3 *Solution:* The term solution refers to a combination of software, professional services and managed services that addresses a client s specific business and technical requirements.

4 *Configuration:* The setting of software parameters to match a client s business and technical requirements.

InfoNow currently serves a number of leading brand-name clients, including companies such as ABN-AMRO, Apple, Bank of America, Enterasys Networks, Hewlett-Packard, Maytag, Suzuki, NVIDIA, TD Canada Trust, UPS, Wachovia Corporation and Visa. The following are examples of how InfoNow meets its clients needs:

A high-tech manufacturer and supplier of printing solutions came to InfoNow with a tough business challenge. The company s sales representatives were compensated, in part, for sales fulfilled by channel partners, and spent, on average, one to two days a month collecting paperwork from distributors and resellers so they could substantiate commission credits. The company also had significant costs related to the opportunity costs of lost sales, back office costs related to the collection and reconciliation of sales data, costs associated with commission overpayments and errors, and the cost to morale of long lag times between sales and commission payments. With InfoNow s Channel Insight, they have been able to automate portions of the process, with higher accuracy and faster turnaround times. In addition, their sales representatives can now focus more time and attention on selling versus collecting paperwork to substantiate commissions.

Companies that sell through complex channels spend millions of dollars to generate new sales opportunities through third party call centers, specific market promotions, and other broad based marketing programs. Without visibility into who their end customers are and what they are buying, these companies can struggle to effectively target these marketing campaigns and to measure the results of their efforts. In 2003, InfoNow deployed its Channel Insight Opportunity Generation module with a Fortune 50 high-tech manufacturer. Since then, InfoNow has deployed a business intelligence system that integrates sales data with other client- specific databases allowing them to perform deep research into partner selling patterns and end-customer buying patterns.

Visa is the world s largest consumer payment system, with over 1 million automatic teller machines, or ATMs, worldwide. Visa uses elements of InfoNow s Channel Management Solution, including partner profiling, referral and locator applications, to help end customers find Visa ATMs around the globe. InfoNow manages Visa s location database for member banks and provides a locator/ referral solution. This solution is available in English, Spanish, and Portuguese to Visa customers around the world. No matter where they are or what time it is, Visa s customers can contact Visa via the Internet or wireless devices, enter an address or cross street location, and be referred to the Visa ATM closest to them.

Company History

InfoNow was incorporated under the laws of the State of Delaware on October 29, 1990, and completed its initial public offering in 1992. In 1995, InfoNow began developing channel management software and services for large corporate clients. In the mid 1990s, InfoNow developed innovative Internet-based referral and locator technology, delivering channel management solutions for partner profiling, partner referrals, map-based locators with driving directions, and lead generation and management to leading companies in the high-tech, financial services and industrial sectors.

In 2001, InfoNow introduced Channel Insight, its channel visibility solution, with a $10 million, multi-year agreement with its largest client. In 2002, InfoNow signed additional multi-million dollar agreements for its Channel Insight solution.

In late 2003, InfoNow narrowed its primary Channel Insight sales focus to target large, high-tech companies. Additionally, in an effort to accelerate the sales cycle, InfoNow introduced a new delivery model for Channel Insight, wherein a prospective client can buy a license for individual data modules at an introductory price point and purchase additional modules over time. As a result of these things, as well as other initiatives, InfoNow entered into two new Channel Insight contracts in the fourth quarter of 2003.

Beginning in 2004, in response to (1) internal market research, (2) external validation from clients, analysts, potential partners and prospects, (3) InfoNow s first-to-market position with patent-pending Channel Insight technology, (4) potential market size and demonstrated client demand for this technology,

and (5) the potentially higher value of InfoNow s Channel Insight offering versus its traditional channel management solutions, InfoNow began to focus primarily on the development, sale, and deployment of channel visibility solutions, while continuing to sell and support channel management software and services. In 2004, InfoNow added a number of new Channel Insight clients, including companies such as Kingston Technologies and Symbol Technologies and others. For 2005 and 2004, InfoNow s revenue was nearly evenly divided between its traditional channel management solutions and InfoNow s new Channel Insight offering. Ultimately, InfoNow intends to integrate elements of its traditional channel management technology into its Channel Insight offering.

In 2005, InfoNow continued to focus primarily on the development, sale, and deployment of its channel visibility solutions. InfoNow executed contracts with eight new Channel Insight customers during the year, including 3 new contracts for its new Channel Insight Data Quality Service, or DQS, offering. DQS utilizes the Channel Insight platform to de-duplicate and enrich client supplied transaction and reference data, including customer and partner identities derived from existing Customer Relationship Management, or CRM, and Enterprise Resource Planning, or ERP, systems. InfoNow also placed an increased emphasis on developing an On-Demand offering for Channel Insight, which InfoNow expects to significantly reduce implementation and operations costs, and InfoNow began the development of a new version of its data warehouse. Despite focusing sales and development efforts primarily on its channel visibility solutions, InfoNow continued to sell its channel management software and services and added 3 new channel management customers during the year in addition to maintaining and enhancing existing clients solutions.

InfoNow s Software and Services

InfoNow offers channel visibility and channel management software and services, which collectively are often referred to as solutions. InfoNow delivers its solutions via a combination of intellectual property delivered as software, data assets (both internally developed and licensed from others), people and processes. InfoNow s principal solutions are described in detail below:

Channel Visibility Solution: InfoNow s Channel Visibility Solution, Channel Insight, was introduced in 2001. This technology addresses many challenging issues faced by companies that sell through complex channel partner networks, often referred to as channel-centric companies, by providing visibility into channel activity, partner performance and end customer sales. Leading technology manufacturers and distributors then use this knowledge to enhance channel strategies and improve channel execution. For example, these companies can use point-of-sale transaction data to:

- quickly and accurately assign sales commission credits for sales made through the channel;
- understand which partners are best at selling into particular market verticals or customer segments;
- execute marketing campaigns targeted to specific end customers; and
- track and measure the return on investment of marketing promotions in near real-time.

InfoNow s Channel Insight solution consists of Channel Insight POS Connect, its Channel Insight Point of Sale (POS) Platform and a set of data modules that address specific business challenges.

Channel Insight POS Connect: Channel Insight POS Connect is a software solution that streamlines the collection of channel point-of-sale and inventory data from global channel partners. It provides multiple data collection tools that enable partners whatever their level of IT readiness to submit their data quickly and efficiently. Data is automatically validated in near real-time to ensure that it is accurate and complete, and automatic alerts are sent to partners requesting correction as needed. POS Connect includes easy-to-use mapping tools, so partners can submit data in their own formats and map input data to a common, usable format. Management dashboards allow clients to monitor the status of data submissions 24 hours a day, seven days a week. InfoNow also provides robust administration tools that enable quick configuration of access controls and administrative workflows, as well as configuration tools that enable fast and efficient integration with manufacturers ERP, CRM, Partner Relationship

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Management, or PRM, Supply Chain Management, or SCM, and other systems, as well as distributors systems. Or, InfoNow can process the data in InfoNow s Channel Insight system and deliver data in easy-to-use, actionable formats.

Channel Insight POS Platform: InfoNow s Channel Insight POS Platform provides the foundation for InfoNow s Channel Insight data modules, with functionality to track millions of POS transactions completed by thousands of channel partners in near real-time, and to identify the distributors, resellers and end customers that are selling and purchasing a company s products. With the Channel Insight POS Platform, InfoNow provides a turnkey solution, whereby InfoNow collects POS data from a client s distributors, resellers and other channel partners; processes the data using InfoNow s technology and internal support team; identifies the resellers and end customers involved in sales transactions; augments the information with rich market and demographic data from third-party databases; and delivers highly accurate, actionable information on partners, end customers and product sales to InfoNow s clients, in near real-time. During 2005 InfoNow also introduced a variation of the Channel Insight platform, Channel Insight Data Quality Service, and signed contracts with initial customers for this offering. DQS utilizes the Channel Insight platform to de-duplicate and enrich client supplied transaction and reference data, including customer and partner identities derived from existing CRM and ERP systems.

Channel Insight Data Modules: InfoNow currently offers six Channel Insight Data Modules that use the information delivered via the Channel Insight POS Platform to address specific business challenges. Under this modular delivery system, a prospective client can buy a license for individual Channel Insight data modules at an introductory price point and purchase additional modules over time to realize the full value of the solution. Data modules include:

Sales Credit Assignment: This module allows companies to accurately credit their sales representatives and departments in a timely manner for sales made through the channel. With this solution, InfoNow processes sales transaction data and uses its clients assignment rules to automatically credit sales to appropriate team members. Sales credits can be allocated by territory, geography, named account, vertical market, customer segment, and many other criteria. InfoNow keeps a running tally of commission credits and provides on-line access to those reports. In addition, InfoNow provides an auditable trail of channel sales and commission credits for purposes of financial reporting.

Opportunity Generation: This module helps companies grow revenues by creating targeted sales opportunities based on historical sales data. With this solution, InfoNow analyzes historical sales data to identify new sales opportunities, including up-sell and cross-sell opportunities with existing customers, as well as opportunities with new prospects that share market characteristics with current customers and would be likely to purchase specific products. Then, based on historical sales data, InfoNow identifies the most qualified partners to promote these products to targeted customers and prospects. InfoNow can also manage campaigns for its clients, by enrolling qualified partners, assigning and distributing targeted sales opportunities, providing continuous support to channel partners, and tracking partner results. InfoNow can wrap up each campaign with a detailed return-on-investment summary, to aid in future campaign planning.

Customer Marketing Intelligence: This module enables companies to develop targeted marketing strategies aimed at specific market segments, such as small and medium businesses, or specific market verticals, such as healthcare or insurance providers. With this solution, InfoNow provides actionable data on end customers and product sales. InfoNow packages the data in any number of ways, including by product, partner, vertical market, customer segment, and customer purchase history and product inventory. InfoNow helps its clients build rich end customer profiles to use in trend analysis, profitability analysis, and product planning. They can use InfoNow s data to design targeted marketing programs to specific customer segments, improve customer acquisition, up-sell current customers, and improve customer loyalty.

Channel Performance: This module creates accurate pictures of channel partner capabilities and performance by analyzing their sales transaction data and identifying their sales experience. InfoNow

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provides detailed information on each channel partner s unique capabilities and areas of expertise. For each partner, InfoNow is able to tell what vertical markets and customer segments they sell to and which products they re best at selling. InfoNow s Channel Performance module also provides an automated means for updating and maintaining rich partner profile information in near-real time.

Opportunity Tracking: This module gives companies up-to-date and accurate information about what happens to their channel sales leads. InfoNow tells them if and when those leads result in sales and which of their channel partners are making those sales. With this solution, InfoNow analyzes and packages sales data to provide clients with accurate and timely information on the success or failure of their channel sales campaigns. InfoNow provides a comprehensive view of a company s channel business, so clients can track and measure the results of channel campaigns in near real-time. InfoNow gives clients the information they need to improve the return on investment of their lead generation efforts and to turn sales opportunities into loyal, repeat customers.

Channel Inventory: InfoNow s Channel Insight Inventory Module provides two levels of capability. The first level collects and processes inventory data from a client s distributors and resellers and delivers timely information about product inventory levels at partner locations. Clients use this information to track channel inventory levels, rotate inventory to optimize channel sales, and understand the bottom line impact of various price protection scenarios. The second level of capability collects inventory data from partners and sales-in data (i.e., sales to the channel) from the client, and integrates it with the partners sales-out data (i.e., sales to end customers) processed by InfoNow s Channel Insight Platform. It then compares sales-in, sales-out and inventory data, providing a highly accurate view of sales flow through the channel. Clients can use this information to reconcile partner inventory reports with sales transactions, balance inventory, support production planning, and support revenue recognition for purposes of financial reporting.

Channel Management Solution: InfoNow s Channel Management Solution was introduced in 1995. It consists of a Channel Management Platform and suite of modular business applications that address specific channel management challenges.

Channel Management Platform: InfoNow s Channel Management Platform provides the foundation for InfoNow s channel management applications and includes capabilities for (1) business intelligence; (2) interface options to support end customer access via a client s Internet sites, private extranet and intranet sites, interactive voice response systems, smart phones, wireless personal digital assistants, pagers, fax and email; and (3) global capabilities to support multiple languages. In addition, the flexible nature of this solution allows clients to add countries, languages, currencies and commercial features as needed. The platform also includes capabilities that enable clients to route sales leads to partners based on advanced business rules and ensure that only authorized personnel are allowed to access a company s data.

Channel Management Applications:

Partner Profiling: InfoNow s Partner Profiling solution enables clients to maintain up-to-date profiles on all of their partners. It includes self-service capabilities, based on client business rules, which enable channel partners to create and maintain their own profiles, including comprehensive information about products and services offered, training, certification levels, and partner program status. With this solution, InfoNow s clients can ensure that their end customers are getting the most accurate, up-to-date information available about the products and services they offer through channel partners, while minimizing the time the client spends on maintaining partner profiles.

Referral/ Locator: This application quickly and reliably refers prospects and customers to the selling partner best able to meet their individual needs. This rules-based tool allows clients to match customers with channel partners based on criteria the clients define, and presents end customers with precise and accurate location information and maps, which can include optional driving directions, for the most appropriate service and product providers in their area.

Lead Management: This application uses client-specific business rules to route incoming opportunities to the most qualified channel partner, and then notifies the partner of the opportunity.

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System timers and email alerts progress leads through the workflow. Partners can update the status of their leads through a Web interface. Tools are available to allow clients to manage and reroute leads that fail routing, help partners with the management of their leads and follow up on unresponsive partners. Also included are tools for loading batch leads into the system, the ability to manually enter leads into the system and reports to track lead status.

Services: InfoNow also offers professional services, managed services, partner management services and system management services.

Professional Services: InfoNow offers in-depth strategic consulting, implementation consulting, training and other technical services. InfoNow s professional services team can assist clients with the design, implementation and integration of channel visibility and channel management solutions and provide training on the applications and capabilities of its software and services.

Managed Services: InfoNow hosts and maintains its channel visibility and channel management software for clients in two separate data center facilities in Colorado. Clients can access the solution via the Internet through secured connections over virtual private networks or frame relay networks. InfoNow maintains the hardware and software necessary to link solutions to its clients Web sites, intranets, extranets, call centers, interactive voice response systems and/or wireless data devices. InfoNow s managed services team handles the day-to-day requirements of running software applications, including security, scalability, load balancing, and network and system reliability, 24 hours a day, seven days a week. InfoNow s managed services team offers expertise in the application, architecture, and delivery methods of individual client solutions.

Partner Management Services: In support of its Channel Insight offering, InfoNow has relationships with many of the distributors and resellers in the high-tech market and will manage the collection of channel point-of-sale transaction data from these partners on the client s behalf. This simplifies the data collection process and enables timely and efficient POS data processing with Channel Insight.

System Management Services: InfoNow offers its clients software updates and maintenance releases. InfoNow also provides standard telephone support five days a week. In addition, InfoNow provides an urgent support program, offering support 24 hours a day, seven days a week.

Software Development

InfoNow believes its success depends, in part, on its ability to enhance the functionality of InfoNow s software and services and to develop innovative software and services to meet client needs. InfoNow s current research and development efforts are influenced significantly by client requirements and emerging market opportunities.

Based on InfoNow s assessment of the emerging market for channel visibility software and services and the opportunity represented therein, InfoNow focused the majority of its 2005 product development efforts on developing an On-Demand offering for Channel Insight, which InfoNow expects to significantly reduce implementation and operations costs. Channel Insight On-Demand provides a single, stable service, which can support multiple clients at once.

In addition to the Channel Insight On-Demand application itself, InfoNow is also developing a Channel Insight data warehouse which will be available as part of the On-Demand offering. This warehouse transforms the transaction, inventory and customer data from the Channel Insight application into a form that provides fast, complete, enriched, and extensible access for reporting and analytic purposes.

InfoNow incurred product development expenses for the years ended December 31, 2005 and 2004 of $647,000 and $933,000, respectively. During 2005 InfoNow also capitalized $361,000 of software product development costs associated with development of its On-Demand Channel Insight offering, as well as $38,000 of software product development costs associated with the development of InfoNow s data

warehouse. Of the product development costs InfoNow incurred during 2005 and 2004, approximately $31,000 and $42,000, respectively, were borne by clients and are included in InfoNow s revenue for those years. The decrease in product development costs in 2005 was primarily due to the capitalization of software product development costs associated with InfoNow s On-Demand Channel Insight offering and InfoNow s data warehouse, as discussed above.

InfoNow continually evaluates its software and services to determine what additional capabilities InfoNow s clients need. Most of its software is developed internally. InfoNow uses and plans to use technologies, services, software and information assets that are internally developed, licensed, and/or accessed via partner relationships to enhance InfoNow s solutions.

Sales, Marketing and Alliances

Historically, InfoNow has focused its selling efforts in three market segments high-tech, financial services and industrial in the United States and abroad, and InfoNow continues to market its Channel Management Solution to these segments. More recently, based on InfoNow s assessment of the emerging market opportunity for channel visibility software and services, InfoNow has focused primarily on sales and delivery of its Channel Insight solution to the high-tech market segment, and plan to move into other market verticals over time.

InfoNow currently offers its software and services under two models, (1) a licensed software with managed services model (license-hosted), and (2) an application service provider model. These are explained in greater detail in the section entitled InfoNow Management s Discussion and Analysis or Plan of Operation beginning on page 137 of this proxy statement/ prospectus. InfoNow s services are typically sold with annual or multi-year contracts. The initial term of these agreements range from one to three years and the agreements are typically renewable upon mutual agreement of InfoNow and the client. InfoNow also provides services to a number of clients under work-order or purchase-order agreements.

InfoNow s marketing objective is to increase name and brand recognition of InfoNow and its channel visibility and channel management solutions. These initiatives include, but are not limited to, direct e-mail marketing campaigns, internet-based seminars, production of sales materials, demonstrations of InfoNow s solutions, public relations, industry analyst relations and other promotional efforts.

InfoNow s sales strategy is focused in two areas: direct sales and indirect sales via strategic partners. InfoNow s direct sales strategy uses a three-pronged approach, which includes sales executives, sales engineers and account managers. Sales executives identify qualified prospects based on certain criteria, including company size, annual revenues, number of employees, and the complexity of their sales and distribution channels. They work with prospective clients to identify their specific business needs. Sales executives then work with sales engineers to determine the optimal application of InfoNow s software and services to meet identified needs and close sales. Sales engineers also provide ongoing client service and follow-up. Account managers focus primarily on generating new leads for sales executives. As of March 2006, InfoNow had two quota-carrying sales reps, as well as one sales engineer.

InfoNow believes that strategic partnerships can help InfoNow gain broader market acceptance and enhancing InfoNow s marketing, sales and distribution capabilities. Accordingly, InfoNow has established strategic relationships with organizations in three major areas: technology partners, solution partners, and resellers.

Technology Partners: InfoNow s technology partners provide hardware, software, geographic and business demographic data, transaction-processing support and collocation facilities to InfoNow to ensure the reliability, scalability and performance of InfoNow solutions. Technology partners include companies such as Axess Communications, Acxiom, Business Objects, Hewlett Packard, SunGard Data Systems, Red Hat, Network Appliance, Oracle, MapQuest and TeleAtlas.

Solution Partners: InfoNow s solution partners offer complementary services to InfoNow s solutions, and include companies such as Dun & Bradstreet.

InfoNow currently sells to international companies through existing U.S.-based clients with international operations. InfoNow may also form alliances with selected partners to assist in the sales and marketing of InfoNow s software and services in certain international markets.

In late 2003, in an effort to accelerate the sales cycle for Channel Insight, InfoNow adopted a modular delivery model for this solution. Under this modular delivery system, a prospective client can buy a license for individual Channel Insight data modules at an introductory price point and purchase additional modules over time to realize the full value of the solution. The value of a Channel Insight deal can range from the low six figures to well over one million dollars depending on the size and extent of the implementation, the number of transactions processed on an ongoing basis, the number of modules deployed, the number of channel partners deployed, and the geographic reach. InfoNow expects to continue this delivery model and pricing strategy as InfoNow works to accelerate the sales cycle and further penetrate the market. Once InfoNow has demonstrated the value of this solution in one department in a company, InfoNow believes internal advocates will help InfoNow expand into other departments and begin to realize the broad value of this solution.

In 2004, InfoNow focused on developing a strong indirect channel for Channel Insight with a leading U.S.-based data provider. Tactics included developing an interim selling agreement with this partner (with joint sales targets and defined revenue splits), training a small number of their sales representatives, assisting with the development of partner-branded sales collateral and engaging in joint field selling trials. In 2005, this partner expanded InfoNow s joint-selling trial to approximately 80 sales representatives across North America.

In 2005, InfoNow joined the Siebel Alliance program and have worked jointly with the Siebel sales and industry marketing team in joint sales call, developing joint presentations and product demonstrations utilizing the Siebel Analytics solution.

Historically, the sales cycle for InfoNow s software and services has ranged from three to nine months. In recent years, InfoNow has experienced longer sales cycles, especially for its Channel Insight solution. A prospective client s decision to use Channel Insight especially in an enterprise-wide deployment would typically require a significant evaluation period across multiple departments and approval by the client s senior management.

Clients

InfoNow had 49 managed services clients as of December 31, 2005. Many of InfoNow s clients are large, multi-national companies with multiple business divisions. InfoNow recognizes client business divisions of a single company as separate and unique client relationships if the divisions: (1) are separate operating units with their own executive management; (2) have separate operating budgets; or (3) are separate legal entities.

During the year ended December 31, 2005, InfoNow received approximately 37 percent of its total revenues from its largest client. One other company accounted for approximately 11 percent of InfoNow s total revenues. No other company accounted for more than 10 percent of InfoNow s total revenues. During the year ended December 31, 2004, InfoNow received approximately 50 percent of its revenues from the same company and no other company accounted for more than 10 percent of InfoNow s total revenues.

Intellectual Property

InfoNow considers its software, trademark and certain of InfoNow s information databases, trade secrets, and similar intellectual property to be proprietary.

Over the years, InfoNow has developed innovative software to address the unique challenges of channel visibility and channel management. In 2002, InfoNow applied for a U.S. patent for its Channel Insight technology. InfoNow has received and responded to communication from the U.S. patent office and InfoNow expects that completing the patent review process will take one to three years. InfoNow

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frequently reviews its technology base to identify other ideas, concepts, and inventions that could warrant patent protection.

InfoNow has a registered federal trademark for the name InfoNow.

InfoNow s Business Strategy

InfoNow s vision is to be the best in the world at providing clients and their channel partners unparalleled visibility into their channel networks and end customers, and solutions to use this visibility to dramatically improve their businesses.

In 2006, InfoNow is focusing on a number of key performance imperatives, including:

Acquiring new clients: InfoNow plans to capture new channel management and channel visibility clients, expand its solutions with existing clients, and ensure the success of its strategic selling partnerships.

Improving profitability: InfoNow expects to increase revenues through new sales from both direct and indirect sales channels, as well as client up sells. At the same time, InfoNow intends to increase efficiencies in client implementations and ongoing client support, and improve its technology and processes.

Securing InfoNow s competitive advantage: InfoNow will continue to enhance its solutions, deliver high quality client service, and proactively work with clients to capture the full value of Channel Insight.

Competition

InfoNow believes there is a meaningful market for channel visibility and channel management software and services. Analysts report that 70 percent of Global 1000 companies sell through complex channels. The Gartner Group has reported that nearly 50 percent of the world s gross national product is transacted through indirect channels and such percentage is expected to grow to 65 percent by 2010.

One of the key challenges channel-centric companies face is lack of visibility into who their end customers are and what they are buying. Analysts note that large companies spend, on average, up to $3.5 million a year on Customer Relationship Management (CRM) software(5) and yet up to 70 percent of CRM initiatives do not achieve the anticipated user adoption or return on investment. These shortcomings are primarily due to difficulties in maintaining timely and accurate end customer data. According to a study of 1,500 companies conducted by CIO Insights, the number one challenge faced by companies that have implemented a CRM system is populating and maintaining a consistent view of end customers.(6) InfoNow believes Channel Insight can address these challenges for channel centric companies.

The market for channel visibility and channel management software and services is at an early stage of development and no single competitor has established a leading position. InfoNow believes that the size and diversity within these markets will allow more than one supplier to provide products and services similar to InfoNow s s. InfoNow is not currently aware of a competitor who can match InfoNow in the timely delivery of highly accurate end customer information.

InfoNow is aware of several other providers of software and services who may compete with one or more of InfoNow s offerings, including:

IT departments that elect to develop internal systems at their companies;

location-based service providers such as MapInfo, MapQuest and Microsoft MapPoint;

5 McKinesy Quarterly, 2002, Number 4, Technology.

6 Customer Think Newsletter, October 7, 2003.

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customer relationship management (CRM) or partner relationship management (PRM) software companies, such as Azerity, Blue Martini, Click Commerce, CMR, Comergent, iGINE, MarketSoft, Zyme and Onyx; and

enterprise software companies such as Oracle, SAP and Siebel Systems.

InfoNow believes the principal competitive factors that will determine success in the market for its software and services include (1) the functionality and features of the software and services; (2) the ability to address specific client needs; (3) the reliability and effectiveness of the software and services provided; (4) the speed of implementation; (5) the perceived level of business viability of the service provider and implementation risk; (6) product reputation based on clients served and client referrals; (7) pricing relative to capabilities offered; (8) the quality of client support; and (9) the ability to develop and maintain strong client relationships and market presence, among other items. While InfoNow believes that its solutions compete effectively with respect to these factors, InfoNow also believes that the channel visibility and channel management software market will be highly competitive and characterized by rapidly changing technologies, industry standards, products and client requirements. As the growth in these markets continues, InfoNow expects competition to intensify and the industry to consolidate. Potential competitors, especially enterprise software companies, have significantly greater resources and could become competitive with InfoNow if they chose to develop and sell a channel visibility offering.

InfoNow believes it is difficult for potential competitors to enter the channel visibility and channel management market, for the following reasons:

InfoNow s domain knowledge: InfoNow has focused on helping channel-focused companies since 1995. InfoNow began by developing custom software applications for Fortune 1000 clients, and over the years InfoNow has worked with some of the top companies in the country. This experience has given InfoNow deep insight into the challenges of maximizing a complex, global business across multiple sales channels. The domain knowledge InfoNow has developed in channel management would not be easy to duplicate.

*First-to-*market position with Channel Insight: InfoNow has been working on the development of this technology since 2001. InfoNow believes that no competitors can currently match the accuracy, depth and breadth of information InfoNow provides on end customers, nor can they provide the breadth of functionality to utilize end customer information to improve business processes.

Patent-pending technology: InfoNow has applied for U.S. patent protection for its Channel Insight technology and algorithms. InfoNow expects completing the patent review process will take one to three years.

Unique data assets: InfoNow has made significant investments in data assets, including databases, processing techniques and licenses, which would require time and expertise to replicate.

Mission-critical applications: Given the business-critical nature of InfoNow s solutions, the data and transaction information InfoNow compiles, and the benefits of InfoNow s relationships with industry-leading companies to enhance future technology development, InfoNow believes it would be costly and inconvenient for clients to duplicate InfoNow s functionality with an internal solution or to switch to a competitor.

Employees

As of December 31, 2005, InfoNow had a total of 83 employees, of which 66 were full-time, including 4 in sales and marketing, 45 in software implementation, system operations, and client support, 9 in product development and 8 in finance, management and administration. The remaining 17 employees were part-time and/or temporary employees primarily in InfoNow s client support group. InfoNow also uses independent contractors on an as-needed basis. As of December 31, 2005, InfoNow had 4 contractors in product development, 2 contractors in software implementation, system operations, and client support, 1 contractor in sales and marketing, and 1 contractor in finance, management and administration.

None of InfoNow s employees are subject to any collective bargaining agreement and InfoNow has not experienced any interruption of operations as a result of labor disagreements.

Description of Property

InfoNow leases approximately 27,000 square feet of office space at InfoNow s headquarters in Denver, Colorado, for its product development, sales, marketing, operations and administrative activities. The office lease is with an unrelated party and extends through September 2007. InfoNow believes that the facilities are adequate for our current needs and that suitable additional space can be acquired as needed to accommodate planned growth for the foreseeable future.

InfoNow utilizes two Internet data centers maintained by SunGard Data Systems, Inc. to provide services to our clients. The data centers are housed in two separate facilities, one in Denver, Colorado, and the other in Thornton, Colorado. These facilities have safeguard protections such as a fire detection and suppression system, redundant telecommunications access, redundant power sources and 24-hour systems maintenance support. InfoNow also maintains off-site storage of data backups at a bank in Denver, Colorado.

Legal Proceedings

From time to time, InfoNow may be involved in litigation that arises in the normal course of its business operations. As of the date of this proxy statement/ prospectus, InfoNow 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.

INFONOW MANAGEMENT S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

The following discussion and analysis of InfoNow should be read in conjunction with our financial statements and related notes appearing elsewhere in this proxy statement/ prospectus.

Certain statements set forth below constitute forward-looking statements. These forward-looking statements are based on InfoNow s current expectations, assumptions, estimates and projections about its industry and business and include statements about markets for its software and services, planned development of products and anticipated expense and revenue levels. These forward-looking statements contain words such as anticipate, believe, plan, expect or similar language. These forward-looking statements are made subject to the Private Securities Litigation Reform Act of 1995 and are subject to business and economic risks. InfoNow s actual results could differ materially from those anticipated in such forward-looking statements as a result of many factors, including those set forth in this discussion and in other documents InfoNow has filed with the SEC.

General Information and Overview

InfoNow provides channel visibility and channel management solutions, in the form of software and services, to companies that sell their products through complex networks of distributors, dealers, resellers, retailers, agents or branches, often referred to as channel partners. Companies use InfoNow s software and services to collaborate with their channel partners to create demand, increase revenues, lower operating costs and maximize the return on investment of their channel strategies. InfoNow s clients are generally companies with extensive channel partner networks, and include companies such as Hewlett-Packard, Juniper Networks, NEC Display Solutions of America, The Hartford, Visa, and Wachovia Corporation.

As of December 31, 2005, InfoNow had 49 managed services clients versus the 44 it reported as of December 31, 2004. The increase in InfoNow s client base is primarily attributable to sales of InfoNow s Channel Insight solution. Despite the increase in InfoNow s client base, InfoNow s contracted managed service fees, which includes fees that are currently in a month-to-month contract status, decreased from $564,000 per month as of December 31, 2004, to $560,000 per month as of December 31, 2005. The decrease was primarily attributable to a $28,000 per month reduction in service fees related to the Channel

Insight contract with InfoNow s largest client, as well as other client contract renegotiations, partially offset by increases in service fees associated with new client contracts executed during 2005.

InfoNow has experienced extended sales cycles in recent years, which InfoNow believes were caused primarily by the following factors: (1) there has been a general decline in information technology, or IT, spending in recent years and InfoNow s past efforts to sell enterprise-level solutions, which typically require a significant financial commitment on the part of the client, were inconsistent with this trend; (2) the market for Channel Insight solutions is at an early stage of adoption; (3) in many instances, InfoNow s sales prospects have not budgeted for the solutions it provides and, therefore, require a lengthy evaluation process prior to purchasing; (4) InfoNow has not yet implemented its Channel Insight solution for enough clients to enable it to gain significant sales leverage from client references; and (5) InfoNow is susceptible to competitive threats such as clients or prospective clients outsourcing certain IT functions to other countries or attempting to implement in-house solutions similar to those that InfoNow provides in an effort to reduce costs.

As a result of these and other factors, it is difficult for InfoNow to accurately predict the demand for its solutions, as well as the value it will receive upon selling them. In addition, InfoNow s implementation cycles have, in some cases, extended substantially beyond its initial estimates, which has delayed its ability to recognize license, implementation and service fee revenues in certain periods. As a result of these challenges, among other things, InfoNow s revenues can fluctuate substantially from quarter to quarter.

In an effort to accelerate the sales cycle for Channel Insight, InfoNow has developed a modular delivery model for this solution, wherein a prospective client can access distinct modules related to specific business needs at lower introductory price points, and add other applications incrementally. Furthermore, during the fourth quarter of 2004, InfoNow launched a limited Channel Insight offering. Additionally, InfoNow is working on building leveraged access to clients through strategic partner relationships. As a result of many of these initiatives, as well as other ongoing sales efforts, InfoNow signed five Channel Insight agreements with new customers in 2004 and nine Channel Insight agreements with new customers in 2005. In addition, InfoNow experienced an increase in sales (based on the first-year value of contracts signed) during 2005 relative to 2004.

During 2005 InfoNow began to develop a software-as-a-service, or On-Demand, Channel Insight offering, which should be available in mid-2006. InfoNow intends for the new On-Demand service to accelerate market penetration of Channel Insight by making it easier to deploy and available to a broader set of potential clients. InfoNow expects that with the On-Demand Channel Insight offering it will realize implementation efficiencies and related cost savings on a per-deal basis after deployment. InfoNow added three employees and three contractors to its technical staff during 2005 to support the development of this offering. In addition, InfoNow added one contractor to its technical staff to support the development of its data warehouse.

Personnel-related costs, which include salaries, vacation, fringe benefits, payroll taxes and personnel support costs such as office supplies for employees, comprised approximately 73% and 76% of InfoNow s total costs in 2005 and 2004, respectively. Because salaries and related costs are such a significant portion of InfoNow s overall costs, variation in the need for technical personnel based on the demand for its solutions, as well as fluctuations in the cost of attracting and retaining qualified technical personnel, can significantly impact InfoNow s operating results.

On March 4, 2005, Michael W. Johnson resigned as InfoNow s chief executive officer, president and chairman of the board of directors. Mr. Johnson remains on InfoNow s board of directors. In connection with Mr. Johnson s resignation, InfoNow recognized approximately $330,000 in severance expense in the first quarter of 2005, of which approximately $151,000 was paid during the first nine months of 2005. InfoNow paid the remaining $179,000 in October 2005. An existing director, Jeffrey Peotter, was elected chairman of the board of directors. On March 7, 2005, InfoNow amended Harold R. Herbst s employment agreement to provide for his employment as InfoNow s interim Chief Executive Officer for a six-month period commencing on March 4, 2005. Except to the extent necessary to reflect Mr. Herbst s appointment for nine months as InfoNow s interim chief executive officer, InfoNow did not materially alter the terms

of Mr. Herbst s employment agreement. On March 25, 2005, InfoNow also issued Mr. Herbst options to purchase 150,000 shares of InfoNow s common stock. In September 2005, InfoNow entered into a revised employment agreement with Mr. Herbst extending his term as InfoNow s interim chief executive officer until April 30, 2007. Mr. Herbst s annual salary was increased from $225,000 to $250,000. Except to the extent necessary to reflect extension of Mr. Herbst s term as InfoNow s interim chief executive officer and his salary increase, InfoNow did not materially alter the terms of Mr. Herbst s previous employment agreement.

On November 2, 2005, InfoNow received a notice from Nasdaq indicating that InfoNow was not in compliance with Nasdaq s minimum bid price rule (Nasdaq Marketplace Rule 4310(c)(4)). The minimum bid price rule requires that the bid price of a listed company s common stock not to fall below $1.00 for 30 consecutive days. InfoNow requested a hearing of a Listing Qualifications Panel to review the Nasdaq staff s delisting determination and that hearing took place on December 1, 2005. On December 16, 2005, InfoNow received a notice from Nasdaq indicating that the Nasdaq Listing Qualifications Panel denied InfoNow s request for continued listing on the Nasdaq Capital Market. InfoNow s common stock was delisted from the Nasdaq Capital Market effective at the opening of business on Tuesday, December 20, 2005, for failure to comply with Nasdaq s minimum bid price rule. InfoNow does not intend to appeal the determination of the Panel. InfoNow s common stock is now traded on the Pink Sheets under the symbol INOW.

On January 9, 2006, Mr. Herbst, who had been serving as InfoNow s Interim Chief Executive Officer had his employment terminated by InfoNow s board of directors. In connection with this termination, on January 13, 2006, InfoNow, Mr. Herbst and HRH Consulting LLC entered into a consulting agreement and InfoNow and Mr. Herbst entered into a separation agreement and release. Under the consulting agreement, Mr. Herbst through HRH Consulting LLC provides consulting services to InfoNow to facilitate the consummation of the merger. The consulting agreement will be terminated upon the earlier of the consummation of the merger or 30 days prior written notice by InfoNow. In consideration for the consulting services, HRH Consulting LLC receives Mr. Herbst s base salary in effect prior to his termination as consideration for the consulting services that Mr. Herbst provides to InfoNow through HRH Consulting. Under the separation agreement, Mr. Herbst and InfoNow released all claims that they may have had against each other. Both the consulting agreement and the separation agreement provide that Mr. Herbst shall be entitled to receive one year s annual base salary in 24 biweekly installments as severance as well as all other payments and benefits due under his employment agreement.

On January 9, 2006, InfoNow s board of directors unanimously elected Mark Geene as InfoNow s Chief Executive Officer. In connection with this appointment, on January 13, 2006, InfoNow entered into the first amendment to Mr. Geene s employment agreement. The first amendment amends Mr. Geene s employment agreement to reflect his new position as InfoNow s Chief Executive Officer and obligates Mr. Geene to perform all the duties and bear all the responsibilities commensurate with that position. Except to the extent necessary to reflect Mr. Geene s position and duties and responsibilities as InfoNow s Chief Executive Officer, the terms of Mr. Geene s employment were not materially altered.

InfoNow accepted Donald Kark s resignation from his position as InfoNow s Chief Technology Officer, effective April 15, 2006. In connection with Mr. Kark s resignation, InfoNow and Mr. Kark entered into a separation agreement and release. Under the separation agreement, from April 15, 2006 through July 16, 2006, Mr. Kark shall remain an employee of InfoNow and perform duties and functions at the request of Mr. Geene and shall receive his salary in accordance with the employment agreement in effect between InfoNow and Mr. Kark until immediately preceding the effective date of Mr. Kark s resignation. After July 16, 2006, Mr. Kark shall be entitled to three months of annual base salary in six biweekly installments and three months of benefits under InfoNow s insurance plan. Under the separation agreement, Mr. Kark and InfoNow released all claims that they may have had against each other.

On December 23, 2005, Halo agreed to acquire InfoNow in a merger transaction valued at $7.2 million. Pursuant to the terms of the merger agreement, and subject to the approval of InfoNow s

stockholders, Merger Sub will be merged with and into InfoNow with InfoNow surviving the merger as a wholly owned subsidiary of Halo.

Under the terms of the merger agreement, which was approved by both companies boards of directors, each share of InfoNow common stock outstanding immediately prior to the merger will be converted into the right to receive approximately $0.71 in a combination of cash, if any, and common stock of Halo (together with CVRs). In addition, each InfoNow common stock option outstanding at the closing of the merger with an exercise price less than $0.71 per share will be converted into the right to receive cash, if any, and common stock of Halo (together with CVRs) to the extent that the approximately $0.71 per share merger consideration exceeds the applicable exercise price. The merger consideration is more fully described in the section entitled The Merger Agreement Merger Consideration beginning on page 67 of this proxy statement/ prospectus and in the merger agreement, which is attached to this proxy statement/ prospectus as Annex A.

The $0.71 per share value represents a premium to InfoNow s stockholders of approximately 41.9%, 55.2% and 106.4% over the six-, three- and one-month average closing prices per share, respectively, for its common stock as quoted on the Nasdaq in each instance through December 19, 2005, the last day InfoNow s common stock traded on the Nasdaq Capital Market. It also represents a premium of approximately 114.1% over the last reported sales price per share for InfoNow common stock as reported on the Pink Sheets on December 23, 2005, the last trading day for InfoNow common stock prior to the announcement of the merger.

The merger, which is expected to close during the second quarter of 2006, is subject to certain closing conditions more fully described in the section entitled The Merger Agreement Conditions to the Merger beginning on page 73 of this proxy statement/ prospectus and in the merger agreement, which is attached to this proxy statement/ prospectus as Annex A. Q Advisors acted as exclusive financial advisor to InfoNow, and Hogan & Hartson L.L.P., Denver, Colorado, provided legal advice. Bell, Boyd & Lloyd LLC, Chicago, Illinois, provided legal advice to Halo.

InfoNow anticipates that its investment in product development and costs associated with the merger, combined with the reduction in its contracted managed service fees related to the Channel Insight contract with its largest client and reductions associated with other client contract renegotiations and terminations, will result in its costs increasing more quickly than its revenues in the near-term. As a result, InfoNow expects to incur a loss and use existing cash reserves to fund operations in 2006.

Critical Accounting Policies

InfoNow believes the following accounting policies, which are important to its financial position and results of operations, require significant judgments and estimates on the part of management. InfoNow believes that the following description represents its critical accounting policies and estimates used in the preparation of its financial statements, although it is not all-inclusive.

Revenue Recognition

InfoNow s solutions are typically sold with annual or multi-year contracts. The initial term of these agreements range from one to three years and the agreements are typically renewable upon mutual agreement of InfoNow and the client. InfoNow also provides services to a number of clients under work-order or purchase-order arrangements.

A typical contract fee could include the following six separate revenue-producing components:

Software license and implementation fees:

The software license fee applies to all configured application software and related functionality used in the client s application.

The implementation fee applies to the configuration of a tailored, client-specific software interface to the system and the design and configuration of client business rules and databases.

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Managed service fees and software maintenance fees:

The managed service fee applies to hosting and provision of the service, any reconfiguration or maintenance on the software necessary during the contract term, as well as performance of routine maintenance to client databases and core systems.

The variable monthly fee includes charges for system usage in excess of contractual thresholds.

A software maintenance fee (for clients utilizing a licensed model) includes updates to the client s software.

Other fees:

Variable fees included under this heading are pass-through charges for voice recordings, faxes, geocoding, and telecommunications charges, which are typically billed with an incremental administrative fee in addition to the direct charge InfoNow incur to provide these services.

InfoNow offers its solutions to clients in two forms. The first method utilizes an application service provider, or ASP, model. Under this business model, InfoNow sells the right to use its software for the term of a specific agreement, and InfoNow implements and hosts that solution to meet specific client requirements. Accordingly, InfoNow charges the client an implementation fee, a managed service fee and, in many cases, variable monthly fees. The implementation fee and related direct costs are deferred and recognized ratably over the longer of the expected client life or contract term in accordance with Staff Accounting Bulletin No. 104, or SAB 104. Because most of InfoNow s initial sales contracts range from one to three years in duration, the client life is typically the longer deferral period and is estimated to be three years. This estimate is based on a number of factors, including client turnover and the rate of change for the technology underlying InfoNow solutions. InfoNow evaluates the estimate of a client life on an ongoing basis in consideration of these factors and the estimate of three years has remained constant since the adoption of SAB 104. If, based upon InfoNow s evaluations, the estimate of a client life were to increase, deferred revenue balances would be recognized over a longer time period. A reduction in the estimate of a client life would, conversely, result in accelerated recognition of deferred revenues relative to prior years. Because InfoNow s deferred revenues balances have declined as a result of its selling more licensed solutions, this estimate has decreased in significance relative to prior years. InfoNow expects to continue selling primarily licensed solutions; therefore, InfoNow anticipates that the estimate of a client life will continue to decrease in significance in future periods. Revenue from managed service fees and variable monthly fees is recognized as services are performed.

The second method of delivering InfoNow s software and services is via a license-hosted model. Under this model, InfoNow grants its clients a perpetual license for its software. Under this model, clients can install InfoNow s software on their own in-house systems, utilize third-party service providers for hosting, or, as is most often the case, InfoNow will host the software and perform related services under a managed services agreement.

Sales of InfoNow s solutions under the license-hosted model typically include a software license fee, an implementation fee, a software maintenance fee, a managed service fee and, in many cases, variable monthly fees. InfoNow establishes vendor specific objective evidence, or VSOE, of fair value for the managed service fee element of a contract based on the following two considerations: (1) it is sold independently of the other elements in a contract; and (2) these services generally are, and have historically been, renewed in subsequent years (independent of the other elements) at the same fees, or the current market value of those fees, charged when all elements are sold together. InfoNow s contracts also typically contain renewal rates for software maintenance fees, which are substantive. Therefore, InfoNow relies on these renewal rates as VSOE of fair value for those fees. Based on these considerations, the VSOE of fair value for managed service fees and software maintenance fees can be properly determined by reference to the applicable clients contractual fee rates relating to those services.

InfoNow is not, however, currently able to establish VSOE of fair value for the software license and implementation fee elements of its contracts. Therefore, InfoNow uses the residual value method to

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recognize revenue in accordance with Statement of Position 97-2, or SOP 97-2. Using this method, revenue from the managed service and software maintenance elements of a contract is recognized ratably over the term of the managed service arrangement and the software maintenance arrangement, respectively. Because InfoNow is currently unable to establish VSOE of fair value for the software license fee and implementation fee components of a contract and its installation services are essential to the functionality of the software, InfoNow applies contract accounting to both the software and implementation elements of the arrangement in accordance with Accounting Research Bulletin No. 45 and Statement of Position 81-1, or SOP 81-1. Accordingly, license and implementation revenues are recognized on a percentage of completion basis.

In the future, if InfoNow is able to establish VSOE of fair value for the software license and implementation elements of its solutions, license fees will generally be recognized at the time of contract signing, assuming all revenue recognition criteria are met, instead of on a percentage of completion basis.

As changes occur in InfoNow s estimate of completion percentage, revenue recognition is adjusted accordingly. InfoNow s estimate of completion percentage is based on the ratio of the actual effort spent on a project as of the financial statement date to the estimate of total effort to complete the implementation. Fluctuations in the estimate of total effort to complete an implementation can significantly impact revenue recognition on a project in a given period. The estimate of total effort to complete an implementation involves significant judgment regarding the time required to perform the tasks associated with a project, such as coding and testing the solution. In many cases, InfoNow s estimates are based on past experience; however, because certain of its solutions are in an early stage of development and in most cases involve client-specific configuration and/or customization, InfoNow may not always have direct past experience to draw from, which could result in material changes in the estimate of effort to complete an implementation. In addition, implementing InfoNow s solutions generally involves a high degree of interaction with its clients; therefore, the level of client personnel s technical understanding and changes in a client s requirements or expectations can also affect the estimate of effort to implement a solution. However, InfoNow believes its prior experience in developing and implementing complex solutions provides an appropriate basis for developing its estimates.

If, for any solution implementation, InfoNow determines that it is unable to estimate the effort to implement a solution with a high degree of certainty, InfoNow defers recognition of the revenue and related cost until project completion in accordance with SOP 81-1. Losses are recognized immediately if projected implementation costs exceed anticipated implementation revenues. For purposes of determining the profit or loss on a project, InfoNow includes direct labor and direct subcontractor costs, as well as an allocation of fringe benefits, payroll taxes, personnel support costs, and facilities costs. These costs are allocated to projects based on the amount of time an employee or subcontractor devotes directly to the project in relation to that person s total time worked during a given period. As of December 31, 2005 and 2004, InfoNow had $20,000 and $68,000, respectively, accrued for estimated future implementation losses related to projects for which direct implementation costs are projected to exceed implementation fee revenue. These accruals are included in other liabilities on InfoNow s balance sheet. Revenue from variable monthly fees is recognized as services are performed.

InfoNow has historically sold its solutions primarily through direct sales efforts and reseller channels. When InfoNow sells solutions through a reseller channel it recognizes revenue consistent with the methods described above. Fees owed to InfoNow s selling partners in conjunction with reseller channel sales are included in the cost of revenues.

Capitalized Software Product Development Costs

Capitalized software product development costs consist of technical personnel salaries, overhead related to technical personnel, and the cost of the facilities they occupy. InfoNow allocates these costs to the software product based on the amount of time an employee devotes directly to the product development effort in relation to that employee s total time worked during a given period. In accordance with SFAS No. 86, Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise

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Marketed, software development costs are required to be expensed until the point that technological feasibility of the product is established which InfoNow has determined to be when a working model is complete. Once technological feasibility is established, such costs are required to be capitalized until the product is available for general release to customers. The establishment of technological feasibility and continuing evaluation of the recoverability of the capitalized software development costs requires management s judgment with respect to the impact of external factors such as future revenue, estimated economic life and changes in software and hardware technologies. Periodic amortization of capitalized software development costs will be based on either (1) the ratio that current period revenues for the product bear to the total estimated revenue for that product or (2) the straight-line method over the estimated economic life of the product, whichever results in a larger amortization expense. InfoNow capitalized $399,000 of software development costs during the year ended December 31, 2005. No software development costs were capitalized for product development efforts that took place prior to 2005 because the period between technological feasibility and general availability was short and costs qualifying for capitalization were insignificant. InfoNow has not begun amortizing capitalized software development costs because the related product is not yet available for general release to customers.

Technical Personnel Cost Allocation

Certain members of InfoNow s technical staff have the necessary skills to contribute in solution implementation and maintenance roles, as well as in product development roles. As such, InfoNow distributes its technical resources among these efforts based on the needs of the organization at a given time. The costs associated with these employees are allocated either to the cost of revenues or product development based on the estimate of hours devoted to each such category in a given period. The estimate of hours by category is derived from the data maintained in InfoNow s time tracking system, which reflects the time charged by each employee to a particular project. For certain projects and ongoing system maintenance efforts, InfoNow must use judgment in designating the effort as either a cost of revenues or a product development expense. A misclassification in this regard could result in a significant impact to InfoNow s gross margin; however, InfoNow believes it applies the necessary diligence in the process of designating projects to provide a reasonable basis for its estimates.

The following table summarizes the distribution of InfoNow s employees on a full-time-equivalent basis as of December 31, 2005 and December 31, 2004:

	December 31, 2005	**December 31, 2004**
Staff related to the Cost of Revenues	54	67
Selling and Marketing	4	9
Product Development	9	10
General and Administrative	8	11
Total Employees	75	97

Included in the table above are 66 full-time employees and 9 full-time equivalent part-time employees at December 31, 2005, and 85 full-time employees and 12 full-time equivalent temporary and part-time employees at December 31, 2004. In addition to the employees in the table above, InfoNow s staff included eight contractors as of December 31, 2005. InfoNow did not have any contractors on staff as of December 31, 2004.

Results of Operations

The following table summarizes InfoNow s results of operations for the calendar years indicated (dollar amounts in thousands):

	2005	2004	Change	% Change
Revenues:				
Implementation and software license fees	$ 1,589	$ 1,587	$ 2	0%
Monthly service and software maintenance fees	7,098	9,215	(2,117)	(23)%
Other fees	76	77	(1)	(1)%
Total revenues	8,763	10,879	(2,116)	(19)%
Cost of Revenues	5,922	5,864	58	1%
Gross margin	2,841	5,015	(2,174)	(43)%
Operating expenses:				
Selling and marketing	1,144	2,024	(880)	(43)%
Product development	647	933	(286)	(31)%
General and administrative	2,833	2,767	66	2%
Total operating expenses	4,624	5,724	(1,100)	(19)%
Loss from operations	(1,783)	(709)	(1,074)	(151)%
Other income (expense):				
Interest income	79	31	48	155%
Interest expense	(4)	(8)	4	50%
	75	23	52	226%
Net loss	$ (1,708)	$ (686)	$ (1,022)	(149)%

Comparison of the Year Ended December 31, 2005 with the Year Ended December 31, 2004

Revenues: InfoNow s revenues consist primarily of implementation fees, software license fees, monthly service fees and software maintenance fees from new and existing clients. Total revenues decreased by $2,116,000, or 19%, to $8,763,000 for the year ended December 31, 2005, from $10,879,000 for the year ended December 31, 2004.

Monthly Service Fees and Software Maintenance Fees: Monthly service fees and software maintenance fees were $7,098,000 during 2005, a decrease of $2,117,000, or 23%, from $9,215,000 in 2004. The decrease is primarily due to a $2,276,000 reduction in service fees related to the expiration and subsequent extension of the Channel Insight contract with InfoNow s largest client. InfoNow also experienced an additional $816,000 reduction in monthly service fees as a result of other client contract and service terminations. The decreases in InfoNow s monthly service fees related to the expiration and subsequent extension of the Channel Insight contract with InfoNow s largest client and other client contract and service terminations were partially offset by increases in service fees totaling $855,000 primarily associated with new clients and new service activations, as well as increases in variable monthly fees as a result of increased system usage by certain of InfoNow s clients. In addition, InfoNow experienced a $120,000 increase in service fee revenue associated with a client contract termination. Monthly service fees and software maintenance fees represented approximately 81% and 85% of total revenue

during 2005 and 2004, respectively.

Implementation and Software License Fees: Revenues generated from implementation and software license fees during the twelve months ended December 31, 2005 increased by $2,000, or 0.1%, to $1,589,000 from $1,587,000 during the twelve months ended December 31, 2004. The increase in implementation and software license fees is primarily attributable to a $274,000 increase in

implementation fee revenue associated with attaining higher levels of completion percentage on projects that expand existing client solutions, as well as the implementation of new client solutions in 2005 compared to 2004. The increase in implementation fee revenue associated with the increased completion percentage on client solution implementations and enhancements was partially offset by a $158,000 decrease in software license fees, which was primarily due to a reduction in the number of deals sold, that contained a license fee component. InfoNow also experienced a $114,000 increase in revenue deferrals associated with an increase in ASP contracts sold during 2005, which InfoNow is required to account for under SAB 104, as discussed above. Implementation and software license fees represented approximately 18% and 15% of total revenue during 2005 and 2004, respectively.

Other Fees: Other fees decreased by $1,000, or 1%, to $76,000 during the twelve months ended December 31, 2005, from $77,000 during the twelve months ended December 31, 2004. The decrease in other revenues is primarily attributable to a decrease in the number of contracts with charges for voice recordings, faxes, geocoding and telecommunications charges, as well as a reduction in interactive voice response transaction volume and negotiated rate reductions in InfoNow s telecommunications charges. Other fees represented approximately 1% of total revenue during 2005 and 2004.

Cost of Revenues: InfoNow s cost of revenues includes technical personnel salaries and related personnel costs, data royalties, software costs, depreciation for server equipment, reimbursable expenses such as telecommunications and contract labor related to specific projects, co-location facility fees and other direct costs related to operating InfoNow s data centers, bad debts expense, as well as the recognition of previously deferred implementation expenses and partner commission costs. Cost of revenues increased to 67% of revenues in 2005 from 54% in 2004. Total cost of revenues increased $58,000, or 1%, to $5,922,000 during 2005 from $5,864,000 during 2004. This was primarily due to a $239,000 increase in data center and telecommunications costs due to a refund received from a former data vendor in 2004, as well as the transition to a new mapping data vendor and increased system usage. In addition, partner commission costs increased by $66,000 as a result of leveraging one of InfoNow s strategic partner relationships for a Channel Insight agreement InfoNow signed during the third quarter of 2005. The increases in InfoNow s cost of sales related to data center and telecommunications expenses and partner commission costs were partially offset by a $107,000 decrease in bad debt expense primarily due to the reversal in the second quarter of 2005 of bad debt that had been recorded in prior periods. The bad debt expense recorded in prior periods related primarily to variable monthly fees that InfoNow believed could be uncollectible as a result of client contract renegotiations. InfoNow worked with these clients during the second quarter of 2005 to resolve the collectibility issues and, in the third quarter of 2005, InfoNow collected a portion of the previously recorded bad debt amounts. Accordingly, InfoNow reversed the previously recorded bad debt expense associated with these fees. InfoNow also experienced an $87,000 increase in implementation expense deferrals associated with ASP contracts that were deferred in accordance with SAB 104. The remaining $53,000 decrease in InfoNow s cost of sales was primarily attributable to lower personnel and personnel support costs due to the reduction in InfoNow s technical staff in 2005.

Selling and Marketing Expenses: Selling and marketing expenses consist of sales, pre-sales, marketing and business development, personnel costs and related expenses, travel and entertainment, sales commissions, and advertising and promotion costs. These costs were 13% of revenues in 2005, compared to 19% of revenues in 2004. The total amount of selling and marketing expenses decreased by $880,000, or 43%, to $1,144,000 during the twelve months ended December 31, 2005, from $2,024,000 during the twelve months ended December 31, 2004. The change is primarily attributable to a $554,000 decrease in personnel and personnel support costs mainly as a result of planned staff reductions and attrition related to InfoNow s sales and marketing staff. InfoNow also experienced a $197,000 decrease in commission expense primarily as a result of the reduction in its revenue. In addition, travel costs decreased by $80,000 due to the reduction in its sales and marketing staff. InfoNow also experienced a $43,000 reduction in public relations and advertising and promotion consulting costs. Recruiting fees also declined by $13,000 because InfoNow incurred fees related to the hiring of a sales representative during 2004, whereas InfoNow did not hire any new sales personnel during 2005. The decreases in InfoNow s selling and

marketing expenses associated with personnel costs, commission expense, travel costs, consulting costs, and recruiting fees were partially offset by a $7,000 increase in trade show expenses.

InfoNow has established strategic partnerships with organizations in three major areas: technology partners, solution partners, and strategic selling relationships. InfoNow expects that these relationships can assist it in gaining broader market acceptance for its solutions and services, as well as enhance its marketing, sales and distribution capabilities. Accordingly, InfoNow expects to develop new strategic partnerships in the future.

Product Development Expenses: For the twelve months ended December 31, 2005, product development expenses decreased $286,000, or 31%, to $647,000 from $933,000 for the twelve months ended December 31, 2004. This change was primarily due to the capitalization of $399,000 in software product development costs during 2005, as well as $20,000 lower bonus expenses. The decreases in InfoNow s product development expenses associated with capitalization of software product development costs and lower bonus expense were partially offset by an increase in personnel costs due to the allocation of more technical resources from client implementation and support efforts to product development efforts in 2005, compared to 2004. Product development expenses represented 7% of revenues during 2005, compared to 9% of revenues during 2004.

General and Administrative Expenses: General and administrative expenses include the personnel costs of InfoNow s executive management, finance, investor relations, human resources and other corporate functions, general expenses such as legal and accounting fees, insurance and costs related to its facilities. These costs increased to 32% of revenues for the twelve months ended December 31, 2005, from 25% of revenues for the twelve months ended December 31, 2004. The total amount of general and administrative costs over the same periods increased $66,000, or 2%, to $2,833,000 during 2005 from $2,767,000 during 2004. The increase was primarily attributable to a $230,000 increase in professional fees as a result of costs associated with the merger. This increase was partially offset by a $98,000 decrease in facilities costs primarily due to lower depreciation expense since many of InfoNow s older assets are now fully depreciated, as well as lower rent expense as a result of capitalizing the portion of this cost that is related to product development efforts. InfoNow also experienced a $41,000 reduction in personnel and personnel support costs partly due to a reduction in head count and partly due to lower dues and supplies expenses. The remaining $25,000 decrease in InfoNow s general and administrative expenses was due to lower travel and entertainment costs and lower investor relations expenses.

In 2006, InfoNow expects that its head count levels and related costs in all functional areas will change commensurate with its needs as it executes against its business strategy.

Income Taxes: InfoNow has paid no income taxes since its inception and has not recorded a benefit for income taxes due to valuation allowances provided against net deferred tax assets, which consist primarily of operating loss carryforwards.

Other Income/ Expense: InfoNow had a net other income of $75,000 during the twelve months ended December 31, 2005, compared to net other income of $23,000 for the twelve months ended December 31, 2004. The increase of $52,000 is primarily attributable to higher interest income as a result of an increase in interest rates, as well as lower interest expense as InfoNow s capital leases have been fully paid.

Net Income/ Loss: Net loss for the twelve months ended December 31, 2005, was $1,708,000 compared to a net loss of $686,000 for the twelve months ended December 31, 2004, a $1,022,000 increase. This increase in net loss is primarily attributable to a $2,116,000, or 19%, decrease in total revenues, which was partially offset by a $1,042,000, or 9%, decrease in total expenses and a $52,000 increase in net other income for the year ended December 31, 2005, compared to the year ended December 31, 2004, as discussed above in this InfoNow Management s Discussion and Analysis or Plan of Operation.

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Liquidity and Capital Resources

Since InfoNow s initial public offering, InfoNow has financed its operations primarily through the placements of private equity securities and, to a lesser extent, through borrowing and equipment leasing arrangements. InfoNow has received a total of approximately $13,800,000 from private offerings and has received an additional $3,653,000 from the exercise of stock options and warrants since InfoNow began offering its channel management solutions in 1995. InfoNow also has a bank credit facility with both a $1,000,000 revolving line of credit to support its future operating needs and a $1,000,000 equipment facility to support its future investing needs. The bank credit facility requires that InfoNow meet various covenants. InfoNow is not permitted to draw on the bank credit facility if it is out of compliance with any of the covenants. As of the date of this proxy statement/ prospectus, InfoNow is out of compliance with its debt covenants; however it expects to work with the bank to obtain waivers for this non-compliance. The interest rate on the revolving line of credit is the prime rate plus 1 percent, and the interest rate on the equipment facility is the U.S. Treasury note yield to maturity for a term equal to 36 months as quoted in the *Wall Street Journal* plus 587 basis points.

InfoNow had cash and cash equivalents of $3,032,000 at December 31, 2005, compared to $3,764,000 at December 31, 2004. InfoNow s total cash use for the year ended December 31, 2005, was $732,000 compared to $465,000 in cash generated during the year ended December 31, 2004. The decrease of $1,197,000 was primarily due to a $510,000 reduction in cash flows from InfoNow s financing activities mainly associated with a decline in proceeds from stock option exercises in 2005 relative to 2004. In addition, cash flows from InfoNow s operating activities decreased $358,000 primarily due to the increase in its net loss in 2005, partially offset by significant collections of its trade accounts receivable. InfoNow also experienced a $329,000 increase in cash used in its investing activities, which was primarily due to a $399,000 increase in capitalized software costs, partially offset by a $70,000 reduction in the purchase of property and equipment for InfoNow s data centers and corporate office. The changes in InfoNow s total cash flow for 2005 compared to 2004 are discussed below in more detail.

Net cash used by operating activities during 2005 was $91,000, compared to $267,000 of cash generated by operating activities during 2004. The decrease of $358,000 was primarily due to the $1,022,000 increase in InfoNow s net loss. Changes in the adjustments to reconcile net income to net cash provided by operating activities are as follows:

$78,000 reduction in depreciation and amortization since many of InfoNow s data center and corporate office assets have become fully depreciated without corresponding asset purchases;

$63,000 increase in other assets and deferred charges mainly due to prepaid software license and insurance payments;

$56,000 decrease in the allowance for bad debt primarily due to reversing previously recorded bad debt during 2005;

$53,000 decrease in accounts payable and payroll related and other liabilities primarily due to paying down InfoNow s accruals and trade accounts payable;

$12,000 decrease in loss on asset dispositions;

$502,000 decrease in accounts receivable mainly due to significant collections of trade accounts receivable during 2005;

$424,000 increase in deferred revenue primarily due to cash received from clients who prepaid their annual service fees in accordance with their contract terms, as well as unearned revenue related to solutions sold during 2005 for which implementation has not yet been completed.

Cash used in investing activities increased to $595,000 for the twelve months ended December 31, 2005 compared to $266,000 for the twelve months ended December 31, 2004. The change of $329,000 is primarily due to a $399,000 increase in capitalized software costs, partially offset by a $70,000 decrease in purchases of computer hardware and software for InfoNow s data centers and corporate office. InfoNow

has plans to increase its capital expenditures in 2006 primarily to support the development of an enhanced version of its Channel Insight solution, to upgrade or replace some of its existing data center hardware and software, and to add new equipment to enhance system security.

Net cash used in financing activities during 2005 was $46,000 compared to cash generated by financing activities of $464,000 during 2004. The decrease of $510,000 was caused by a $524,000 decrease in cash received from stock option exercises, partially offset by a $14,000 decrease in capital lease payments since all of InfoNow s capital leases are now fully paid.

Variation in the timing of InfoNow s cash receipts and disbursements can significantly impact its overall cash flow for a given period and there can be no assurance that InfoNow s current cash balance will be sufficient to fund operations.

If InfoNow believes it is advisable, InfoNow may seek additional funding to continue its operations. InfoNow s ability to successfully complete an offering to obtain additional funding is dependent on a number of factors. There can be no assurances that InfoNow can successfully complete an equity or debt placement, or that a placement can be concluded on the terms and conditions that would be acceptable to InfoNow.

The following table summarizes InfoNow s contractual payments and obligations by period (amounts in thousands):

	Payment Due by Period				
Contractual Obligations	**Total**	**Less Than 1 Year**	**1-3 Years**	**4-5 Years**	**After 5 Years**
Operating Leases	$ 867	$ 496	$ 371	$	$
Minimum Royalties	129	12	24	24	69
Total Contractual Cash Obligation	$ 996	$ 508	$ 395	$ 24	$ 69

InfoNow leases approximately 27,000 square feet of office space at a rate of $18.00 per square foot through September 2007, when the lease expires. InfoNow is attempting to reduce its rent expense by subleasing approximately half of its current office space; however, there can be no assurance that InfoNow will be able to do so.

Recent Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123(R), *Share Based Payment* (SFAS No. 123(R)), that requires companies filing as small business issuers to expense the value of employee stock options and similar awards for interim and annual periods beginning on or after December 15, 2005 and applies to all outstanding and unvested stock-based awards at a company s adoption date. InfoNow believes that the adoption of this standard could have a material impact on its financial position and results of operations since it expects to continue to utilize stock-based compensation to motivate employees in the future, and, as a result, InfoNow expects that the implementation of SFAS No. 123(R) will result in increased compensation expense in future years.

In December 2004, the FASB issued SFAS No. 153, *Exchanges of Nonmonetary Assets* (SFAS No. 153), which eliminates the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. SFAS No. 153 will be effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. InfoNow does not believe the adoption of this standard will have a material impact on its financial position or results of operations.

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections, a replacement of Accounting Principles Board Opinion No. 20 and FASB Statement No. 3* (SFAS No. 154). SFAS No. 154 changes the requirements for the accounting for, and reporting of, a change in accounting principle. SFAS No. 154 applies to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement in the

unusual instance that the

pronouncement does not include specific transition provisions. When a pronouncement includes specific transition provisions, those provisions should be followed. SFAS No. 154 requires retrospective application to prior periods financial statements for changes in accounting principle, unless it is impractical to determine either the period-specific effects or the cumulative effect of the change. When it is impractical to determine the period-specific effect of an accounting change on one or more individual prior periods presented, SFAS No. 154 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 practical and that a corresponding adjustment be made to the opening balance of retained earnings for that period rather than being reported as a component of income. When it is impractical to determine the cumulative effect of applying a change in accounting principle to all prior periods, SFAS No. 154 requires that the new accounting principle be applied as if it were adopted prospectively from the earliest date practical. SFAS No. 154 is effective for business enterprises and not-for-profit organizations for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. InfoNow does not believe the adoption of this standard will have a material impact on its financial position or results of operations.

COMPARISON OF STOCKHOLDER RIGHTS AND CORPORATE GOVERNANCE MATTERS

InfoNow is incorporated under the laws of the State of Delaware and Halo is incorporated under the laws of the State of Nevada. The holders of shares of InfoNow common stock, whose rights as stockholders are currently governed by Delaware law, InfoNow s certificate of incorporation and InfoNow s bylaws, will, pursuant to the merger, become holders of Halo common stock, and their rights as stockholders will be governed by Nevada law, Halo s articles of incorporation and the bylaws of Halo. The material differences between the rights of holders of InfoNow common stock and the rights of holders of shares of Halo common stock, which are summarized below, result from differences in Delaware and Nevada law and the governing corporate documents of the two companies.

The following summary does not purport to be a complete statement of the rights of holders of shares of Halo common stock under applicable Nevada law, Halo s articles of incorporation and Halo s bylaws or a comprehensive comparison with the rights of the holders of shares of InfoNow common stock under Delaware law, InfoNow s articles of incorporation and InfoNow s bylaws, or a complete description of the specific provisions referred to herein. The identification of specific differences is not meant to indicate that other equally or more significant differences do not exist. This summary is qualified in its entirety by reference to the Delaware General Corporation Law and the Nevada Revised Statutes and the governing corporate documents of Halo and InfoNow, to which holders of shares of InfoNow are referred. See the section entitled Additional Information Where You Can Find More Information beginning on page 162 of this proxy statement/ prospectus.

Size of Board of Directors

Halo	InfoNow
Under Nevada law, a corporation may provide in its articles of incorporation or bylaws for a fixed number of directors or a variable number of directors and for the manner in which the number of directors may be increased or decreased. Halo s articles of incorporation and bylaws provide that the number of directors constituting the board shall be not less than one and not more than thirteen and the articles of incorporation state that the number of directors may from time to time be increased or decreased in such manner as will be provided by the bylaws.	Delaware law permits the board of directors of a Delaware corporation to change the authorized number of directors by amendment to the corporation s bylaws or in the manner provided in the bylaws, unless the number of directors is fixed in the corporation s certificate of incorporation, in which case a change in the number of directors may be made only by amendment to the certificate of incorporation. The InfoNow bylaws provide that the authorized number of directors constituting the board shall be not less than five and not more than nine, as shall be fixed from time to time by the board of directors.

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Cumulative Voting

In an election under cumulative voting, each share of stock normally having one vote is entitled to a number of votes equal to the number of directors to be elected. A stockholder may then cast all such votes for a single candidate or may allocate them among as many candidates as the stockholder may choose, up to the number of directors to be elected. Without cumulative voting, the holders of a majority of the shares present at an annual meeting or any special meeting held to elect directors would have the power to elect all the directors to be elected at that meeting, and no person would be elected without the support of holders of a majority of the shares voting at such meeting.

Halo	InfoNow
Under Nevada law, cumulative voting in the election of directors is only available if the corporation s articles of incorporation provide for such an election. Halo s articles of incorporation do not provide for cumulative voting.	Under Delaware law, cumulative voting in the election of directors is not available unless specifically provided for in a corporation s certificate of incorporation. The InfoNow certificate of incorporation does not provide for cumulative voting.

Power to Call Special Stockholders Meeting

Halo	InfoNow
Nevada law provides that, unless otherwise provided in the corporation s articles of incorporation or bylaws, the entire board of directors, any two directors or the president may call special meetings of stockholders. Halo s bylaws provide that special meetings of stockholders may be called at any time by the holders of 10% of the voting shares of Halo, or by the president, or by the board of directors or a majority thereof.	Under Delaware law, a special meeting of stockholders may be called by the board of directors or any other person authorized to do so in the corporation s certificate of incorporation or bylaws. The InfoNow bylaws provide that special meetings of stockholders may be called by the president of InfoNow and by the board of directors.

Dissolution

Halo	InfoNow
Under Nevada law, if the directors recommend dissolution to the stockholders, the corporation must then notify each stockholder entitled to vote on dissolution and the stockholders entitled to vote must approve the dissolution. Action by the stockholders on such a matter is approved if the number of votes cast in favor of the action exceeds the number of votes cast in opposition to the action.	Under Delaware law, a dissolution must be approved by all the stockholders entitled to vote or the dissolution must be initiated by the board of directors and approved by the holders of a majority of the outstanding voting shares of the corporation.

Removal of Directors

Halo	InfoNow

Under Nevada law, a director may be removed by the vote of the holders of not less than two-thirds of the voting power of the voting stock, subject to certain restrictions concerning cumulative voting. However, a Nevada corporation may include in its articles of incorporation a provision requiring the approval of a larger percentage of the voting power to remove a director. The Halo articles of

Under Delaware law, any director or the entire board of directors may be removed with or without cause by the holders of a majority of the shares entitled to vote unless the certificate of incorporation provides otherwise. InfoNow s certificate of incorporation does not provide otherwise.

incorporation do not provide for a larger percentage of voting power to remove a director.

Filling Vacancies on the Board of Directors

Halo	InfoNow
Under Nevada law, all vacancies, including those caused by an increase in the number of directors, may be filled by a majority of the remaining directors, even though less than a quorum, unless otherwise provided in the articles of incorporation. The Halo bylaws provide that vacancies may be filled by a majority of the remaining directors though less than a quorum.	Under Delaware law, vacancies on the board of directors and newly created directorships may be filled by a majority of the directors then in office, even though less than a quorum, unless otherwise provided in the certificate of incorporation or bylaws of the corporation or the certificate of incorporation directs that a particular class is to elect such director, in which case any other directors elected by such class, or a sole remaining director, shall fill such vacancy.

Voting Requirements to Amend Charter Documents and Bylaws

Halo	InfoNow
Under Nevada law, any amendment to the articles of incorporation must be proposed by the board of directors and submitted to the stockholders for approval by the holders of a majority of the outstanding stock entitled to vote thereon, and if such amendments would adversely affect the shares of such class or series, the holders of the outstanding shares of such a class shall be entitled to vote as a class to approve the amendment. The articles of incorporation may require, in the case of any specified amendments, the vote of a larger proportion of the voting power of stockholders. Halo s articles of incorporation do not require such a vote of a larger proportion of the voting power of stockholders. Under Nevada law, unless otherwise prohibited by any bylaw adopted by the stockholders, directors may adopt, amend or repeal any bylaw, including any bylaw adopted by the stockholders. Nevada law also provides that the articles of incorporation may grant the authority to adopt bylaws exclusively to the directors. The Halo articles of incorporation and bylaws give both the Halo board and the shareholders the power to amend, alter or repeal the bylaws.	Unless otherwise specified in a Delaware corporation s certificate of incorporation, an amendment to the certificate of incorporation requires the affirmative vote of a majority of the outstanding stock entitled to vote thereon. Furthermore, under Delaware law, the holders of the outstanding shares of a class are entitled to vote as a class upon any proposed amendment to the certificate of incorporation, whether or not entitled to vote thereon by the provisions of the corporation s certificate of incorporation, if the amendment would increase or decrease the aggregate number of authorized shares of such class increase or decrease the par value of the shares of such class, or alter or change the powers, preferences or specific rights of the shares of such class so as to adversely affect them. InfoNow s certificate of incorporation does not contain any provision modifying the statute with respect to amendments to the certificate of incorporation. Delaware law provides that the power to amend the bylaws shall be with the stockholders, provided that a corporation may in its certificate of incorporation confer the power to amend the bylaws upon the directors. Delaware law also provides that granting the directors the power to amend the bylaws in no way impairs or limits the power to amend the bylaws conferred upon the stockholders by statute. The

InfoNow certificate of incorporation expressly authorizes the board of directors to amend the bylaws.

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Inspection of Stockholders List

Halo	InfoNow
Under Nevada law, a corporation must allow stockholders of record who own or represent at least fifteen percent of a corporation s shares the right, upon at least five days written demand, to inspect, in person or by an agent, during normal business hours, the books of account and financial records of the corporation, to make extracts therefrom and to conduct an audit of such records, except any corporation listed and traded on any recognized stock exchange or any corporation that furnishes to its stockholders a detailed, annual financial statement is exempt from this requirement.	Delaware law allows any stockholder to inspect the stockholder list for a purpose reasonably related to such person s interest as a stockholder.

Dividends

Halo	InfoNow
Except as otherwise provided in the corporation s articles of incorporation, Nevada law authorizes a corporation to make distributions to its stockholders as authorized by its board of directors; provided, however, the corporation may not make such a distribution if (i) the corporation would not be able to pay its debts as they become due in the usual course of business, or (ii) unless otherwise specifically provided in the corporation s articles of incorporation, the corporation s total assets would be less than the sum of its total liabilities plus any amount owed, if the corporation were to be dissolved at the time of distribution, to stockholders with preferential rights superior to those receiving the distribution.	Subject to any restrictions contained in a corporation s certificate of incorporation, Delaware law generally provides that a corporation may declare and pay dividends out of surplus or, when no surplus exists, out of net profits for the fiscal year in which the dividend is declared and/or for the preceding fiscal year. Surplus is defined as net assets minus stated capital. Dividends may not be paid out of net profits if the capital of the corporation is less than the amount of capital represented by the issued and outstanding stock of all classes having a preference upon the distribution of assets.

Transactions Involving Officers or Directors

Pursuant to the Section 13(k) of the Exchange Act, an issuer (as defined by Section 12 of the Exchange Act) may not, directly or indirectly, extend or maintain credit, arrange for the extension of credit, or renew an existing extension of credit, in the form of a personal loan to or for a director or executive officer is thus barred from lending money to, or guaranteeing any obligation incurred by, its officers or directors.

Halo	InfoNow
Under Nevada law, there is no corresponding provision with respect to loans or guarantees. A contract or transaction, under Nevada law, between a corporation and one or more of its directors or officers, or between a	A Delaware corporation may lend money to, or guarantee any obligation incurred by, its officers or directors if, in the judgment of the board of directors, such loan or guarantee may reasonably be expected to benefit the corporation. With respect to any other

corporation and any other corporation, partnership, association or other organization in which one or more of its directors or officers are directors or officers, or have a financial interest, shall not be void or voidable solely for that reason, or solely because

contract or transaction between the corporation and one or more of its directors or officers, such transactions are neither void nor voidable if either:

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the director or officer was present at or participated in the meeting of the board or committee thereof that authorized the contract or transaction, or solely because his or her vote was counted for such purpose, if:

the interest of the officer or director is known to the board of directors or committee, and the board or committee approves the transaction in good faith without counting the vote of the interested director;

the interest of the officer or director is known to the stockholders, and they approve the transaction in good faith by a majority vote of stockholders holding a majority of the voting power;

the interest of the officer or director is not known to the officer or director at the time the transaction is brought before the board of directors of the corporation for action; or

the transaction is fair as to the corporation at the time it is authorized or approved.

The bylaws of Halo forbid a loan by the corporation to an officer or director unless it is first approved by the holders of two-thirds of the voting shares, and the corporation may not make a loan secured by its shares. However, loans below the amount of $25,000 may be made to officers or directors for moving expenses.

the director s or officer s interest is made known to the disinterested directors or the stockholders of the corporation, who thereafter approve the transaction in good faith; or

the contract or transaction is fair to the corporation as of the time it is approved or ratified by either the board of directors, a committee thereof or the stockholders.

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Limitation of Liability of Directors and Indemnification

Halo

Under Nevada law, and except as provided in the corporation s articles of incorporation, a director or officer; is not individually liable to the corporation or its stockholders for any damages as a result of any act or failure to act in his or her capacity as a director or officer; unless it is proven that such act or failure to act constituted a breach of fiduciary duties as a director or officer; and the breach of those duties involved intentional misconduct, fraud or a knowing violation of law. Such provisions, however, will not eliminate a director or officer s liability to the corporation in the case of a judgment of ouster rendered against a corporation on account of the misconduct of the director or officer, a violation of Nevada state securities laws, or certain other violations of law.

Under Section 78.7502 of the Nevada Revised Statutes, a corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, except an action by or in the right of the corporation, by reason of the fact that such person is or was a director, officer, employee or agent of the corporation, against expenses, including attorneys fees, judgments, fines and amounts paid in settlement actually and reasonably incurred in connection with the action, suit or proceeding, but only if such person did not breach his or her fiduciary duties in a manner involving intentional misconduct, fraud or a knowing violation of law, or acted in good faith and in a manner which he or she reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful. A corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that such person is or was a director, officer, employee or agent of the corporation against expenses, including amounts paid in settlement and attorneys fees actually and reasonably incurred in connection with the defense or settlement of the action or suit if such person did not breach his or her fiduciary

InfoNow

Under Delaware law, a corporation may include in its certificate of incorporation a provision that would, subject to the limitations described below, eliminate or limit directors liability for monetary damages for breaches of their fiduciary duty of care. Under the Delaware law, a director s liability cannot be eliminated or limited:

for breaches of the duty of loyalty,

for acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law,

for the payment of unlawful dividends or expenditure of funds for unlawful stock purchases or redemptions, or

for transaction from which such director derived an improper personal benefit.

Pursuant to InfoNow s certificate of incorporation and under Delaware law, directors of InfoNow are not liable to InfoNow or its stockholders for monetary damages for breach of fiduciary duty, except for liability in connection with a breach of duty of loyalty, for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, for dividend payments or stock repurchases illegal under Delaware law or any transaction in which a director has derived an improper personal benefit.

duties in a manner involving intentional misconduct,
fraud or

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a knowing violation of law or acted in good faith and in a manner which he or she reasonably believed to be in or not opposed to the best interests of the corporation.

Nevada law further provides that indemnification may not be made for any claim, issue or matter as to which such a person has been adjudged to be liable to the corporation or for amounts paid in settlement to the corporation, unless and only to the extent that the court determines the person is fairly and reasonably entitled to indemnity for such expenses as the court deems proper. Nevada law provides for mandatory indemnification of a director, officer, employee or agent of a corporation to the extent that such person has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in this paragraph against expenses, including attorneys fees, actually and reasonably incurred by him in connection with the defense.

Halo s articles of incorporation and bylaws provide for indemnification of directors and officers to the fullest extent permitted by Nevada law. The Halo bylaws also provide for the advancement of indemnified expenses.

Business Combinations/Reorganizations

Halo	InfoNow
Sections 78.411 to 78.444 of the Nevada Revised Statutes, inclusive, restrict the ability of a resident domestic corporation to engage in any combination with an interested stockholder for three years after the interested stockholder s date of acquiring the shares that cause such stockholder to become an interested stockholder unless the combination or the purchase of shares by the interested stockholder on the interested stockholder s date of acquiring the shares that cause such stockholder to become an interested stockholder is approved by the board of directors of the resident domestic corporation before that date. If the combination was not previously approved, the interested stockholder may effect a combination after the three-year period only if such stockholder receives approval from a majority of the disinterested shares or the offer meets various fair price criteria. For purposes of the foregoing provisions, resident domestic corporation means a Nevada corporation that has	A provision of Delaware law prohibits certain transactions between a Delaware corporation and an interested stockholder. An interested stockholder for purposes of this Delaware law provision is a stockholder that is directly or indirectly a beneficial owner of fifteen percent or more of the voting power of the outstanding voting stock of a Delaware corporation, or its affiliate or associate. This provision prohibits certain business combinations between an interested stockholder and a corporation for a period of three years after the date the interested stockholder acquired its stock unless: the business combination is approved by the corporation s board of directors prior to the stock acquisition date; the interested stockholder acquired at least 85% of the voting stock of the corporation in the transaction in which such stockholder became an interested stockholder; or

200 or more stockholders and interested stockholder means any person, other than the resident domestic corporation or its subsidiaries, who is:

the beneficial owner, directly or indirectly, of ten percent or more of the voting power of the outstanding voting shares of the resident domestic corporation; or

an affiliate or associate of the resident domestic corporation and at any time within three years immediately before the date in question was the beneficial owner, directly or indirectly, of ten percent or more of the voting power of the outstanding shares of the resident domestic corporation.

The above provisions do not apply to any combination involving a resident domestic corporation:

whose original articles of incorporation expressly elect not to be governed by Sections 78.411 to 78.444 of Nevada law, inclusive;

which does not, as of the date of acquiring shares, have a class of voting shares registered with the SEC under Section 12 of the Securities Act, unless the corporation s articles of incorporation provide otherwise;

whose articles of incorporation were amended to provide that the corporation is subject to the above provisions and which did not have a class of voting shares registered under Section 12 of the Securities Act on the effective date of such amendment, if the combination is with an interested stockholder whose date of acquiring shares is before the effective date of such amendment; or

that amends its articles of incorporation, approved by a majority of the disinterested shares, to expressly elect not to be governed by Sections 78.411 to 78.444 of Nevada law, inclusive. Such an amendment, however, would not become effective until 18 months after its passage and would apply only stock acquisitions occurring after the effective date of the amendment. The Halo articles of incorporation do not exempt Halo from the restrictions imposed by such provisions of Nevada law.

Sections 78.378 to 78.3793 of the Nevada Revised Statutes, inclusive, provide in effect that a

the business combination is approved by a majority of the board of directors and the affirmative vote of two-thirds of disinterested stockholders.

InfoNow has expressly opted out of this provision through its certificate of incorporation, in accordance with such provision of Delaware law.

person acquiring a controlling interest in an issuing corporation, and those acting in association with such person, obtain only such voting rights in the control shares as are conferred by a resolution of the stockholders (excluding such acquiring and associated persons) approved at a special or annual meeting of stockholders. For purposes of the foregoing provisions, issuing corporation means a corporation organized in Nevada that has 200 or more stockholders of record, at least 100 of whom have addresses in Nevada on the corporation s stock ledger, and does business in Nevada directly or through an affiliate, and controlling interest means the ownership of outstanding voting shares enabling the acquiring person to exercise (either directly or in association with others) one-fifth or more but less than one-third, one-third but less than a majority, or a majority or more of the voting power of the issuing corporation in the election of directors. Accordingly, the provisions could require multiple votes with respect to voting rights in share acquisitions effected in separate stages.

The above provisions do not apply to an acquisition of a controlling interest if the articles of incorporation or bylaws of the issuing corporation in effect on the tenth day following the acquisition of such controlling interest provide either specifically or generally that the provisions do not apply to such acquisitions. The provisions are also inapplicable to shares acquired pursuant to a statutory merger (such as the merger) effected pursuant to Nevada law or by operation of law such as inheritance or the enforcement of a judgment or security interest.

Depending on the issuing corporation s articles of incorporation and bylaws in effect on the tenth day following the applicable controlling interest acquisition, the issuing corporation may have rights to redeem the shares so acquired, and its stockholders may have dissenters rights with respect to the approval of voting rights equivalent to those described under Appraisal or Dissenters Rights below and set forth in Annex E.

Appraisal or Dissenters Rights

Halo	InfoNow
A stockholder of a Nevada corporation, with certain exceptions, has the right to dissent from, and obtain payment of the fair value of his shares in the event of	Under the Delaware General Corporation Law, dissenters rights of appraisal are available to a stockholder of a corporation only in connection with some mergers or consolidations involving that corporation. Appraisal rights are not available

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a merger or consolidation to which the corporation is a party,

consummation of a plan of exchange to which the corporation is a party as the corporation whose shares will be acquired, if the stockholder is entitled to vote on the plan and

any corporate action taken pursuant to a vote of the stockholders to the extent that the articles of incorporation, bylaws or a resolution of the board of directors provides that voting or non-voting stockholders are entitled to dissent and obtain payment for their shares.

Under Nevada law, unless a corporation s articles of incorporation provide otherwise, a stockholder does not have dissenters rights with respect to a plan of merger or share exchange, for cash and/or owner s interests of the acquiring entity or a listed company, if the shares held by the stockholder are either registered on a national securities exchange, or designated as a national market system security on an interdealer quotation system by the National Association of Securities Dealers, Inc., or held of record by 2,000 or more stockholders. A stockholder of record of a Nevada corporation may dissent as to less than all the shares registered in his name only if he dissents with respect to all shares beneficially owned by any one person and notifies the corporation in writing of the name and address of each person on whose behalf he asserts dissenters rights. In such event, the stockholder s rights will be determined as if the shares to which he dissented and his other shares were registered in the names of different stockholders.

under the Delaware General Corporation Law if the corporation s stock is either:

listed on a national securities exchange or designated as a national market system security on an interdealer quotation system by the National Association of Securities Dealers, Inc., or

held of record by more than 2,000 stockholders;

except that appraisal rights will be available if the merger or consolidation requires stockholders to exchange their stock for anything other than:

shares of the surviving corporation,

shares of another corporation that will be listed on a national securities exchange, designated as a national market system security on an interdealer quotation system by the National Association of Securities Dealers, Inc. or held of record by more than 2,000 stockholders, or

cash in place of fractional shares

Additionally, no appraisal rights are available if the corporation is the surviving corporation, and no vote of its stockholders is required for the merger.

DESCRIPTION OF HALO SECURITIES

Common Stock

Halo is registering shares of common stock, par value $0.00001. Halo has authorized 150,000,000 shares of common stock. The holders of Halo common stock:

are subject to the rights of the holders of Halo s preferred stock, have equal ratable rights to dividends from funds legally available if and when declared by Halo s board of directors;

are entitled to share ratably in all of Halo s assets available for distribution to holders of common stock in the event of a liquidation, dissolution or winding up of Halo s affairs;

do not have preemptive, subscription or conversion rights and there are no redemption or sinking fund provisions or rights; and

are entitled to one non-cumulative vote per share on all matters on which stockholders may vote.

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Preferred Stock

Halo also has authorized 50,000,000 shares of preferred stock, par value $0.00001 per share (Preferred Stock). Halo s board of directors is authorized to issue shares of such Preferred Stock in series, to establish and change the number of shares constituting any series and to provide for and change the voting powers, designations, preferences, redemption prices, conversion rights and liquidation preferences of any such series, subject to limitations prescribed by law and Halo s Articles of Incorporation.

Currently, there are shares of Series C Preferred Stock (Series C Stock) and Series D Preferred Stock (Series D Stock) outstanding. Halo had previously issued Series A Preferred Stock, Series B Preferred Stock and Series B-2 Preferred Stock, but these series have been converted into common stock.

The Series C Stock has the following material terms:

The Series C Stock is convertible into Halo common stock, at the option of the holder, at a conversion price (the Series C Stock Applicable Conversion Price) that will initially be equal to $1.00. Accordingly, the Series C Stock is convertible into Halo common stock at a one to one (1:1) ratio. However, the ratio is subject to adjustment pursuant to the anti-dilution protections extended to the holders of Series C Stock. Under the anti-dilution provisions, in the event Halo issues, at any time while shares of Series C Stock are still outstanding, shares of Halo common stock or any type of securities convertible or exchangeable for, or otherwise giving a right to acquire, shares of Halo common stock, at a price below the Series C Stock Applicable Conversion Price, then the Series C Stock Applicable Conversion Price will be adjusted to the price per share equal to the price per share paid for such Halo common stock in such subsequent financing. This full-ratchet anti-dilution protection on the Series C Stock will also be extended to any warrants received in connection with the Series C Subscription Agreements dated January 31, 2005 that are outstanding at such time. In addition to the full-ratchet protection, the Applicable Conversion Price will be equitably adjusted in the event of any stock split, stock dividend or similar change in Halo s capital structure.

If Halo s market capitalization based on the shares of Halo common stock outstanding (including all shares of Halo common stock underlying the Shares of Series C Stock on an as converted basis) exceeds $50,000,000, the shares of Halo common stock underlying the Series C Stock are registered, and Halo has an average daily trading volume for 20 consecutive trading days of 100,000 shares per day, then Halo may require the holders of Series C Stock to convert the Series C Stock into Halo common stock at the then Series C Stock Applicable Conversion Price.

The holders of shares of Series C Stock will be entitled to receive dividends, at a 6% annual rate, payable quarterly in arrears, either in cash, or at the election of Halo, in shares of Halo common stock. The dividends are preferred dividends, payable in preference to any dividends which may be declared on Halo common stock. Halo common stock delivered in payment of dividends will be valued at 90% of the average of the volume weighted average price for the 20 trading day period ending on the trading day immediately prior to the date set for payment of the dividend.

Any unconverted and non-redeemed Shares of Series C Stock outstanding on the third anniversary of the initial issuance of the Series C Stock, will be automatically redeemed on that date, in cash, at $1.00 per share, plus all accrued but unpaid dividends thereon (subject to equitable adjustment for all stock splits, stock dividends, or similar events involving a change in the capital structure of Halo).

In the event of any liquidation of Halo, the Series C Stock will receive an amount equal to the Series C Face Amount (as defined in the Certificate of Designations designating the Series C Stock), plus all accrued but unpaid dividends thereon, prior to any amounts being distributed to any junior series of Preferred Stock or to Halo common stock holders. After payment of all liquidation preferences to all holders of Preferred Stock, including the Series C Stock, the entire remaining available assets, if any, shall be distributed among the holders of Halo

common stock, the holders of Series C Stock, and any other class or series of Preferred Stock entitled to participate with Halo common stock in a liquidating distribution, in proportion to the shares of Halo common stock then

held by them and the shares of Halo common stock which they then have the right to acquire upon conversion of such shares of Preferred Stock held by them.

Holders of Series C Stock have the pre-emptive right to participate in offerings of Halo common stock, or securities convertible into or exercisable for Halo common stock, based on the holders pro-rata share, on an as-converted basis, of the number of shares of outstanding Series C Stock, plus the portion, if any, of such offering as to which other holders of Series C Stock have elected to not exercise this pre-emptive right.

The Series D Stock has the following material terms:

The Series D Stock will be convertible into Halo common stock, at the option of the holder, at a conversion price (the Series D Stock Applicable Conversion Price) that will initially be equal to $1.10. Accordingly, the Series D Stock is convertible into Halo common stock at a ratio equal to the quotient obtained by dividing the sum of the Series D Face Amount (as defined in the Certificate of Designations designating the Series D Stock) plus any accrued but unpaid dividends by the Series D Applicable Conversion Price, in effect at the time of conversion. However, the ratio is subject to adjustment pursuant to the anti-dilution protections extended to the holders of Series D Stock. Under the anti-dilution provisions, in the event Halo issues, at any time while shares of Series D Stock are still outstanding, shares of Halo common stock or any type of securities convertible or exchangeable for, or otherwise giving a right to acquire, shares of Halo common stock, at a price below the Series D Applicable Conversion Price, then the Series D Applicable Conversion Price will be adjusted to the price per share equal to the price per share paid for such Halo common stock in such subsequent financing. In addition to the full-ratchet protection, the Series D Applicable Conversion Price will be equitably adjusted in the event of any stock split, stock dividend or similar change in Halo s capital structure.

If Halo s market capitalization based on the shares of Halo common stock outstanding (including all shares of Halo common stock underlying the Shares of Series D Stock on an as converted basis) exceeds $50,000,000, the shares of Halo common stock underlying the Series D Stock are registered, and Halo has an average daily trading volume for 20 consecutive trading days of 100,000 shares per day, then Halo may require the holders of Series D Stock to convert the Series D Stock into Halo common stock at the then Series D Stock Applicable Conversion Price.

The holders of shares of Series D Stock will be entitled to receive dividends, at a 13% annual rate, payable quarterly in arrears beginning on March 21, 2006, either in cash, or at the election of Halo, in shares of Halo common stock. The dividends are preferred dividends, payable in preference to any dividends which may be declared on the Series A 8% Cumulative Convertible Preferred Stock, the Series B 10% Cumulative Convertible Preferred Stock, the Series C Convertible Preferred Stock and Halo common stock. Halo common stock delivered in payment of dividends will be valued at 90% of the average of the volume weighted average price for the 20 trading day period ending on the trading day immediately prior to the date set for payment of the dividend.

Any unconverted and non-redeemed Shares of Series D Stock outstanding on the third anniversary of the initial issuance of the Series D Stock, will be automatically redeemed on that date, in cash, at an amount per share equal to the sum of the Series D Face Amount, as adjusted, plus all accrued but unpaid dividends thereon (subject to equitable adjustment for all stock splits, stock dividends, or similar events involving a change in the capital structure of Halo).

In the event of any liquidation of Halo, the Series D Stock will receive an amount equal to the Series D Face Amount, plus all accrued but unpaid dividends thereon, prior to any amounts being distributed to any other series of Preferred Stock or to Halo common stock holders. After payment of all liquidation preferences to all holders of Preferred Stock, including the Series D Stock, the entire remaining available assets, if any, shall be distributed among the holders of Halo common stock, the holders of Series D Stock, and any other class or series of Preferred Stock entitled to participate with Halo common stock in a liquidating distribution, in proportion to the shares of Halo common stock then held by them

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and the shares of Halo common stock which they then have the right to acquire upon conversion of such shares of Preferred Stock held by them.

Halo s Articles of Incorporation and bylaws contain provisions, such as the authorization of the undesignated Preferred Stock and prohibitions on cumulative voting in the election of directors, which could make it more difficult for a third party to acquire Halo.

Unless waived by the InfoNow board of directors, it is a condition to the closing of the Merger that the shares of Series C Stock convert into common stock of Halo prior to the effective time of the merger.

Contingent Value Rights

The CVRs are created pursuant to and will be issued under the CVR Agreement, to be entered into prior to the effective time of the merger, by and between Halo and , as trustee, the form of which is attached to this proxy statement/ prospectus as Annex B. Because this section is a summary, it does not describe every aspect of the material terms of the CVRs or the CVR agreement. We encourage you to carefully read the section entitled Agreements Relating to the Merger Contingent Value Rights Agreement beginning on page 76 of this proxy statement/prospectus, and the CVR Agreement for a more complete understanding of their terms of the CVRs.

ADDITIONAL INFORMATION

Legal Matters

The legality of the shares is being passed upon for Halo by Hale Lane Peek Dennison and Howard. Day, Berry & Howard LLP, tax counsel to Halo, and Hogan & Hartson L.L.P., counsel to InfoNow, will each issue an opinion that the merger will be treated for U.S. federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code.

Experts

The consolidated financial statements of Warp Technology Holdings, Inc. as of June 30, 2005 and 2004 and for the years then ended appearing herein have been audited by Mahoney Cohen & Company, CPA, P.C., independent registered public accounting firm, as set forth in their report thereon included herein. Such consolidated financial statements are included herein in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

The financial statements of Tesseract Corporation as of June 30, 2005 and 2004 and for the years then ended appearing herein have been audited by Mahoney Cohen & Company, CPA, P.C., independent registered public accounting firm, as stated in their report thereon included herein. Such financial statements are included herein in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

The combined financial statements of Process Software, LLC, and Affiliates as of June 30, 2005 and 2004 and for the years then ended appearing herein have been audited by Mahoney Cohen & Company, CPA, P.C., independent registered public accounting firm, as stated in their report thereon included herein. Such combined financial statements are included herein in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

The financial statements of InfoNow Corporation as of December 31, 2005 and for each of the two years in the period ended December 31, 2005 included in this proxy statement/prospectus have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report appearing herein are included in reliance upon the report of such firm given upon authority as experts in accounting and auditing.

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Stockholder Proposals

InfoNow tentatively anticipates that its next annual meeting of stockholders will take place in early summer 2006, but the annual meeting will not be held if the merger is completed before that time. The deadline for submitting a stockholder proposal for inclusion in InfoNow s proxy statement and form of proxy for InfoNow s 2006 annual meeting of stockholders, as calculated pursuant to Rule 14a-8 of the Securities Exchange Act of 1934, as amended, was December 9, 2005, or if the date for the 2006 annual meeting of stockholders is changed by more than 30 days from the date of last year s annual meeting, a reasonable time before InfoNow begins to print and mail its proxy materials. Stockholder proposals not to be considered for inclusion in InfoNow s proxy statement and form of proxy relating to such meeting must have been received on or before February 22, 2006. To be included in the proxy materials relating to the next InfoNow annual meeting, all proposals must have been received at InfoNow s principal executive offices on or before the above mentioned date.

Where You Can Find More Information

Reports, proxy statements and other information concerning may be Halo inspected at:

Halo Technology Holdings, Inc.
Attn: Investor Relations
200 Railroad Avenue, Third Floor
Greenwich, Connecticut 06830
Telephone: (203) 422-2950

Requests for documents relating to Halo should be directed to:

Halo Technology Holdings, Inc.
Attn: Investor Relations
200 Railroad Avenue, Third Floor
Greenwich, Connecticut 06830
Telephone: (203) 422-2950

Reports, proxy statements and other information concerning InfoNow may be inspected at:

InfoNow Corporation
Attn: Investor Relations
1875 Lawrence Street, Suite 1100
Denver, Colorado 80202
Telephone: (303) 293-0212

Requests for documents relating to InfoNow should be directed to:

InfoNow Corporation
Attn: Investor Relations
1875 Lawrence Street, Suite 1100
Denver, Colorado 80202
Telephone: (303) 293-0212

Alternatively, you may access these reports or documents from Halo s and InfoNow s websites at the following URLs: InfoNow: www.infonow.com and Halo: www.haloholdings.com.

Halo files reports, proxy statements and other information with the SEC. InfoNow filed reports, proxy statements and other information with the SEC until February 10, 2006. InfoNow filed a Form 15 with the SEC on February 10, 2006, and its duty to file reports under the Exchange Act was immediately suspended. InfoNow expects that the registration of its shares of common stock will terminate no later than May 11, 2006, and InfoNow will no longer file reports with the SEC. Copies of their respective reports, proxy statements and other information may be read and copied at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website that contains reports, proxy statements and other information regarding each of us. The address of the SEC website is http://www.sec.gov.

Halo will mail without charge to any holder of Halo common stock, upon written request, a copy of its annual report on Form 10-KSB, including the financial statements, schedules and list of exhibits. If you are a holder of Halo common stock and you would like to receive a copy of any exhibits listed in Halo s Annual Report on Form 10-KSB, you should submit a request in writing to Halo at the address indicated above, and Halo will provide you with such exhibits upon the payment of a nominal fee (which fee will be limited to the expenses Halo incurs in providing you with the requested exhibits).

Halo has filed a registration statement under the Securities Act with the SEC with respect to Halo s common stock to be issued to InfoNow stockholders in the merger. This proxy statement/prospectus constitutes the prospectus of Halo filed as part of the registration statement. All information in this proxy

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statement/prospectus regarding Halo has been furnished by Halo, and Halo is responsible for such information. All information in this proxy statement/prospectus regarding InfoNow has been furnished by InfoNow, and InfoNow is responsible for such information. Halo represents that it has taken reasonable care to ensure that this prospectus does not make any untrue statement of a material fact or omit to state a material fact necessary to make the statements herein not misleading. This proxy statement/prospectus does not contain all of the information set forth in the registration statement because certain parts of the registration statement are omitted as provided by the rules and regulations of the SEC. You may inspect and copy the registration statement at any of the addresses listed above.

This proxy statement/prospectus, the articles of incorporation and the most recent annual report of Halo, will be available, without charge, at the offices of Halo, 200 Railroad Avenue, Third Floor, Greenwich, Connecticut 06830.

You should rely only on the information contained in this proxy statement/prospectus to vote to adopt the merger agreement. Halo and InfoNow have not authorized anyone to provide you with information that is different from what is contained in this proxy statement/prospectus. This proxy statement/prospectus is dated , 2006. You should not assume that the information contained in this proxy statement/prospectus is accurate as of any date other than , 2006, and neither the mailing of the proxy statement/prospectus to InfoNow stockholders nor the issuance of Halo common stock in the merger shall create any implication to the contrary.

This document does not constitute an offer to sell, or a solicitation of an offer to purchase, the Halo common stock or the solicitation of a proxy, in any jurisdiction to or from any person to whom or from whom it is unlawful to make the offer, solicitation of an offer or proxy solicitation in that jurisdiction. Neither the delivery of this proxy statement/prospectus nor any distribution of securities means, under any circumstances, that there has been no change in the information set forth in this document or in its affairs since the date of this proxy statement/prospectus.

Information if Proxies, Consents or Authorizations Are not to Be Solicited or in an Exchange Offer

Halo is not soliciting proxies from its stockholders, no stockholder consent of Halo stockholders is required for completion of the merger.

MISCELLANEOUS

[Outside Back Cover of Prospectus]

Until , all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of
WARP Technology Holdings, Inc.

We have audited the accompanying consolidated balance sheets of WARP Technology Holdings, Inc. and subsidiaries as of June 30, 2005 and 2004, and the related consolidated statements of operations, stockholders equity and cash flows for the years then ended. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company has determined that it is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of WARP Technology Holdings, Inc. and subsidiaries as of June 30, 2005 and 2004, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Mahoney Cohen & Company, CPA, P.C.
New York, New York
August 12, 2005, except for Note 21 paragraphs 29 through 33 which are
As of September 12, 2005 and paragraphs 34 and 35 which are as of September 20, 2005

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WARP Technology Holdings, Inc.
Consolidated Balance Sheets

	June 30, 2005	June 30, 2004
Assets		
Current assets:		
Cash and cash equivalents	$ 1,548,013	$ 115,491
Accounts receivable, net of allowance for doubtful accounts of $30,845 and $0 respectively	2,024,699	117,847
Prepaid expenses and other current assets	409,496	29,878
Total current assets	3,982,208	263,216
Property and equipment, net	223,025	36,312
Deferred financing costs, net	476,876	
Intangible assets, net of accumulated amortization of $756,064 and $277,083	15,678,736	252,917
Goodwill	7,055,264	3,893,294
Investment and other assets	884,379	
Total assets	$ 28,300,488	$ 4,445,739
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 872,433	$ 672,105
Accrued expenses	3,752,731	336,496
Deferred revenue	3,392,896	155,826
Deferred compensation		444,000
Due to ISIS	1,293,534	
Total current liabilities	9,311,594	1,608,427
Subordinate note	2,317,710	
Senior note	6,446,750	
Other long term liabilities	43,275	
Total liabilities	18,119,329	1,608,427
Commitments and contingencies		
Stockholders equity:		
Preferred stock (Canadian subsidiary)	2	4
Cumulative convertible preferred stock, Series B; $.00001 par value; (2,915 shares issued and outstanding with liquidation value of $2,915,100 at June 30, 2004)		2,915,100
Shares to be issued, cumulative, convertible Preferred stock of Series B (393 shares June 30, 2004)		392,939
Series C Preferred Stock: $.00001 par value; 16,000,000 shares authorized, 14,193,095 issued and outstanding (Liquidation value $14,193,095) at June 30, 2005	14,193,095	
	212,897	

Shares of Common Stock to be issued for accrued dividends on Series C Preferred Stock				
Common stock, $.00001 par value; 150,000,000 shares authorized, 3,110,800 and 971,115 shares issued and outstanding, respectively		31		10
Additional paid-in capital		59,431,331		40,122,777
Deferred compensation		(970,711)		(891,833)
Accumulated other comprehensive loss		(105,262)		(4,990)
Accumulated deficit		(62,580,224)		(39,696,695)
Total stockholders equity		10,181,159		2,837,312
Total liabilities and stockholders equity	$	28,300,488	$	4,445,739

See accompanying notes to consolidated financial statements.

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WARP Technology Holdings, Inc.
Consolidated Statements of Operations

	Year Ended June 30, 2005	Year Ended June 30, 2004
Revenue		
Licenses	$ 2,986,752	$ 705,697
Services	2,137,170	176,424
Total revenues	5,123,922	882,121
Cost of revenue		
Cost of licenses	151,051	340,267
Cost of services	396,490	85,067
Total cost of revenues	547,541	425,334
Gross Profit	4,576,381	456,787
Product development	1,589,099	811,725
Sales, marketing and business development	3,652,117	2,310,055
General and administrative (including non-cash compensation of $1,542,686 and $6,007,255, respectively)	4,988,765	8,468,385
Late filing penalty	1,033,500	
Intangible impairment	62,917	
Goodwill impairment	3,893,294	
Loss before interest	(10,643,311)	(11,133,378)
Interest (expense) income	(4,631,683)	63,073
Net loss before income taxes	(15,274,994)	(11,070,305)
Income taxes	(97,945)	
Net Loss	$ (15,372,939)	$ (11,070,305)
Computation of loss applicable to common shareholders		
Net loss before beneficial conversion and preferred dividends	$ (15,372,939)	$ (11,070,305)
Beneficial conversion and preferred dividends	(7,510,590)	(1,623,046)
Loss attributable to common stockholders	$ (22,883,529)	$ (12,693,351)
Basic and diluted net loss per share attributable to common stockholders	$ (11.97)	$ (16.58)
Weighted-average number common shares basic and diluted	1,912,033	765,510

See accompanying notes to consolidated financial statements.

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WARP Technology Holdings, Inc.
Consolidated Statements of Stockholders Equity

	Canadian Convertible Preferred		Convertible Preferred Series B-2		Convertible Preferred Series B	
	Shares	**Amount**	**Shares**	**Amount**	**Shares**	**Amount**
BALANCE JUNE 30, 2003	15,000	$ 15		$		$
Issuance of common stock to a Consultant						
Conversion of Series A to Series B stock					976	975,940
Issuance of Series B shares and Warrants					3,706	3,705,780
Cost in connection with issuance						
Warrant exchange program						
Issuance of common stock						
Cost in connection with issuance						
Amortization of stock options						
Forfeited stock options						
Issuance of common stock to a Consultant						
Issuance of common stock						
Warrants issued to investors						
Penalties on Series B stock					73	73,115
Dividends on Series B stock					60	60,000
Conversion of Series B stock					(1,900)	(1,899,735)
Shares issued to employees						
Beneficial Conversion						
Foreign currency						
Canadian conversion of preferred stock	(10,736)	(11)				
Net Loss for the year ended June 30, 2004						
BALANCE JUNE 30, 2004	4,264	4			2,915	2,915,100
Canadian conversion of preferred stock	(2,554)	(2)				
Issuance of Series B-2 shares			1,600	1,600		
Conversion of Series B-2 shares			(1,600)	(1,600)		
Issuance cost						
Accrued dividends on Series B Stock						
Stock dividends on Series B stock						
Beneficial conversion						
Warrants issued to consultant						
Options issued to Isis						
Amortization of stock options						
Forfeiture of stock options						
Issuance of common stock relating to settlements						
Settlements with Mr. Beller and Dr Milch					570	570,000
Mr. Bottazzi separation agreement						
Conversion of Series B-2						

Conversion of Series B						(3,485)	(3,485,100)
Conversion of Series C debt							
Conversion of Bridge loan							
Issuance of Series C shares							
Issuance cost for Series C shares							
Dividends on Series C stock							
Warrants issued to note holders							
Warrants issued to investment bankers							
Warrants issued to consulting firm							
Foreign currency							
Net Loss for the year ended June 30, 2005							
BALANCE JUNE 30, 2005	1,710	$	2	$		$	

See accompanying notes to consolidated financial statements.

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WARP Technology Holdings, Inc.
Consolidated Statements of Stockholders Equity (Continued)

	Convertible Preferred Series C						
	Shares	Amount	Shares to be Issued Amount	Common Shares	Stock Amount	Paid in Capital	Deferred Compensation
BALANCE JUNE 30, 2003		$	$	672,626	$ 7	$ 37,659,644	$ (7,911,000)
Issuance of common stock to a Consultant				50,000	1	949,999	
Issuance of Series A stock and warrants, subsequently converted to Series B stock						(60,000)	
Issuance of Series B shares and Warrants							
Cost in connection with issuance						(368,258)	
Warrant exchange program				44,373		658,858	
Issuance of common stock				16,000		288,000	
Cost in connection with issuance						(28,000)	
Amortization of stock options							3,203,483
Forfeited stock options						(3,815,684)	3,815,684
Issuance of common stock to a Consultant				50,000	1	949,999	
Issuance of common stock				1,302		24,411	
Warrants issued to investors						285,193	
Penalties on Series B stock			202,882				
Dividends on Series B stock			190,057				
Conversion of Series B stock				105,541	1	1,899,734	
Shares issued to employees				20,537		305,881	
Beneficial Conversion						1,372,989	

Foreign Currency							
Canadian conversion of preferred stock				10,736		11	
Net Loss for the year ended June 30, 2004							
BALANCE JUNE 30, 2004			$ 392,939	971,115	10	$ 40,122,777	$ (891,833)
Canadian conversion of preferred stock				2,555		2	
Issuance of Series B-2 shares							
Conversion of Series B-2 shares			(559,053)	827,874	8	2,159,045	
Issuance cost						(50,000)	
Accrued dividends on Series B Stock			166,114				
Dividends on Series B stock						2,105,350	
Beneficial conversion						5,026,230	
Warrants issued to consultant						96,000	
Options issued to Isis						1,052,919	(1,052,919)
Amortization of stock options							647,041
Forfeiture of stock options						(327,000)	327,000
Issuance of common stock relating to settlements				24,525		105,373	
Settlements with Mr. Beller and Dr Milch						40,430	
Mr. Bottazzi separation agreement	200,000	200,000				300,000	
Conversion of Series B				1,284,731	13	3,485,087	
Conversion of Series C debt	8,559,750	8,559,750					
Conversion of Bridge loan	2,433,345	2,433,345					
Issuance of Series C shares	3,000,000	3,000,000					
Issuance cost for series C share						(180,000)	
Dividends on Series C stock			212,897				
Warrants issued to note holders						4,394,500	
						1,023,907	

Warrants issued to investment bankers							
Warrants issued to consulting firm						76,711	
Foreign currency							
Net Loss for the year ended June 30, 2005							
BALANCE JUNE 30, 2005	14,193,095	$ 14,193,095	$ 212,897	3,110,800	$ 31	$ 59,431,331	$ (970,711)

See accompanying notes to consolidated financial statements.

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WARP Technology Holdings, Inc.
Consolidated Statements of Stockholders Equity (Continued)

	Accumulated Other Comprehensive Loss	Accumulated Deficit	Annual Comprehensive Income (Loss)	Totals
BALANCE JUNE 30, 2003	$ 18,773	$ (27,003,344)	$	$ 2,764,095
Issuance of common stock to a Consultant				950,000
Conversion of Series A to Series B stock				915,940
Issuance of Series B shares and Warrants				3,705,780
Cost in connection with issuance				(368,258)
Warrant exchange program				658,858
Issuance of common stock				288,000
Cost in connection with issuance				(28,000)
Amortization of stock options				3,203,483
Forfeited stock options				
Issuance of common stock to a Consultant				950,000
Issuance of common stock				24,411
Warrants issued to investors				285,193
Penalties on Series B stock				275,997
Dividends on Series B stock		(250,057)		
Conversion of Series B stock				
Shares issued to employees				305,881
Beneficial Conversion		(1,372,989)		
Foreign Currency	(23,763)		(23,763)	(23,763)
Canadian Conversion of Preferred Stock				
Net Loss for the year ended June 30, 2004		(11,070,305)	(11,070,305)	(11,070,305)
BALANCE JUNE 30, 2004	(4,990)	(39,696,695)	(11,094,068)	2,837,312
Canadian conversion of preferred stock				
Issuance of Series B-2 shares				1,600,000
Conversion of Series B-2 shares				(50,000)
Issuance cost				
Accrued dividends on Series B Stock		(166,114)		
Dividends on Series B stock		(2,105,350)		
Beneficial conversion		(5,026,230)		
Warrants issued to consultants				96,000
Options issued to Isis				
Amortization of stock options				647,041
Forfeiture of stock options				
				105,373

Issuance of common stock relating to settlements				
Settlements with Mr. Beller and Dr Milch				610,430
Mr. Bottazzi separation agreement				500,000
Conversion of Series B-2				
Conversion of Series B				
Conversion of Series C debt				8,559,750
Conversion of Bridge loan				2,433,345
Issuance of Series C shares				3,000,000
Issuance cost for series C shares				(180,000)
Dividends on Series C stock		(212,897)		
Warrants issued to note holders				4,394,500
Warrants issued to investment bankers				1,023,907
Warrants issued to consulting firm				76,711
Foreign currency	(100,272)		(100,272)	(100,272)
Net Loss for the year ended June 30, 2005		(15,372,939)	(15,372,939)	(15,372,939)
BALANCE JUNE 30, 2005	$ (105,262)	$ (62,580,224)	$ (15,473,211)	$ 10,181,159

See accompanying notes to consolidated financial statements.

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WARP Technology Holdings, Inc.
Consolidated Statements of Cash Flows

	Year Ended June 30, 2005	Year Ended June 30, 2004
Operating activities		
Net loss	$ (15,372,939)	$ (11,070,305)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	991,717	241,017
Stock-based compensation, consulting and other fees	1,542,686	6,007,255
Non-cash interest expense	3,323,974	
Goodwill and impairment charges	3,956,211	
Changes in operating assets and liabilities net of effect of acquisition of business:		
Accounts receivable	610,869	(105,398)
Inventory		207,000
Prepaid expenses and other	69,096	48,403
Accounts payable and accrued expenses	230,837	63,956
Deferred revenue	1,261,903	58,002
Deferred compensation payable		(250,000)
Net cash used in operating activities	(3,385,646)	(4,800,070)
Investing activities		
Security deposits		28,115
Gupta acquisition net of cash acquired of $742,915	(15,007,085)	
Kenosia acquisition deposit	(801,750)	
Purchase of property and equipment	(40,610)	(3,179)
Net cash (used in) provided by investing activities	(15,849,445)	24,936
Financing activities		
Proceeds from issuance of preferred stock, net of issuance costs	12,191,500	4,682,320
Repayment of bridge loan		(120,000)
Proceeds from subordinated notes	2,500,000	
Proceeds from senior notes	6,075,000	
Net cash provided by financing activities	20,766,500	4,562,320
Effect of exchange rate changes on cash	(98,887)	(31,759)
Net increase (decrease) in cash and cash equivalents	1,432,522	(244,573)
Cash and cash equivalents beginning of year	115,491	360,064
Cash and cash equivalents end of year	$ 1,548,013	$ 115,491
Supplemental disclosure of cash flow Information:		
Income tax paid	$ 241,017	$ 2,546
Interest paid	$ 271,250	$

Supplemental schedule of non-cash investing and financing activities:

For the year ended June 30, 2005, the Company recorded $212,897 in connection with Series C Convertible Preferred dividends.

In connection with the acquisition of Gupta in 2005, the Company issued $2,000,000 of Series C note, $1,500,000 of Subordinated note and $750,000 of Senior note to the Seller.

For the year ended June 30, 2005 and 2004, the Company recorded $166,114 and $392,939 for the issuance of approximately 166 and 393 shares of Series B Convertible Preferred Shares in connection with penalties and dividends due to preferred stockholders.

See accompanying notes to consolidated financial statements.

Warp Technology Holdings, Inc.
Notes to Consolidated Financial Statements for Year Ended June 30, 2005

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

Warp Technology Holdings, Inc. (collectively with its subsidiaries, the Company) 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 segments 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, Gupta Technologies Ltd., a U.K. company, and Gupta Technologies, S.A. de C.V., a Mexican 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 regional office in Munich and sales offices in London and Paris.

Warp Solutions, a wholly owned subsidiary of the Company, produce 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 subsidiaries 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 November 12, 2004, the Company filed a Current Report on Form 8-K which disclosed the Company s one hundred for one (100:1) reverse stock split. The reverse split became effective on the opening of business on November 18, 2004 and is reflected in the financial statements for all periods presented.

6043577 Canada, Inc., a wholly-owned subsidiary of the Company, was established in January 2003 to acquire SpiderSoftware, Inc a Canadian Corporation. Effective January 13, 2003 the Company, through its wholly owned subsidiary 6043577 Canada, Inc acquired SpiderSoftware, Inc.

Note 2. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of WARP and its wholly-owned subsidiaries, (collectively the Company). All inter-company transactions and balances have been eliminated in consolidation.

Warp Technology Holdings, Inc.
Notes to Consolidated Financial Statements for Year Ended June 30, 2005 (Continued)

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Property and Equipment

Property and equipment are stated at cost. Depreciation of property and equipment is provided by the straight-line method over the estimated useful lives of the assets, ranging from three to seven years. Leasehold improvements are amortized on a straight-line basis over the lesser of their estimated useful lives or the life of the underlying lease.

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. 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 Gupta 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.

Cost of Revenue

Cost of revenue includes costs related to product and service revenue and amortization of acquired developed technology. Cost of product revenue includes material, packaging, shipping, and other production costs. Cost of service revenue includes salaries, benefits, and overhead costs associated with employees providing maintenance and technical support, training, and consulting services. Third-party consultant fees are also included in cost of service revenue.

Shipping and Handling Costs

Costs to ship products from the Company s warehouse facilities to customers are recorded as a component of cost of revenues in the consolidated statement of income.

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Warp Technology Holdings, Inc.
Notes to Consolidated Financial Statements for Year Ended June 30, 2005 (Continued)

Reclassification

Certain reclassifications have been made to the 2004 financial statements to conform to the 2005 presentation.

Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

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. The Company assesses the impairment of identifiable intangibles and goodwill whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors the Company considers 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 the Company determines 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, the company records an impairment charge. The Company measures 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. As of June 30, 2005 the Company determined that the goodwill and intangible assets related to the acquisition of Spider Software were impaired and wrote off $3,956,211. Intangible assets, subject to amortization, are being amortized over their estimated useful lives of three to ten years.

Concentration of Risk

Cash

The company maintains cash balances at several banks. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to $100,000.

Accounts Receivable

Financial instruments that potentially subject the Company to significant concentration of credit risk consist primarily of accounts receivable. The Company performs on going credit evaluations of its customers and maintains allowances for potential credit issues. Historically, such loses have been within management s expectations.

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Warp Technology Holdings, Inc.
Notes to Consolidated Financial Statements for Year Ended June 30, 2005 (Continued)

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.

Income Taxes

The Company accounts for income taxes using the liability method. Under this method, deferred tax assets and liabilities are recognized with respect to the future tax consequences attributable to differences between the tax basis of assets and liabilities and their carrying amounts for financial statement purposes. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date.

Foreign Currency

The functional currency of the Company s international subsidiaries is the local currency. The financial statements of these subsidiaries are translated to United States dollars using period-end rates of exchanges for assets and liabilities, and average rates of exchanges for the period for revenues and expenses. Translation gains (losses) are recorded in accumulated other comprehensive income (losses) as a component of stockholders equity. Net gain and losses resulting from foreign exchange transactions are included in operations and were not significant during the periods presented.

Deferred Financing Costs

Deferred financing costs, which are mainly costs associated with the Company s Senior Note and the Company s Subordinated Note, are amortized over the term of the notes on a straight-line basis.

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. The dilutive effect of preferred stock, warrants and options convertible into an aggregate of approximately 33,880,908 and 418,520 of common shares as of June 30, 2005 and June 30, 2004, respectively, are not included as the inclusion of such would be anti-dilutive for all periods presented.

Stock-Based Compensation

The Company uses the intrinsic value method to account for stock-based compensation in accordance with Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and have 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

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Warp Technology Holdings, Inc.
Notes to Consolidated Financial Statements for Year Ended June 30, 2005 (Continued)

Transition and Disclosure. Accordingly, no compensation cost has been recognized for fixed stock option grants. 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 No. 123, the Company s net loss and loss per share would have been reduced to the proforma amounts as follows:

	Year Ended June 30, 2005	Year Ended June 30, 2004
Net loss, as reported	$ (15,372,939)	$ (11,070,305)
Add: Stock-based employee compensation expense included in reported net loss	454,000	3,203,483
Deduct: Stock-based employee compensation expense determined under fair value method for all awards	(828,173)	(3,702,564)
Net loss, pro forma	(15,747,112)	(11,569,386)
Beneficial conversion and preferred dividends	(7,510,590)	(1,623,046)
Net loss attributable to common stockholders Proforma	$ (23,257,712)	$ (13,192,432)
Basic and diluted net loss per share attributable to common stockholders, as reported	$ (11.97)	$ (16.58)
Basic and diluted net loss per share attributable to common stockholders pro forma	$ (12.16)	$ (17.23)

Pro forma information regarding net loss is required by SFAS No. 123, and has been determined as if Warp had accounted for its employees stock options under the fair value method provided by this statement. The fair value for these options was estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	Year Ended June 30, 2005	Year Ended June 30, 2004
Expected life	3 years	3 years
Risk-fee interest rate	3.00%	2.13%
Expected volatility	177.25%	183%
Dividend yield	0%	0%

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.

Fair Value of Financial Instruments

For financial statement instruments, including cash, accounts receivable, subordinated note, senior note, the amount due to Isis and accounts payable, the carrying amount approximated fair value because of their short maturity.

Recent Accounting Pronouncement

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

Warp Technology Holdings, Inc.
Notes to Consolidated Financial Statements for Year Ended June 30, 2005 (Continued)

account for such awards using the intrinsic method previously allowable under APB Opinion No. 25. SFAS No. 123 ® will be effective for the interim period beginning January 1, 2006. The impact on this new standard, if it had been in effect on the net loss and related per share amounts of our years ended June 30, 2005 and 2004 is disclosed above in Note 2 Summary of Significant Accounting Policies Stock Based Compensation. We believe the adoption will have an effect on our results of operations.

In December 2004, the FASB issued SFAS No. 153, Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 20, Accounting for Nonmonetary transactions. The amendments made by SFAS No. 153 are based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. Further, the amendments eliminate the narrow exception for nonmonetary exchanges of similar productive assets and replace it with a broader exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. This statement shall be applied prospectively and is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Earlier application is permitted for nonmonetary asset exchanges occurring in fiscal periods beginning after the date of issuance. The Company does not anticipate that the adoption of SFAS No. 153 will have a significant impact on the Company s overall results of operations or financial position.

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 the Company for fiscal year ended June 30, 2006. The Company does not anticipate that the adoption of SFAS No. 154 will have an impact on the Company s overall results of operations or financial position.

Note 3. Property and Equipment

Property and equipment consists of the following:

	June 30, 2005	June 30, 2004
Purchased software	$ 78,088	$ 84,283
Computer equipment	165,476	144,596
Furniture, fixtures and equipment	54,322	98,679
	297,886	327,558
Accumulated depreciation	(74,861)	(291,246)
	$ 223,025	$ 36,312

Depreciation expense was $45,653 and $51,091 for the years ended June 30, 2005 and 2004, respectively.

Warp Technology Holdings, Inc.
Notes to Consolidated Financial Statements for Year Ended June 30, 2005 (Continued)

Note 4. Accrued Expenses

Accrued expenses consists of the following:

	June 30, 2005	June 30, 2004
Accrued professional fees	$ 960,032	$ 95,563
Accrued vendor costs	276,686	96,000
Accrued penalties on late registration	1,033,500	
Accrued compensation expense	1,078,033	
Other accrued expenses	404,480	144,933
	$ 3,752,731	$ 336,496

Note 5. Stockholders Equity

Common and Preferred Stock

In January 2005, the Company issued 889 shares of common stock to Mr. Malcolm Coster pursuant to the terms and conditions of his separation agreement as compensation for services rendered by Mr. Coster to the Company. The Company recorded $3,556 of non-cash compensation related to this stock issuance.

In January, 2005, the Company issued 3,636 shares of common stock to CIV, a firm which had consulted to the Company, for services rendered. The Company recorded $15,817 of non-cash compensation related to this stock issuance.

In January, 2005, the Company issued 20,000 shares of common stock and warrants to acquire 1,500 shares of Common Stock to Darien Corporation to settled all outstanding claims under a prior Fee Agreement. Warrants have $1.00 per share exercise price, cashless exercise feature and are exercisable over 5 years. The Company recorded an expense of $86,000 related to this settlement.

On August 4, 2004, the Company entered into a Series B-2 Preferred Stock Purchase Agreement (the Purchase Agreement). The Purchase Agreement related to the sale of 1,600 shares (the Series B-2 Preferred Shares) of the Company s authorized but unissued shares of Preferred Stock, $0.00001 par value per share, designated Series B-2 Preferred Stock (the Series B-2 Preferred Stock) at a purchase price of $1,000 per share, and warrants, exercisable over five (5) years, to purchase an aggregate of 1,600 shares of Series B-2 Preferred Stock (the Warrants and together with the shares of Series B-2 Preferred Stock, collectively, the Securities) to investors. The aggregate purchase price for the Securities was $1,600,000, of which $1,474,500 was received by December 31,2004 and the remainder of $125,500 was received by the Company in January 2005. The Company incurred approximately $20,000 in dividends for the year ended June 30, 2005 to the Series B-2 shareholders. The number of shares of Common Stock receivable upon conversion shall be equal to the Series B-2 Face Amount, which is initially equal to the per share purchase price of $1,000, plus any accrued but unpaid dividends, divided by the conversion price, which was initially set at $5.00. Under certain anti-dilution protection rights of the Series B-2 Preferred Stock, the conversion price will adjust from time to time if the Company issues any shares of Common Stock, or options, warrants, or other securities convertible or exchangeable into Common Stock, at a purchase price below $5.00 per share, and will also be adjusted for any stock splits or similar corporate actions. Under the initial conversion price, each share of Series B-2 Preferred Stock is convertible into 200 shares of Common Stock. Accordingly, the Company recorded approximately $539,000 as beneficial conversion relating to this transaction because the fair market value of the common stock was greater than the conversion price. In January, 2005, in connection with the Series C financing, the conversion price of the Series B-2 stock was reduced from $5 to $2, and the Company recorded a stock dividend to the

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Warp Technology Holdings, Inc.
Notes to Consolidated Financial Statements for Year Ended June 30, 2005 (Continued)

Series B-2 holders valued at approximately $2,280,000. In addition on January 31, 2005 all of the Series B-2 shareholders converted all of their outstanding shares into common stock.

On April 22, 2004 the Company approved the issuance of 14,981 shares of common stock to employees. In connection with this issuance the Company recorded compensation of approximately $195,000.

On March 29, 2004, the Company issued 50,000 shares of common stock to Noah Clark as consideration for financial consulting services beginning April 1, 2004, to be provided by Mr. Clark pursuant to the Consulting Agreement dated March 26, 2004 between the Company and Mr. Clark (the Consulting Agreement).The Company recognized approximately $950,000 of expense relating to this agreement. The shares issued to Mr. Clark were restricted shares on the date of issuance. On April 26, 2004, the Company filed an Amendment Number 1 to a Registration Statement on Form S-2 originally filed on April 4, 2004 (hereinafter referred to as the April Form S-2), which covered the shares of common stock issued to Mr. Clark under his consulting agreement. On April 29, 2004, the April Form S-2 was declared effective by the Securities and Exchange Commission.

On March 12, 2004, the Company approved the issuance of 976 shares of common stock to Bradley L. Steere, Esq. as consideration for legal services rendered to the Company in the amount of approximately $18,500.

On March 12, 2004, the Company approved the issuance of 326 shares of common stock to Mr. Wesley Ramjeet as consideration for professional accounting services rendered to the Company in the amount of approximately $5,900.

On March 12, 2004, the Company approved the issuance of 5,555 shares of common stock to Mr. Malcolm Coster pursuant to the terms and conditions of his Employment Contract as compensation for services rendered by Mr. Coster to the Company in the amount of approximately $111,000 as its interim Chief Executive Officer.

In fiscal 2005 and 2004, several holders of the preferred stock of 6043577 Canada, Inc., a wholly-owned subsidiary of the Company converted their preferred stock to shares of the Company s common stock. Such conversions resulted in the issuance of 2,554 and 10,736 shares of common stock, respectively.

On February 10, 2004, the Company completed an offering of 1,058 shares of Series B 10% Cumulative Convertible Preferred Stock (the B Shares) with gross proceeds to the Company from the sales equaling $1,058,000. The B Shares had a purchase price of $1,000.00 per share. The B Shares have a cumulative dividend of 10% per year, which is payable in cash or stock at the time of conversion at the election of the Company. The B Share subscribers also received warrants to purchase a number of common shares equal to 50% of the common shares such subscriber would receive upon the conversion of their B Shares to common shares. The exercise price of the warrants is $33.00 per share of common stock and the exercise price is only payable with cash. Under certain anti-dilution protection rights of the Series B Preferred Stock, the conversion price will adjust from time to time if the Company issues any shares of Common Stock, or options, warrants, or other securities convertible or exchangeable into Common Stock, at a purchase price below the conversion price then in effect. In August 2004, the Company completed its first closing of the Series B-2 offering at an effective price of $5.00 per common share. As a result of the Series B-2 financing, the conversion price of the Series B Stock was reduced from $18.00 to $5.00, and the Company recorded a stock dividend to the Series B shareholders for approximately 121,290 shares of common stock valued at approximately $606,000. In January 2005 in connection with the Series C financing, the conversion price of all Series B stock was reduced from $5 to $3, and the Company recorded a dividend to the Series B holders of approximately $2,207,000. In addition, on January 31, 2005 all of the Series B holders converted all of their Series B stock, accrued dividend and penalties to common stock.

Warp Technology Holdings, Inc.
Notes to Consolidated Financial Statements for Year Ended June 30, 2005 (Continued)

On February 10, 2004, the Company closed an offering of 16,000 restricted shares of its common stock and 8,000 warrants to purchase common stock in a private transaction for gross proceeds of $288,000 in cash. The exercise price of the warrants is $33 per share of common stock and the exercise price is only payable with cash. The Company paid approximately $28,000 in placement agent fees relating to this private placement.

In 2004, holders of 1,766.62 shares of the Company s Series B 10% Cumulative Convertible Preferred Stock (B Shares) converted their B Shares into shares of the Company s common stock. Such conversions resulted in the issuance of 98,145 shares of common stock. The 98,145 common shares issued on the conversions is derived from the B Shares $18 conversion price. In connection with the conversion an additional 3,305 shares were issued as payment of the B Shares 10% cumulative dividend, and 4,089 shares were issued as payment of a 6% penalty for the failure by the Company to cause its March Form S-2 to be declared effective in a timely manner.

In December 2003, the Company issued 50,000 shares of common stock to Blue & Gold Enterprises LLC (Blue & Gold) as consideration for financial consulting services provided by Mr. Steven Antebi pursuant to the Consulting Agreement dated December 2003 between the Company and Mr. Antebi. The shares issued to Mr. Antebi were restricted shares on the date of issuance. The April Form S-2, declared effective on April 29, 2004, registered the shares of common stock issued to Mr. Antebi under his consulting agreement. In connection with this agreement the Company recorded approximately $950,000 as non-cash compensation.

On November 4, 2003, the Company completed an offering of 2,647.78 shares of Series B 10% Cumulative Convertible Preferred Stock (the B Shares) with gross proceeds to the Company from the sale equaling $2,647,780. The B Shares had a cumulative dividend of 10% per year, which is payable in cash or stock at the time of conversion. The B Share subscribers also received warrants to purchase a number of common shares equal to 50% of the common shares such subscriber would receive upon the conversion of their B Shares to common shares. The exercise price of the warrants was $33.00 per share of common stock. The Company was required to pay a penalty equivalent to 6% of the common shares underlying the B Shares sold in this offering because it was not able to get its registration statement effective by the date in the purchase agreement. Under certain anti-dilution protection rights of the Series B Preferred Stock, the conversion price will adjust from time to time if the Company issues any shares of Common Stock, or options, warrants, or other securities convertible or exchangeable into Common Stock, at a purchase price below the conversion price then in effect. In August 2004, the Company completed its first closing of the Series B-2 offering at an effective price of $5.00 per common share. As a result of the Series B-2 financing, the conversion price of the Series B Stock was reduced from $18.00 to $5.00, and the Company recorded a stock dividend to the Series B shareholders for approximately 290,770 shares of common stock valued at approximately $1,499,000.

On September 30, 2003, the Company completed an offering of 975,940 shares of its Series A 8% Cumulative Convertible Preferred Stock (the A Shares) with gross proceeds to the Company from the sale equaling $975,940. Pursuant to a most favored nation provision of the A Shares offering, the holders of the A Shares were entitled to receive the better terms of any offering that was completed subsequent to the closing of the A Shares offering. As a result, the Company has cancelled all 975,940 A Shares which were to be issued and has instead issued 975.94 B Shares to the A Share subscribers. The A Share subscribers also received warrants with the same terms as the B Share subscribers. The conversion to common stock of all the B Shares issued to the A Share subscribers resulted in the Company issuing approximately 54,220 shares of common stock to the A Share subscribers. Pursuant to a registration rights agreement between the Company and the B Share subscribers, the Company was obligated to register the shares of common stock issuable upon conversion of the B Shares within 45 days of issuance of the B Shares. This registration rights agreement contained a penalty provision that required the Company to

Warp Technology Holdings, Inc.
Notes to Consolidated Financial Statements for Year Ended June 30, 2005 (Continued)

issue the number of shares of common stock equal to 2% of the shares of common stock issuable upon conversion of the B Shares for each 30-day period until such shares were registered. When the March 2004 Form S-2 was declared effective, the Company was obligated to issue an aggregate of 12,427 shares of common stock pursuant to this penalty provision. Exercise of all the warrants held by the A Share subscribers will result in the issuance of approximately 27,110 shares of common stock to the A Share subscribers. The Company recorded approximately $271,000 as beneficial conversion relating to this transaction because the fair market value of the common stock was greater than the conversion price. The March 2004 Form S-2, declared effective on March 31, 2004, covered the common shares issuable upon the conversion of the B Shares and warrants held by the A Share subscribers. The Company recorded approximately $60,000 for fees relating to this private placement.

Stock Options

On August 4, 2004, the Company amended its 2002 Employee Stock Plan to increase the total number of shares authorized for issuance under the plan to a total of 776,611 shares of Common Stock, and to reserve such shares for issuance under the plan.

On August 4, 2004 the Company granted its executive officers, Rodney A. Bienvenu, Jr., Gus Bottazzi, Ernest C. Mysogland and Michael D. Liss, certain options to acquire shares of Common Stock. The total number of shares subject to these options is 468,799. In addition, the Company granted ISIS certain non-qualified options to acquire 200,914 shares of Common Stock. All such options have an exercise price of $6.75 per share. The exercise of such options is subject to the achievement of certain vesting and milestone terms (subject in each case to the terms of the optionee s stock option agreement). Any of the above-described options not previously exercisable shall be vested and exercisable on the fifth anniversary of the initial closing of the B-2 Financing. In connection, with the options granted to ISIS the Company recorded deferred compensation of approximately $1,053,000 that will be amortized over five years from the date of grant. The Company recognized approximately $193,000 of expense for the year ended June 30, 2005 relating to the ISIS options.

In fiscal 2004, the Board of Directors granted 45,130 options to certain employees of the Company under the 2002 Plan. Of those options, 22,565 vested on the date of grant and the remainder vest over a two-year period. Such options have a term of ten years and have an exercise price of $13.00 per share, the fair market price of the stock on the date of grant.

In fiscal 2003 the Company s Board of Directors granted 15,000 options to a consultant, Dr. Milch, at an exercise price of $25.00 per share. As of September 30, 2004 all 15,000 of these options have been vested. The Company had agreed to compensate this consultant in an amount equal to the difference between $100 and the market price of the stock received upon exercise of each option for up to 14,500 of these options. In January 2005 the Company issued 330 shares of Series B Preferred stock and 7,612 warrants to purchase common stock at $33 per share to settle all outstanding liability owed to this former consultant.

In fiscal 2003, the Company granted 4,200 options to an employee, Mr. Beller, at an exercise price of $25.00 per share. The Company had agreed to compensate this employee in an amount equal to the difference between $100 and the market price of the stock received upon exercise of each option. The total amount was capped at $400,000 and expired in December 2003. In January 2005 the Company issued 240 shares of Series B Preferred stock and 5,973 warrants to purchase common stock at $33 per share to settle all outstanding liability owed to this former employee.

In November 2002 the Company s Board of Directors approved and adopted the Warp Technology Holdings, Inc. 2002 Stock Incentive plan (the 2002 Plan) as a means through which the Company and its subsidiaries may attract, retain and compensate employees and consultants. In fiscal 2003, the Board of

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Warp Technology Holdings, Inc.
Notes to Consolidated Financial Statements for Year Ended June 30, 2005 (Continued)

Directors issued 70,980 options to certain employees of the Company under the 2002 Plan. Of those options, 18,333 vested on the date of grant and the remainder vest over a two-year period. Such options have a term of ten years and have an exercise price of $.25 per share. For financial statement purposes the Company recorded deferred compensation of $18,996,000, representing the difference between the market price of the Company s stock and $.25 on the date of grant. The amount recognized as expense for the period ending June 30, 2005 and 2004 was $454,000 and $3,562,241, respectively.

Detailed information concerning WARP Technology Holding, Inc activity for the 2002 Plan is as follows:

	Options	Weighted-Average Exercise Price	Average Fair Value of Grants
Options outstanding at June 30, 2003	76,996	$ 25.00	
Options cancelled	(31,793)	23.00	
Options granted	45,130	13.00	$ 13.00
Options outstanding at June 30, 2004	90,333	22.00	
Options cancelled	(131,592)	13.05	
Options granted	669,712	6.75	$ 5.24
Options outstanding at June 30, 2005	628,453	$ 6.84	

The following table summarizes information about options outstanding at June 30,2005.

Options Outstanding			Options Exercisable		
Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life (in Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 13	7,400	8.8	$ 13	6,000	$ 13
$ 25	31,705	7.0	$ 25	29,651	$ 25
$ 6.75	589,348	9.1	$ 6.75	187,519	$ 6.75

As of June 30, 2005, there were 148,158 shares available for future grants under the 2002 Plan.

The fair value for options have been estimated on the date of grant using the Black-Scholes option pricing model thereafter, with the following assumptions:

	Year Ended June 30, 2005	Year Ended June 30, 2004

Expected life	3 years	3 years
Risk-fee interest rate	3.0%	2.13%
Expected volatility	177.25%	183%
Dividend yield	0%	0%

During 2005 and 2004, no options were issued or exercised under the Warp Solutions, Inc. 1999 Plan. Additionally, all previously outstanding options were canceled. Therefore, as of June 30, 2005, there are no options outstanding under the Warp Solutions, Inc. 1999 Plan.

Warp Technology Holdings, Inc.
Notes to Consolidated Financial Statements for Year Ended June 30, 2005 (Continued)

Warrants

During 2000, in conjunction with the sale of its Series B Convertible Preferred Stock to certain investors, The Company issued warrants to purchase 10,636 shares of its common stock at an exercise price of $9.05 per share. The warrants expire on the fifth anniversary of issuance. In fiscal 2003 certain holders of these warrants converted 7,334 of these warrants in a cashless exercise for 5,438 shares of the Company s common stock.

On August 1, 2000, the Company issued warrants to purchase 1,105 shares of its common stock to an outside consultant for services rendered. The warrants have an exercise price of $9.05 per share and expire on the fifth anniversary of issuance.

In connection with the February, 2003 private placement the Company issued 4,209 warrants to purchase shares of its common stock at an exercise price of $10.00 per share. The warrants expire on the fifth anniversary of issuance. In fiscal 2004, 1,350 of these warrants were exercised; the Company received approximately, $13,500.

In January 2004, the Company issued 15,000 warrants to Mr. Ray Musson and Killick & Co. as a settlement for not registering previously sold shares. The warrants have a (5) five-year term, an exercise price of $36 per share and no cashless exercise provision. The Company recorded as expense $180,000 relating to this warrants issuance. The March Form S-2, declared effective on March 31, 2004, registered the shares of common stock issuable upon the exercise of the warrants issued to Mr. Musson and Killick & Co.

On March 5, 2004, the Company initiated a warrant exchange program (the Program) applicable to all of the Company s outstanding warrants (collectively the Original Warrants). The Program was an opportunity for the Company s warrant holders to choose whether they wanted to keep their Original Warrants or exchange them for new warrants (the Exchanged Warrants). The Exchanged Warrants had an exercise price of $15 per share, as compared to the Original Warrants, which have exercise prices of $36, $33, $25, or $18 per share, and were required to be exercised immediately after their issuance. The Program closed on March 18, 2004, and resulted in the exchange of 43,023 Original Warrants for Exchanged Warrants. The immediate exercise of the Exchanged Warrants caused the issuance by the Company of 43,023 shares of common stock for gross proceeds to the Company of $645,358. The Company recorded approximately $132,000 as a beneficial conversion dividend relating to this transaction because the fair market value of the common stock was greater than the conversion price.

In April 2004, the Company issued warrants to purchase 8,600 shares of common stock at an exercise price of $25 per share to Lighthouse Capital Ltd and warrants to purchase 1,500 shares of common stock at an exercise price of $25 to Peter Bailey in payment of services provided by Lighthouse Capital Ltd to the Company under the terms of a consulting agreement. In connection with this issuance the Company recorded an expense of approximately $105,000.

In August 2004, the Company issued 20,000 warrants to purchase common stock to Malcolm Coster at an exercise price of $18.00 per share for services performed. In connection with this issuance the Company recorded an expense of approximately $96,000.

In September 2004, the Company agreed to issue 35,200 warrants to purchase common Stock at an exercise price of $5.00 per share to Griffin Securities, Inc. for advisory services to be provided to the Company. In connection with these warrants the Company recorded an expense of $25,696.

In January 2005 in connection with the various sales of the Bridge Notes, the Series C Notes, the Senior Notes and the Subordinated Notes under the financing agreements, the Company has incurred brokers or finders fees and commissions of a total of $1,058,900. In addition, the Company has committed to issue to such brokers and finders warrants to acquire up to an aggregate of 1,210,601 shares of Common

Warp Technology Holdings, Inc.
Notes to Consolidated Financial Statements for Year Ended June 30, 2005 (Continued)

Stock. These warrants are exercisable for a period of five years and 280,000 have an exercise price of $4.75 and 930,601 have an exercise price of $1.25 per share. These warrants were valued at $998,211 using the black-scholes model . The value of the warrants is being amortized over the length of the various debt financing as interest expense. The Company s amortization expense for the year ended June 30, 2005 was $1,580,235.

In May 2005 the Company issued warrants to purchase 50,000 shares of common stock at an exercise price of $2.25 to Lippert Heilshorn and Associates for consulting services. In connection with this issuance the Company valued the warrants at $76,711, which will be expensed ratably over the life of the consulting agreement.

Note 6. Gupta Technologies, LLC Acquisition

On January 31, 2005, the Company completed the acquisition of Gupta. The acquisition of Gupta (the Acquisition) was made pursuant to a Membership Interest Purchase Agreement (as amended, the Purchase Agreement) between the Company and Gupta Holdings, LLC (the Seller). The Board of Directors agreed to purchase Gupta because it fit the profile of the type of companies that is necessary for the Company to create a sustainable, profitable company. The Consolidated Statement of Operations for the year ended June 30, 2005 includes the results of operations of Gupta for five months beginning as of February 1, 2005.

Under the Purchase Agreement, the total purchase price was $21,000,000, of which the Company delivered $15,750,000 in cash on or before the closing. The remainder of the purchase price was paid in equity and debt securities issued or provided by the Company with the terms described below.

In order to raise funds to pay the cash portion of the purchase price for Gupta, and in order to provide the non-cash portion of the purchase price, the Company entered into certain financing agreements described herein. An Amendment to the Company s Articles of Incorporation was necessary to allow the Company to reserve for issuance of sufficient shares of Common Stock to be issued upon conversion or exercise of the securities sold by the Company pursuant to the financing agreements.

The financing agreements include the Subscription Agreement, the Bridge Notes, the Senior Note Agreement, the Subordinated Note Agreement, the Broker Warrants and the Assignment, as such terms are defined below.

The purchase price for Gupta was $21 million, plus transaction costs of $1,325,000, the purchase price allocation is as follows:

Cash	$	742,915
Accounts Receivables		2,489,517
Other current assets		393,126
Fixed assets		161,345
Intangibles		16,434,800
Goodwill		7,055,264
Other assets		71,093
Accounts Payable and accrued expenses		(3,047,893)
Deferred Revenues		(1,975,167)
	$	22,325,000

The Company s management and the Board of directors believes that the purchase of Gupta that resulted in approximately $7,055,000 of goodwill is justified because of Gupta s position in the marketplace

Warp Technology Holdings, Inc.
Notes to Consolidated Financial Statements for Year Ended June 30, 2005 (Continued)

and expected increased cash flows to the Company. The company expects all of the goodwill will be deductible for income tax purposes.

Unaudited Pro Forma Financial Information

The following unaudited pro forma 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 been consummated on the dates assumed and does not project the Company s results of operations for any future period:

The following unaudited pro forma financial information presents the consolidated operations of the Company for the years ended June 30, 2005 and 2004 as if the acquisition of Gupta had occurred as of July 1, 2004 and July 1, 2003, respectively.

	2005	**2004**
Revenue	$ 13,890,560	$ 16,675,544
Net loss	(14,122,849)	(10,231,577)
Loss per share	$ (7.39)	$ (13.36)

Note 7. Acquired Intangible Assets

In connection with the acquisition of Gupta the Company recorded intangible assets as follows:

Amortized Intangible Assets:	
Developed Technology	2,284,100
Customer Relationships	6,165,800
Contracts	7,547,200
Total amortized intangible assets	$ 15,997,100
Accumulated amortization	756,064
Net	$ 15,241,036
Unamortized intangible assets:	
Goodwill	$ 7,055,264
Trade names	$ 437,700
Estimated amortization expense:	
For year ending June 30, 2006	$ 1,815,000
For year ending June 30, 2007	$ 1,815,000
For year ending June 30, 2008	$ 1,627,000
For year ending June 30, 2009	$ 1,610,000
For year ending June 30, 2010	$ 1,610,000

Amortization expense for the years ended June 30, 2005 and June 30, 2004 were approximately $946,000 and $190,000 respectively.

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Warp Technology Holdings, Inc.
Notes to Consolidated Financial Statements for Year Ended June 30, 2005 (Continued)

Note 8. Series C Subscription Agreement.

On January 31, 2005, the Company entered into certain Series C Subscription Agreements (collectively, the Subscription Agreement), with the Investors. The Subscription Agreement has the following material terms:

An aggregate of $8,475,000 of Series C Notes were sold to Investors under the Subscription Agreement.

Most of the proceeds of the sale of the Series C Notes were used to fund a portion of the purchase price in the Gupta acquisition and the remainder of the proceeds were used for working capital purposes.

The Series C Notes were unsecured and bore interest at the rate of 6% per annum.

The Series C Notes were converted into a new series of Preferred Stock, the Series C Stock with a par value of $.00001 per share, and Warrants to acquire Common Stock.

On March 31, 2005, all amounts due under the Series C Notes (principal and interest) automatically converted into (i) 8,559,750 shares of Series C Stock, and (ii) Warrants (the Warrants) to acquire 8,559,750 shares of Common Stock. The Company reserved for issuance 17,119,500 shares of Common stock to cover those shares of Common Stock issuable upon conversion of the Series C Stock and exercise of the Warrants.

Since the Series C Notes were not converted by March 17, 2005, due to a delay in receiving approval required before effecting the Amendment to the Company s Articles of Incorporation, the Company may be required to pay to the Investors a penalty in cash equal to ten percent (10%) of the principal amount of the Series C Notes. Accordingly, the Company anticipates that it will need to obtain a waiver or an acknowledgment that the penalties do not apply. The Company intends to work with the Investors to obtain waiver of this penalty or an acknowledgement that no penalty is due, and has received such waiver and acknowledgement from certain Investors. However, there is no assurance that the Company will receive sufficient waivers or acknowledgements from other Investors. As such the Company has accrued $647,500 for this penalty.

On March 31, 2005, all amounts due under the Series C Notes (principal and interest) automatically converted into (i) 8,559,750 shares of Series C Stock, and (ii) Warrants (the Warrants) to acquire 8,559,750 shares of Common Stock, and on April 4, 2005, under the Subscription Agreement, the Company issued an additional 3,000,000 shares of Series C Stock, and Warrants to acquire an additional 3,000,000 shares of Common Stock for $3,000,000 in cash.

The Series C Stock which the Investors received upon conversion of their Series C Notes, has the following material terms:

The Series C Stock is convertible into Common Stock, at the option of the holder, at a conversion price (the Applicable Conversion Price) that is initially equal to $1.00. Accordingly, the Series C Stock is convertible into Common Stock at a one to one (1:1) ratio. However, the ratio is subject to adjustment pursuant to the anti-dilution protections extended to the holders of Series C Stock. Under the anti-dilution provisions, in the event the Company issues, at any time while shares of Series C Stock are still outstanding, shares of Common Stock or any type of securities convertible or exchangeable for, or otherwise giving a right to acquire, shares of Common Stock, at a price below the Applicable Conversion Price, then the Applicable Conversion Price will be adjusted to the price per share equal to the price per share paid for such Common Stock in such subsequent financing. This full-ratchet anti-dilution protection on the Series C Stock will also be extended to any warrants received in connection with the Subscription Agreement that are outstanding at such

Warp Technology Holdings, Inc.
Notes to Consolidated Financial Statements for Year Ended June 30, 2005 (Continued)

time. In addition to the full-ratchet protection, the Applicable Conversion Price will be equitably adjusted in the event of any stock split, stock dividend or similar change in the Company s capital structure.

If the Company s market capitalization based on the shares of Common Stock outstanding (including all shares of Common Stock underlying the Shares of Series C Stock on an as converted basis) exceeds $50,000,000, the shares of Common Stock underlying the Series C Stock are registered, and the Company has an average daily trading volume for 20 consecutive trading days of 100,000 shares per day, then the Company may require the holders of Series C Stock to convert the Series C Stock into Common Stock at the then Applicable Conversion Price.

The holders of shares of Series C Stock will be entitled to receive dividends, at a 6% annual rate, payable quarterly in arrears, either in cash, or at the election of the Company, in shares of Common Stock. The dividends are preferred dividends, payable in preference to any dividends which may be declared on the Common Stock. Common Stock delivered in payment of dividends will be valued at 90% of the average of the volume weighted average price for the 20 trading day period ending on the trading day immediately prior to the date set for payment of the dividend. As of June 30, 2005 the Company has accrued $212,897 for dividends.

Any unconverted and non-redeemed Shares of Series C Stock outstanding on the third anniversary of the initial issuance of the Series C Stock, will be automatically redeemed on that date, in cash, at $1.00 per share, plus all accrued but unpaid dividends thereon (subject to equitable adjustment for all stock splits, stock dividends, or similar events involving a change in the capital structure of the Company).

The Warrants issued to the Investors upon conversion of their Series C Notes, allow the Investors to purchase an aggregate of 8,559,750 shares of Common Stock. The Warrants have an exercise price of $1.25 per share. The Warrants are exercisable over a five-year term.

Note 9. Bridge Notes.

In October 2004, December 2004 and January 2005, the Company raised funds from investors in order to make certain payments, totaling $2,250,000 to the Seller, toward the purchase price of Gupta. In exchange for such investment the Company issued certain promissory notes (the Bridge Notes) in the aggregate principal amount of $2,250,000.

The Bridge Notes had the following material terms:

Interest accrues at the annual rate of 12%.

Contemporaneously with the closing of the Gupta Purchase Agreement, the Bridge Notes were automatically converted into Series C Notes.

An aggregate of $2,409,253 of Series C Notes were issued upon conversion of the principal and accrued interest on the Bridge Notes.

In accordance with their terms, these Series C Notes converted into 2,433,345 shares of Series C Preferred Stock and Warrants to acquire 2,433,345 shares of Common Stock. These warrants (the Bridge Warrants) have an exercise price of $1.25 per share and are exercisable for a period of five years from the date of issuance. The Company reserved sufficient common stock to issue upon conversion of these Series C shares and exercise of the Bridge Warrants.

Warp Technology Holdings, Inc.
Notes to Consolidated Financial Statements for Year Ended June 30, 2005 (Continued)

Note 10. Senior Note and Warrant Purchase Agreement.

On January 31, 2005, the Company entered into that certain Senior Note and Warrant Purchase Agreement (the Senior Note Agreement), by and among the Company and the Purchasers (the Senior Noteholders) identified therein.

The Senior Note Agreement has the following material terms:

Senior Notes with an aggregate principal amount of $6,825,000 were sold.

The Senior Notes bear interest at an annual rate of 10%, with interest payments due quarterly in arrears.

Most of the proceeds of the sale of the Senior Notes was used to fund a portion of the purchase price in the Gupta acquisition and the remainder of the proceeds was used for working capital purposes.

The Senior Notes are due on July 31, 2005. The Senior Notes are not convertible.

The Senior Notes are secured by a first priority security interest in the assets of the Company, including the equity interests of the Company in Gupta and the Company s other subsidiaries.

Under the Senior Note Agreement the Senior Noteholders received warrants to purchase an aggregate of 2,670,000 shares of the Company s Common Stock (the Senior Lender Warrants). These warrants have an exercise price of $1.25, and are exercisable for a period of five years from the date of issuance. The proceeds from the Senior Notes and the detachable warrants were allocated to the fair value of the warrants and the balance to the Senior Notes. Based on the fair market value, $2,269,500 was allocated to the warrants and the remainder of $4,556,500 was allocated to the Senior Notes. The discount to the note will be accreted over 6 months. For the period ended June 30, 2005, $1,891,250 was accreted and charged to interest expense.

In August 2005 the Company refinanced this debt with a long term credit facility from Fortress Credit Corp. (See Note 18 Subsequent Events) Accordingly, the Company has classified this debt as long-term in accordance with SFAS No. 6.

Note 11. Subordinated Note and Warrant Purchase Agreement.

On January 31, 2005, the Company entered into that certain Subordinated Note and Warrant Purchase Agreement (the Subordinated Note Agreement) by and among the Company and the Purchasers (the Subordinated Noteholders) identified therein.

The Subordinated Note Agreement has the following material terms:

Subordinated Notes with an aggregate principal amount of $4,000,000 were issued of which $2,500,000 was sold for cash and $1,500,000 was issued to the Seller under the Purchase Agreement (the Gupta Note).

The Subordinated Notes bear interest at an annual rate of 10%, with interest payments due quarterly in arrears. Interest is payable in registered shares of Common Stock of the Company, provided that until such shares are registered, interest shall be payable in cash.

Most of the proceeds of the sale of the Subordinated Notes was used to fund a portion of the purchase price in the Gupta acquisition and the remainder of the proceeds was used for working capital purposes.

The Subordinated Notes are due on January 31, 2007, other than the Gupta Note, which is due on January 31, 2006.

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Warp Technology Holdings, Inc.
Notes to Consolidated Financial Statements for Year Ended June 30, 2005 (Continued)

The Subordinated Notes are secured by a security interest in the assets of the Company, including the equity interests of the Company in Gupta and the Company s other subsidiaries, subordinated only to the security interest granted to secure the Senior Notes.

The Subordinated Noteholders have the right to convert all principal amounts due under the Subordinated Notes other than the Gupta Note which is not convertible into such number of Shares of Common Stock equal to the principal amount due under the Subordinated Notes divided by $1.00. Accordingly, an aggregate of 2,500,000 shares of Common Stock is issuable upon conversion of the Subordinated Notes.

Under the Subordinated Note Agreement, the Subordinated Noteholders other than the holder of the Gupta Note also received warrants to purchase 2,500,000 shares of the Company s Common Stock (the Subordinated Lender Warrants). The Warrants will have an exercise price of $1.25, and will be exercisable for a period of five years from the date of issuance. The proceeds from the Subordinated Note and the detachable warrants were allocated to the fair value of the warrants and the balance to the Senior Notes. Based on the fair market value, $2,125,000 was allocated to the warrants and the remainder of $375,000 was allocated to the Senior Notes. The discount to the note will be accreted over 24 months. For the period ended June 30, 2005 $442,708 was accreted and charged to interest expense.

In August 2005 the Company refinanced the $1,500,000 Gupta Note due January 31, 2006 with a long term credit facility from Fortress Credit Corp. (See Note 18 Subsequent Events) Accordingly, the Company has classified this debt as long-term in accordance with SFAS No. 6.

Note 12. Registration Rights.

The Company agreed, within forty-five (45) days after the closing of the Series C notes, Bridge Notes and Subordinated notes financing, to complete all required audits and make all related filings concerning the acquisition of Gupta. Within fifteen (15) days after the end of such 45-day period, the Company agreed to file a registration statement for the purpose of registering all of the Conversion Shares for resale, and to use its best efforts to cause such registration statement to be declared effective by the Securities and Exchange Commission (the Commission) at the earliest practicable date thereafter.

If (i) the registration statement has not been filed with the Commission by the filing deadline or (ii) the registration statement has not been declared effective by the Commission before the date that is ninety (90) days after the filing deadline or, in the event of a review of the Registration Statement by the Commission, one hundred and twenty (120) days after the filing deadline, or (iii) after the registration statement is declared effective, the registration statement or related prospectus ceases for any reason to be available to the investors and noteholders as to all Conversion Shares the offer and sale of which it is required to cover at any time prior to the expiration of the effectiveness period (as defined in the Investors Agreement) for an aggregate of more than twenty (20) consecutive trading days or an aggregate of forty (40) trading days (which need not be consecutive) in any twelve (12) month period, the Company will pay to the Investors an amount in cash equal to 2% of the face value of the Series C Stock issued under the Subscription Agreement or upon conversion of the Bridge Notes, and 2% in cash of the principal amount of the Senior Notes and Subordinated Notes, and will continue to pay such 2% monthly penalties every thirty days until such registration statement if filed, declared effective and available to the investors at the earliest practicable date thereafter. The registration statement was filed after the date due. Accordingly, the Company may have incurred a penalty. The Company is seeking an acknowledgement from the affected investors that no penalty has yet incurred and that no such penalty will be incurred so long as the registration statement is declared effective within the applicable time period. If such acknowledgement is not forthcoming, the Company will seek a waiver of the penalty. As there can be no assurance it will receive an acknowledgement or waiver, the Company has accrued $386,000.

Warp Technology Holdings, Inc.
Notes to Consolidated Financial Statements for Year Ended June 30, 2005 (Continued)

Note 13. Separation Agreement.

On March 3, 2005, the Company entered into an agreement (the Separation Agreement) with Gus Bottazzi related to Mr. Bottazzi s resignation as an officer and director of the Company. Under the Separation Agreement, the Company committed to issue to Mr. Bottazzi 200,000 shares of the Company s Series C Preferred Stock. In connection with this separation agreement the Company recorded a non-cash charge of $500,000.

Note 14. Income Taxes

The income tax effects of significant items, comprising the Company s net deferred tax assets and liabilities, are as follows:

	June 30,	
	2005	2004
	(In thousands)	
Deferred tax liabilities:		
Differences between book and tax basis of goodwill	$ 41	
Deferred tax assets:		
Operating loss carryforwards	$ 13,211	$ 8,740
Net deferred tax asset	$ 13,170	$ 8,740
Valuation allowance	$ 13,170	$ 8,740

The Company has foreign subsidiaries based in the United Kingdom, Canada and Germany and is responsible for paying certain foreign income taxes. As a result, there is an income tax provision of $97,945 and $0 for the years ended June 30, 2005 and 2004, respectively.

For the U.S. operations the difference between the federal statutory tax rate of 40% and the effective rate of 0% reflected in the accompanying financial statements is attributable to no tax benefit being recorded for the future utilization of the net operating loss carry forward.

The Company has a U.S. Federal net operating loss carry forward of approximately $33,028,000 as of June 30, 2005, which may be used to reduce taxable income in future years. These NOL s will expire in the year 2020 through 2025. The deferred tax asset primarily resulting from net operating losses was approximately $13,170,000 at June 30, 2005 and $8,740,000 at June 30, 2004. 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, some portion of the net operating loss carryforward will be subject to further limitation pursuant to Section 382 of the Internal Revenue Code.

Note 15. Commitments and Contingencies

Legal Proceedings.

On May 6, 2005, the Company received notice of a demand for arbitration before the American Arbitration Association from attorneys representing Michael Liss, a former employee of the Company who had the title Chief Operating Officer. Mr. Liss disputes the circumstances surrounding the termination of his employment and claims that he is entitled to severance benefits, other compensation and damages totaling approximately $187,000 in addition to attorneys fees and statutory damages. The Company

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Warp Technology Holdings, Inc.
Notes to Consolidated Financial Statements for Year Ended June 30, 2005 (Continued)

believes that Mr. Liss s claim is without merit and intends to vigorously defend itself. The Company has accrued $50,000 for legal cost related to this matter.

Leases

Rent expense amounted to approximately $230,000 and $201,000 for the years ended June 30, 2005 and 2004, respectively.

Minimum rental payments under non-cancelable operating leases in California, Connecticut and Germany as of June 30, 2005 is as follows:

2006	$ 519,389
2007	316,279
2008	227,848
2009	187,024
2010	80,152
Total	$ 1,330,693

Note 16. Amendment to Articles of Incorporation.

The Company filed with the Nevada Secretary of State the Certificate of Amendment to Articles of Incorporation described in its Definitive Information Statement filed on March 11, 2005, increasing the Company s authorized Common Stock from 5,000,000 to 150,000,000.

Note 17. Series C Certificate of Designations.

Effective March 31, 2005, the Company filed with the Secretary of State of the State of Nevada a Certificate of Designation establishing the series of preferred stock to be referred to as the Series C Preferred Stock.

Note 18. Geographic Information

The Company sells its products to customers primarily through direct sales to independent software vendors and end-users in North America and through distributors and value added resellers in the rest of the world. For the years ended June 30 2005 and 2004, the geographic breakdown of revenues was as follows:

	Year Ended June 30, 2005		
	Product	**Service**	**Total**
North America	$ 1,283,296	$ 719,319	$ 2,002,615
Europe, Africa and the Middle East	1,447,982	1,228,744	2,676,726
Asia Pacific	177,767	139,180	316,947
Latin America	77,707	49,927	127,634
Total	$ 2,986,752	$ 2,137,170	$ 5,123,922

Warp Technology Holdings, Inc.
Notes to Consolidated Financial Statements for Year Ended June 30, 2005 (Continued)

	Year Ended June 30, 2004		
	Product	Service	Total
North America	$ 378,485	$ 94,621	$ 473,106
Europe, Africa and the Middle East	327,212	81,803	409,015
Total	$ 705,697	$ 176,424	$ 882,121

Many of Gupta s ISVs, VARs and end users place their orders through distributors. A relatively small number of distributors have accounted for a significant percentage of Gupta s revenues. One of Gupta s distributors, accounted for 22% of Gupta s revenue for the years ended June 30, 2005 and 2004. The same distributor accounted for 23% of Gupta s accounts receivable at June 30, 2005. In addition, Gupta had one customer which accounted for 15% of the Company s revenue for the year ended June 30, 2005. The loss of this Gupta distributor, or this customer, unless it was offset by the attraction of sufficient new customers, could have a material adverse impact on the business of Gupta, and therefore, the business of the Company as a whole.

Note 19. Employee Benefit Plan

The Company has a 401(k) plan, which covers substantially all employees. Participants in the plan may contribute a percentage of compensation, but not in excess of the maximum allowed under the Internal Revenue Code. The plan provides for matching contributions. The 401(k) expense for the year ended June 30, 2005 was $34,837.

Note 20. Related Party Transactions.

The Company has certain contractual relationships with ISIS which were entered into in connection with the Company s Series B-2 Preferred Stock financing (as previously described in, and included as exhibits to, the Company s Form 8-K dated August 4, 2004). In addition, certain individuals are members of ISIS and directors or officers of the Company.

ISIS is a limited liability company whose managing members are Rodney A. Bienvenu, Jr. (Bienvenu), the Company s Chief Executive Officer and Chairman of the Company s Board of Directors, and Ernest C. Mysogland (Mysogland), the Executive Vice President and Chief Legal Officer of the Company. ISIS is the managing member of ISIS Acquisition Partners II LLC (IAP II). IAP II is a stockholder of the Company having purchased shares of the Company s Series B-2 Preferred Stock (the Series B-2 Preferred Stock), pursuant to that certain Series B-2 Preferred Stock Purchase Agreement (the Series B-2 Purchase Agreement), as of August 4, 2004, between and among the Company and the investors. In addition, pursuant to that certain Stockholders Agreement, dated as of August 4, 2004, between and among the Company, the holders of the Series B-2 Preferred Stock and such other Stockholders as named therein (the Stockholders Agreement), IAP II and other Series B-2 Stockholders have certain rights to designate directors of the Company. Further, ISIS and the Company entered into a Consulting Agreement, dated as of August 4, 2004, pursuant to which the Company will pay ISIS for services requested of ISIS from time to time, including, without limitation, research services, at ISIS s regular rates or at the cost incurred by ISIS to provide such services, and will reimburse ISIS for any costs incurred by ISIS on behalf of the Company.

Furthermore, in October, 2004, Company and ISIS entered into that certain Purchase Agreement Assignment and Assumption (the Assignment), pursuant to which the Company acquired all of the rights and assumed all of the liabilities of the Purchaser under that certain Membership Interest Purchase Agreement to acquire Gupta Technologies, LLC.

Under the Assignment, the Company agreed to repay ISIS (or its assignees), for the $1,000,000 ISIS paid to the Seller in October, 2004. Furthermore, upon the acquisition of Gupta, in consideration of the

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Warp Technology Holdings, Inc.
Notes to Consolidated Financial Statements for Year Ended June 30, 2005 (Continued)

assignment, and services in connection with due diligence, financing contacts and structure, for its efforts in negotiating the terms of the acquisition (including the specific right to assign the Purchase Agreement to the Company), and undertaking the initial obligation regarding the purchase of Gupta, the Company shall pay ISIS and its investors, as allocated by ISIS, a transaction fee equal to $1,250,000, payable either in cash or, at the election of ISIS, in Series B-2 securities, or senior debt or senior equity issued in connection with the Gupta financing. As of June 30, 2005 this transaction fee was not paid to ISIS and is shown on the balance sheet as a due to ISIS. The Company will also reimburse ISIS for any amounts it has incurred in connection with the negotiation and consummation of the transaction. In addition, the Company also owed approximately $44,000 to Isis for various expenses paid by Isis on behalf of the Company.

One of the Senior Noteholders under the Senior Note Agreement described above in Note 10, was B/ T Investors, a general partnership. B/ T Investors lent the Company a total of $975,000 under the Senior Note Agreement, and received Senior Notes in that principal amount. One of the partners in B/ T Investors is Brian J. Sisko who is now the Company s Chief Operating Officer. B/ T Investors assigned its Senior Notes to its various partners, and Mr. Sisko received a Senior Note in the principal amount of $100,000. This note held by Mr Sisko was paid off in August, 2005 when the Company refinanced its debt when it entered into the long term credit facility with Fortress Credit Corp.

Note 21. Subsequent Events

Acquisition of Kenosia Corporation Kenosia

On July 6, 2005 the Company purchased all of the stock of Kenosia Corporation from Bristol Technology, Inc. for an aggregate purchase price of $1,800,000 (net of working capital adjustment), subject to certain adjustments. Prior to the Closing, $800,000 of the Purchase Price was deposited into an escrow account, and subsequently released to Bristol at the Closing. The remainder of the Purchase Price is to be paid in two equal payments of $500,000 each, in cash. The first payment was made on September 1, 2005 and the second one is due January 31, 2006.

The Company s management and the Board of directors believes that the purchase of Kenosia will result in approximately $500,000 of goodwill and is justified because of Kenosia s position in the marketplace and expected increased cash flows to the Company. The company expects all of the goodwill will be deductible for income tax purposes.

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.

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Warp Technology Holdings, Inc.
Notes to Consolidated Financial Statements for Year Ended June 30, 2005 (Continued)

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.

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.

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 theses 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.

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.

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 eighteen months after the closing date of the Credit Agreement, with the complete Loan to be repaid in full no later than the Maturity Date which is four years after the closing.

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Warp Technology Holdings, Inc.
Notes to Consolidated Financial Statements for Year Ended June 30, 2005 (Continued)

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 incurrence 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. 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.

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 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 Mortgages 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.

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.

Warp Technology Holdings, Inc.
Notes to Consolidated Financial Statements for Year Ended June 30, 2005 (Continued)

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.

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.

Lease of Office Space for Principal Executive Offices

The Company entered into a lease for office space in Greenwich, Connecticut, where the Company has relocated its principal executive offices.

The lease commenced on August 29, 2005 and expires on August 14, 2009. Under the terms of the lease, the Company will pay an aggregate rent over the term of the lease of $313,362.

Agreements to Acquire Five Software Companies

On September 12, 2005, the Company entered into a Purchase Agreement (the Purchase Agreement) with Platinum Equity, LLC (the David/ ProfitKey Seller), EnergyTRACS Acquisition Corp. (the Foresight Seller) and Milgo Holdings, LLC (the Process Seller and together with the David/ ProfitKey Seller and the Foresight Seller, the Sellers) for the acquisition of 100% of the Equity Interests in The David Corporation, ProfitKey International, LLC, Foresight Software, Inc. and Process Software, LLC (the Acquisition). Under the terms of the Purchase Agreement, the David/ ProfitKey Seller shall sell, assign and deliver 100% of the common stock, no par value per share of the David Corporation, a California Corporation (the David Stock) and a 100% membership interest in ProfitKey International LLC, a Delaware limited liability company (the ProfitKey Membership Interest), the Foresight Seller shall sell, assign and deliver 100% of the common stock, par value $0.01 per share of the Forsight Software, Inc., a Delaware corporation (the Foresight Stock) and the Process Seller shall sell, assign and deliver a 100% membership interest in Process Software, LLC, a Delaware limited liability company (the Process Membership Interest) to the Company in exchange for the payment of an aggregate of Twelve Million Dollars ($12,000,000) in cash.

The Acquisition is scheduled to close on September 30, 2005, subject to customary conditions precedent including accuracy of representations and warranties at the closing date, satisfaction of all closing conditions and simultaneous closing of the Tesseract Merger Agreement described below. The Company expects to raise the funds to close the Acquisition and the Merger described below from lenders under its existing Credit Agreement, and from equity investors.

Warp Technology Holdings, Inc.
Notes to Consolidated Financial Statements for Year Ended June 30, 2005 (Continued)

Platinum Equity, LLC is a Seller under the Purchase Agreement. An affiliate of Platinum Equity, Gupta Holdings, LLC, owns 2,020,000 shares of Series C Preferred Stock of the Company, which is convertible into 2,020,000 shares of Common Stock of the Company, and warrants to acquire 2,312,336 shares of Common Stock. On an as converted basis, the shares of Series C Preferred Stock held by Gupta Holdings, LLC would represent approximately 10% of the then outstanding shares of Common Stock of the Company.

On September 12, 2005, the Company entered into a Merger Agreement (the Merger Agreement) with TAC/ Halo, Inc., a wholly owned subsidiary of the Company (the Merger Sub), Tesseract Corporation (Tesseract) and Platinum Equity, LLC (Seller). Under the terms of the Merger Agreement, Tesseract shall be merged with and into the Merger Sub (the Merger) and shall survive as a wholly-owned subsidiary of the Company. The aggregate consideration payable pursuant to the Merger to Seller as the holder of 100% of the common stock, par value $0.01 per share of Tesseract (the Stock) shall consist of (a) $5,500,000 in cash payable at the closing of the Merger, (b) that number of shares of Series D Preferred Stock as shall be obtained by dividing $6,750,000 by a divisor to be agreed upon by the Company and Seller, and (c) a promissory note in the original principal amount of $1,750,000, delivered at closing and payable no later than March 31, 2006. The number of shares and terms of the Series D Preferred Stock have not yet been agreed upon.

In connection with the issuance of Series D Preferred Stock to Tesseract, the Company has agreed to enter into a Registration Rights Agreement pursuant to which the Company agrees to register the common stock issuable upon conversion of the Series D Preferred Stock. This agreement will be in a form to be agreed upon by the Company and the Seller.

Promissory Note and Warrant

On September 20, 2005, the Company entered into a Promissory Note (the Note) in the principal amount of Five Hundred Thousand Dollars ($500,000) payable to the order of DCI Master LDC or its affiliates. Interest accrues under the Note at the rate of ten percent (10%) per annum. The principal amount of the Note, together with accrued interest, is due and payable 90 days after the date it was entered into, December 19, 2005, unless the Note is converted into debt or equity securities of the Company in the Company s next financing involving sales by the Company of a class of its preferred stock or convertible debt securities, or any other similar or equivalent financing transaction. The terms of such conversion have not yet been determined.

Also on September 20, 2005, the Company issued to DCI Master LDC a Warrant to Purchase 181,818 Shares of Common Stock, par value $0.00001 per share of the Company. The Warrant was issued in connection with the Note described above. The exercise price for the Warrant Shares is $1.375, subject to adjustment as provided in the Warrant. The Warrant is exercisable until September 20, 2010. The Warrant contains an automatic exercise provision in the event that the warrant has not been exercised but the Fair Market Value of the Warrant Shares (as defined in the Warrant) is greater than the exercise price per share on the expiration date. The Warrant also contains a cashless exercise provision. The Warrant also contains a limitation on exercise which limits the number of shares of Common Stock that may be acquired by the Holder on exercise to that number of shares as will insure that, following such exercise, the total number of shares of Common Stock then beneficially owned by such Holder and its affiliates will not exceed 9.99% of the total number of issued and outstanding shares of Common Stock. This provision is waivable by the Holder on 60 days notice.

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WARP Technology Holdings, Inc.
Consolidated Balance Sheets

	December 31, 2005 (Unaudited)	June 30, 2005 (Audited)
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 1,844,373	$ 1,548,013
Accounts receivable, net of allowance for doubtful accounts of $139,973 and $30,845 respectively	4,550,514	2,024,699
Due from Platinum Equity, LLC	465,000	
Prepaid expenses and other current assets	925,460	409,496
Total current assets	7,785,347	3,982,208
Property and equipment, net	286,369	223,025
Deferred financing costs, net	1,529,036	476,876
Intangible assets, net of accumulated amortization of $1,950,503 and $756,064 respectively	24,604,981	15,678,736
Goodwill	28,730,708	7,055,264
Investment and other assets	193,190	884,379
Total assets	$ 63,129,631	$ 28,300,488
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 1,832,028	$ 872,433
Accrued expenses	6,825,837	3,752,731
Note payable to Bristol Technology, Inc.	500,000	
Note and Working Capital Adjustment payable to Platinum Equity, LLC	2,750,000	
Notes payable	1,591,770	
Deferred revenue	11,263,432	3,392,896
Due to ISIS	1,293,717	1,293,534
Total current liabilities	26,056,784	9,311,594
Subordinate notes payable	1,453,504	2,317,710
Senior notes payable	21,763,619	6,446,750
Other long term liabilities	52,972	43,275
Total liabilities	49,326,879	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, 13,802,837 and 14,193,095 issued and outstanding (Liquidation value $13,802,837 and $14,193,095) respectively	13,802,837	14,193,095
	208,006	212,897

Shares of Common Stock to be issued for accrued dividends on Series C Preferred Stock				
Series D Preferred Stock: $.00001 par value; 8,863,636 shares authorized, 7,045,454 issued and outstanding (Liquidation value $7,750,000)		6,750,000		
Shares of Common Stock to be issued for accrued dividends on Series D Preferred Stock		165,372		
Shares of Common Stock to be issued for accrued interest on subordinated debt		41,667		
Common stock: $.00001 par value; 150,000,000 shares authorized, 5,601,548 and 3,110,800 shares issued and outstanding respectively		56		31
Additional paid-in-capital		64,733,038		59,431,331
Deferred compensation		(874,123)		(970,711)
Accumulated other comprehensive loss		(71,087)		(105,262)
Accumulated deficit		(70,953,016)		(62,580,224)
Total stockholders equity		13,802,752		10,181,159
Total liabilities and stockholders equity	$	63,129,631	$	28,300,488

See accompanying notes to consolidated financial statements.

WARP Technology Holdings, Inc.
Consolidated Statements of Operations

	Three Months Ended December 31,		Six Months Ended December 31,	
	2005	**2004**	**2005**	**2004**
		(Unaudited)		
Revenue				
Licenses	$ 1,504,493	$ 85,311	$ 2,819,062	$ 211,616
Services	3,866,219	21,328	5,759,979	52,904
Total revenues	5,370,712	106,639	8,579,041	264,520
Cost of revenue				
Cost of licenses	154,766	39,730	200,500	53,758
Cost of services	804,140		1,098,048	
Total cost of revenues	958,906	39,730	1,298,548	53,758
Gross Profit	4,411,806	66,909	7,280,493	210,762
Product development	1,560,236	35,657	2,516,793	112,723
Sales, marketing and business development	2,063,932	223,393	3,436,457	476,575
General and administrative (including non-cash compensation three months 2005-$153,898; 2004-$127,145; six months 2005-$273,226; 2004-$542,742)	3,663,824	251,019	5,466,182	1,218,383
Loss before interest	(2,876,186)	(443,160)	(4,138,939)	(1,596,919)
Interest expense	(2,257,705)	(46,374)	(3,553,807)	(45,679)
Loss before income taxes	(5,133,891)	(489,534)	(7,692,746)	(1,642,598)
Income taxes	(34,325)		(86,488)	
Net Loss	$ (5,168,216)	$ (489,534)	$ (7,779,234)	$ (1,642,598)
Computation of loss applicable to common stockholders Net loss before beneficial conversion and preferred dividends	$ (5,168,216)	$ (489,534)	$ (7,779,234)	$ (1,642,598)
Beneficial conversion and preferred dividends	(373,379)	(472,057)	(593,558)	(2,810,465)
Loss attributable to common stockholders	$ (5,541,595)	$ (961,591)	$ (8,372,792)	$ (4,453,063)
Basic and diluted net loss per share attributable to common stockholders	$ (1.53)	$ (0.99)	$ (2.44)	$ (4.59)
Weighted-average number common shares basic and diluted	3,624,747	971,115	3,425,127	971,115

See accompanying notes to consolidated financial statements.

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WARP Technology Holdings, Inc.
Consolidated Statements of Cash Flows

	Six Months Ended December 31,	
	2005	**2004**
	(Unaudited)	
Operating Activities		
Net Loss	$ (7,779,234)	$ (1,642,598)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,259,738	101,215
Non cash compensation	273,226	542,742
Non cash interest expense	2,425,544	
Loss on sales of property and equipment	3,270	
Changes in operating assets and liabilities, net of effects of acquired business:		
Accounts receivable	(488,535)	33,199
Prepaid expenses and other current assets	(359,403)	15,631
Accounts payable and accrued expenses	931,287	(228,506)
Deferred revenue	3,468,677	(132,370)
Deferred product cost		14,028
Net cash used in operating activities	(265,430)	(1,296,659)
Investing activities		
Purchase of property and equipment	(53,370)	
Advance to Gupta Holdings LLC		(1,000,000)
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)	
Proceeds from sales of property and equipment	1,689	
Net cash used in investing activities	(16,425,928)	(1,000,000)
Financing activities		
Repayment of Bridge loan		950,100
Repayment of Subordinated notes	(1,500,000)	
Repayment of Senior notes	(6,825,000)	
Proceeds from Senior notes, net of issuance cost of $1,426,486	23,573,514	
Proceeds from Promissory notes	1,700,000	
Proceeds from issuance of preferred and common stock net of issuance costs		1,474,500
Net cash provided by financing activities	16,948,514	2,424,600
Effects of exchange rates on cash	39,204	(22,784)
Net increase in cash and cash equivalents	296,360	105,157
Cash and cash equivalents beginning of period	1,548,013	115,491
Cash and cash equivalents end of period	$ 1,844,373	$ 220,648

Supplemental disclosure of cash flow information:

Income tax paid	$	122,766	$
Interest paid	$	822,486	$

Supplemental schedule of non-cash investing and financing activities:

For the six months ended December 31, 2005, the Company recorded $593,558 in connection with convertible preferred dividends.

In connection with the acquisition of Tesseract, the Company gave to Platinum Promissory Note and a working capital adjustment agreement for $2,750,000 and Series D Preferred Stock of $6,750,000.

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Transaction costs of $478,000 were accrued for the acquisitions of Tesseract, Process and Affiliates at December 31, 2005.

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)
Liability 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)
Liability 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)
Liability assumed		4,608,335
Goodwill	$	9,104,008

See accompanying notes to consolidated financial statements.

Warp Technology Holdings, Inc.
Notes to Consolidated Financial Statements for Period Ended December 31, 2005

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

Warp Technology Holdings, Inc. (collectively with its subsidiaries, the Company), operating under the name Halo Technology Holdings, 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.

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

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Warp Technology Holdings, Inc.
Notes to Consolidated Financial Statements for Period Ended December 31, 2005 (Continued)

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.

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, 2005 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 2004 financial statements to conform to the 2005 presentation.

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. The dilutive effect of preferred stock, warrants and options convertible into an aggregate of approximately 46,642,643 and 2,049,170 of common shares as of December 31, 2005 and December 31, 2004, respectively, are not included as the inclusion of such would be anti-dilutive for all periods presented.

Warp Technology Holdings, Inc.
Notes to Consolidated Financial Statements for Period Ended December 31, 2005 (Continued)

Stock-Based Compensation

The Company uses the intrinsic value method to account for stock-based compensation in accordance with Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and have 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. Accordingly, no compensation cost has been recognized for fixed stock option grants. 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 No. 123, the Company s net loss and loss per share would have been increased to the pro forma amounts as follows:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2005	2004	2005	2004
Net loss, as reported	$ (5,168,216)	$ (489,534)	$ (7,779,234)	$ (1,642,598)
Add: Stock-based employee compensation expense included in reported net loss	82,070	74,500	129,570	359,000
Deduct: Stock-based employee compensation expense determined under fair value method for all awards	(1,163,880)	(77,480)	(1,336,120)	(370,210)
Net loss, pro forma	(6,250,026)	(492,514)	(8,985,784)	(1,653,808)
Beneficial conversion and preferred dividends	(373,379)	(472,057)	(593,558)	(2,810,465)
Net loss attributable to common stockholders Pro forma	$ (6,623,405)	$ (964,571)	$ (9,579,342)	$ (4,464,273)
Basic and diluted net loss per share attributable to common stockholders, as reported	$ (1.53)	$ (0.99)	$ (2.44)	$ (4.59)
Basic and diluted net loss per share attributable to common stockholders pro forma	$ (1.82)	$ (0.99)	$ (2.80)	$ (4.60)

Pro forma information regarding net loss is required by SFAS No. 123, and has been determined as if Warp had accounted for its employees stock options under the fair value method provided by this statement. 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.

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. SFAS No. 123(R) will be effective for the period beginning January 1, 2006. The impact on this new

Warp Technology Holdings, Inc.
Notes to Consolidated Financial Statements for Period Ended December 31, 2005 (Continued)

standard, if it had been in effect on the net loss and related per share amounts of our three and six months ended December 31, 2005 and 2004 is disclosed above in Note 2 Summary of Significant Accounting Policies-Stock Based Compensation. We believe the adoption will have an effect on our results of operations.

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 123R, SAB 107 provides the views of the Staff regarding the interaction between SFAS 123R 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 intends to follow the interpretative guidance on share-based payment set forth in SAB 107 during the Company s adoption of SFAS 123R.

Note 3. Stockholders Equity

Common and Preferred Stock

On September 19, 2005, the Company issued 8,543 shares of Common Stock valued at $8,543 as a dividend to a former Series B preferred stockholder to settle a dispute on an inadvertent conversion.

On September 23, 2005, the Company issued 47,963 shares of Common Stock to pay $100,000 of interest on its Subordinated Notes, which covers the interest period of May 1, 2005 to July 31, 2005.

On September 23, 2005, the Company issued 90,973 shares of Common Stock as Series C Preferred Stock dividend. The dividend period was April 1, 2005 to June 30, 2005. The value of Common Stock was $212,897.

On December 23, 2005, the Company issued 44,665 shares of Common Stock to pay $63,333 of interest on its Subordinated Notes, which covers the interest period of August 1, 2005 to October 31, 2005.

Also on December 23, 2005, the Company issued 143,769 shares of Common Stock as Series C Preferred Stock dividend. The dividend period was July 1, 2005 to September 30, 2005. The value of Common Stock was $211,636.

On December 31, 2005, the Company issued an aggregate of 664,577 shares of Common Stock valued at $910,470 to former Senior Noteholders and an aggregate of 1,100,000 shares valued at $1,507,000 to former and existing Subordinated Noteholders in exchange for the rescission of certain warrants as described below in Warrants section of Note 3 Stockholder s Equity .

On October 26, 2005, the Company issued 7,045,454 shares of Series D Preferred Stock to Platinum Equity, LLC (Platinum) as part of Amendment to Tesseract Merger Agreement. Under the Amendment, Platinum agrees to retain 909,091 shares of Series D Preferred Stock delivered as part of the Merger Consideration, which Platinum will return for cancellation, without additional consideration from the Company, if the Company repay the $1,750,000 note on or before March 31, 2006. The details of this agreement are described in Note 5 Acquisition of Five Software Companies.

During the three months and six months ended December 31, 2005, the holders of respectively 133,807 and 390,258 Series C Preferred Stocks converted their shares into Common Stock. The conversions were made on a one to one (1:1) ratio.

Stock Options

On September 13, 2005, the Board of Directors granted 158,000 options to the Company CEO, Rodney A. Bienvenu under the 2002 Plan. Of those options, 39,500 vested on December 31, 2005, and the

Warp Technology Holdings, Inc.
Notes to Consolidated Financial Statements for Period Ended December 31, 2005 (Continued)

remainder vest ratably over the next 36 months. Such options have a term of ten years and have an exercise price of $1.08 per share. In connection with the options, the Company recorded a deferred compensation of $42,660 that will be amortized in the next 36 months. The Company recognized $10,665 of expense for the three months ended December 31, 2005 relating to these 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) previously approved by the Board of Directors of the Company. A copy of the 2005 Plan was filed as Appendix A to the Company s definitive proxy statement filed with the Securities and Exchange Commission on October 7, 2005. 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.

Under the 2005 Plan, the Company issued 4,366,000 options to certain employees and directors of the Company and its subsidiaries. Of those options, 3,366,000 were issued to the corporate senior management 25% of these options vest on December 31, 2005, and the remaining portion will vest ratably each month during the next 36 months, provided that the employee remains an employee of the Company. 1,000,0000 of the 4,366,000 options were issued to the subsidiary management. These options will vest based on each subsidiary s performance. The vesting conditions are determined by the compensation committee. All the options have an exercise price of $1.08 and the term of ten years except for the options issued to the Company s CEO, Rodney A. Bienvenu, Jr., and the CLO, Ernest C. Mysogland, which have an exercise price of $1.19 and a term of five years. In connection with the options issued to the corporate senior management, the company recorded a deferred compensation of $95,620 that will be amortized in the next 36 months. The Company recognized $23,905 of expense for the three months ended December 31, 2005 relating to these options. The Company did not recognize deferred compensation for the options issued to the subsidiary management because the probability of vesting is uncertain. Further details are available in the Current Report on Form 8-K filed by the Company with the Securities and Exchange Commission on October 27, 2005.

Warrants

On August 2, 2005, the Company issued warrants to acquire 843,617 shares of the Company s Common Stock to Fortress Credit Corp. as part of a Credit Agreement entered into on the same date. The warrants have an exercise price of $.01 per share, have a cashless exercise feature, and are exercisable until December 10, 2010. Additional information related to the issuance of these warrants is in Note 7 Credit Agreement .

On September 20, 2005, the Company issued to DCI Master LDC a warrant to Purchase 181,818 Shares of Common Stock, par value $0.00001 per share of the Company. The warrant was issued in connection with a Promissory Note issued to DCI Master LDC. Additional information related to the issuance of this warrant is in Note 8 Promissory Notes. The exercise price for the warrant shares is $1.375, subject to adjustment as provided in the warrant. The warrant is exercisable until September 20, 2010. The warrant contains an automatic exercise provision in the event that the warrant has not been exercised but the fair market value of the warrant shares is greater than the exercise price per share on the expiration date. The warrant also contains a cashless exercise provision. The warrant also contains a limitation on exercise which limits the number of shares of Common Stock that may be acquired by the Holder on exercise to that number of shares as will insure that, following such exercise, the total number of shares of Common Stock then beneficially owned by such Holder and its affiliates will not exceed 9.99% of the total number of issued and outstanding shares of Common Stock. This provision is waivable by the Holder on 60 days notice.

Warp Technology Holdings, Inc.
Notes to Consolidated Financial Statements for Period Ended December 31, 2005 (Continued)

On October 21, 2005, the Company issued warrants (the Warrants) to purchase an aggregate of 363,636 Shares of Common Stock, par value $0.00001 per share of the Company. The Warrants were issued in connection with the Convertible Promissory Notes described in Note 8 (Promissory Notes). The exercise price for the Warrant Shares is $1.375, subject to adjustment as provided in the Warrant. The Warrants are exercisable for five years after the date of the Warrants. The Warrants contain an automatic exercise provision in the event that the warrant has not been exercised but the Fair Market Value of the Warrant Shares (as defined in the Warrant) is greater than the exercise price per share on the expiration date. The Warrants also contain a cashless exercise provision. The Warrants also contain a limitation on exercise which limits the number of shares of Common Stock that may be acquired by the Holder on exercise to that number of shares as will insure that, following such exercise, the total number of shares of Common Stock then beneficially owned by such Holder and its affiliates will not exceed 9.99% of the total number of issued and outstanding shares of Common Stock. This provision is waivable by the Holder on 60 days notice.

On October 26, 2005, the Company issued warrants to acquire 1,265,425 shares of the Company s Common Stock to Fortress Credit Corp. as part of a Credit Agreement entered into on August 2, 2005. This issuance relates to the Company s utilization of the Tranche B of the credit facility under the agreement. The warrants have an exercise price of $.01 per share, have a cashless exercise feature, and are exercisable until December 10, 2010. Additional information related to the issuance of these warrants is in Note 7 Credit Agreement .

On December 31, 2005, the Company has rescinded certain warrants (the Senior Lender Warrants) previously issued pursuant to that certain Senior Note and Warrant Purchase Agreement (the Senior Note Agreement), as of January 31, 2005, by and among the Company and the Purchasers (the Senior Noteholders) identified therein and certain warrants (the Subordinated Lender Warrants) issued pursuant to that certain Subordinated Note and Warrant Purchase Agreement (the Subordinated Note Agreement), as of January 31, 2005, by and among the Company and the Purchasers (the Subordinated Noteholders) identified therein. As originally issued, the Senior Lender Warrants were for an aggregate of 2,670,000 shares of Common Stock. Senior Lender Warrants to acquire 1,208,321 shares of Common Stock were rescinded. As originally issued, the Subordinated Lender Warrants were for an aggregate of 2,500,000 shares of Common Stock. Subordinated Lender Warrants to acquire 2,000,000 shares of Common Stock were rescinded. The Company issued an aggregate of 664,577 shares of Common Stock valued at $910,470 to former Senior Noteholders and an aggregate of 1,100,000 shares valued at $1,507,000 to former and existing Subordinated Noteholders in exchange for the rescission of these warrants described above.

Note 4. Kenosia Acquisition

On July 6, 2005 the Company purchased all of the stock of Kenosia Corporation (Kenosia) from Bristol Technology, Inc. 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 Bristol at the Closing. The remainder of the Purchase Price is to be 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 results of Kenosia acquisition are reflected in the combined statement of operations as of the date of acquisition.

The Company s management and the Board of directors believes that the purchase of Kenosia that resulted in approximately $589,000 of goodwill is justified because of Kenosia s position in the marketplace and Track record of positive cash flow . The tax deductibility of the acquired goodwill is to be determined.

Warp Technology Holdings, Inc.
Notes to Consolidated Financial Statements for Period Ended December 31, 2005 (Continued)

The net purchase price for Kenosia was $1,815,020, after certain transaction costs and net working capital adjustments. The preliminary purchase price allocation, which is subject to adjustment, is as follows:

Cash	$	6,125
Accounts receivables		312,750
Other current assets		15,000
Fixed assets		7,635
Intangibles		1,270,283
Goodwill		589,252
Accounts payable and accrued expenses		(10,979)
Deferred revenues		(375,046)
	$	1,815,020

Note 5. Acquisition of Five Software Companies

Foresight, Milgo, ProfitKey International and David Corporation Purchase Agreement

On October 26, 2005, the Company completed the transactions contemplated by that certain Purchase Agreement (the Purchase Agreement) dated as of September 12, 2005 by and among Warp Technology Holdings, Inc. operating under the name Halo Technology Holdings (Company) and Platinum Equity, LLC (Platinum), EnergyTRACS Acquisition Corp. (the Foresight Seller) and Milgo Holdings, LLC (the Process Seller and together with Platinum and the Foresight Seller, the Sellers) for the acquisition of 100% of the Equity Interests in David Corporation (David), ProfitKey International, LLC (Profitkey), Foresight Software, Inc.(Foresight) and Process Software, LLC (Process). Pursuant to the Purchase Agreement, Platinum sold, assigned and delivered 100% of the common stock, no par value per share of the David Corporation, a California Corporation and a 100% membership interest in ProfitKey International LLC, a Delaware limited liability company, the Foresight Seller sold, assigned and delivered 100% of the common stock, par value $0.01 per share of the Foresight Software, Inc., a Delaware corporation and the Process Seller sold, assigned and delivered a 100% membership interest in Process Software, LLC, a Delaware limited liability company to the Company in exchange for the payment of an aggregate of twelve million dollars ($12,000,000) in cash. These four companies are collectively referred to as Process and Affiliates . The Purchase Agreement has previously been filed as Exhibit 10.86 of the Current Report on Form 8-K filed by the Company with the Securities and Exchange Commission on September 16, 2005 and is incorporated herein by reference.

The Company s management and the Board of directors believes that the purchase of Process and Affiliates that resulted in approximately $9,517,000 of goodwill is justified because of their positions in the marketplace and Track record of positive cash flow . The tax deductibility of the acquired goodwill is to be determined.

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Warp Technology Holdings, Inc.
Notes to Consolidated Financial Statements for Period Ended December 31, 2005 (Continued)

The net purchase price for Process and Affiliates was $12,351,500, after certain transaction costs. The preliminary purchase price allocation, which is subject to adjustment, is as follows:

Cash and cash equivalents	$	378,141
Accounts receivable		1,723,231
Other current assets		726,478
Fixed assets		73,023
Intangibles		4,843,800
Goodwill		9,104,008
Other assets		111,154
Accounts payable and accrued expenses		(2,003,805)
Deferred revenue		(2,604,530)
	$	12,351,500

Tesseract Merger Agreement and Amendment

On October 26, 2005, Warp Technology Holdings, Inc. operating under the name Halo Technology Holdings (the Company or WARP), completed the transactions contemplated by that certain Merger Agreement (the Merger Agreement) dated as of September 12, 2005 by and among the Company and TAC/ Halo, Inc., a wholly owned subsidiary of the Company (the Merger Sub), Tesseract Corporation (Tesseract) and Platinum Equity, LLC (Platinum), as amended by Amendment No. 1 to Merger Agreement (the Amendment) dated October 26, 2005 by and among such parties and TAC/ Halo, LLC, a Delaware limited liability company and wholly owned subsidiary of the Company (New Merger Sub). Pursuant to the Merger Agreement, Tesseract was merged with and into the New Merger Sub (the Merger) which survived as a wholly-owned subsidiary of the Company. The Amendment provided that the Merger Consideration shall consist of (i) $4,500,000 in cash payable at Closing, (ii) 7,045,454 shares of Series D Preferred Stock of the Company, and (iii) $1,750,000 payable no later than March 31, 2006 and evidenced by a Promissory Note. The Amendment provided for a Working Capital Adjustment of $1,000,000 to be paid no later than November 30, 2005. If not paid by such date, at the option of the Seller, the Working Capital Adjustment may be converted into up to 1,818,181 shares of Series D Preferred Stock. Additionally, if the Working Capital Adjustment is 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, 2005, the Working Capital Adjustment has not been paid or converted to Series D Preferred Stock. As such, the Company accrued $50,000 for the advisory fee as of December 31, 2005. Under the Amendment, Platinum agrees to retain 909,091 shares of Series D Preferred Stock delivered as part of the Merger Consideration. If the Promissory Note is paid on or before March 31, 2006, Platinum will return for cancellation, without additional consideration from the Company, 909,091 shares of Series D Preferred Stock to the Company. The Amendment 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 (as defined in the Amendment). If the next round is not a Qualified Equity Offering, 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 at the option of the holder. The descriptions of the Merger Agreement and Amendment No. 1 to the Merger Agreement are qualified in their entirety by reference to the Merger Agreement, which was previously filed as Exhibit 10.87 of the Current Report on Form 8-K filed by the Company with the Securities and Exchange Commission on September 16, 2005, and to Amendment No. 1 to the Merger Agreement filed as Exhibit 10.94 of the Current Report on Form 8-K filed on November 1, 2005.

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Warp Technology Holdings, Inc.
Notes to Consolidated Financial Statements for Period Ended December 31, 2005 (Continued)

The Company s management and the Board of directors believes that the purchase of Tesseract that resulted in approximately $12,211,000 of goodwill is justified because of Tesseract s positions in the marketplace and Track record of positive cash flow . The tax deductibility of the acquired goodwill is to be determined.

The net purchase price for Tesseract was $14,126,500, after certain transaction costs. The preliminary purchase price allocation, which is subject to adjustment, is as follows:

Cash and cash equivalents	$	254,757
Accounts receivable		1,299
Other current assets		333,871
Fixed assets		3,830
Intangibles		4,006,600
Goodwill		11,982,184
Accounts payable and accrued expenses		(1,015,350)
Deferred revenue		(1,422,282)
Other long term liabilities		(18,409)
	$	14,126,500

The Company financed the purchase price under the Purchase Agreement and the Merger Agreement in part with borrowings under its $50,000,000 credit facility with Fortress Credit Opportunities I LP and Fortress Credit Corp. On October 26, 2005, in connection with the closings of the above described transactions, the Company entered into Amendment Agreement No. 1 (Amendment Agreement) 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, 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 under which the Lender made an additional loan of $15,000,000 under Tranche B of the credit facility under the Credit Agreement, as more fully described below in Note 7 Credit Agreement.

The Company s results of operations include results of operations of Tesseract, Process and Affiliates since October 27, 2005.

Note 6. Unaudited Pro Forma Financial Information

The following unaudited pro forma financial information presents the consolidated operations of the Company as if the acquisitions of Gupta, Kenosia, Tesseract, David, Profitkey, Foresight, and Process had occurred as of July 1, 2004.

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 Gupta, Kenosia,

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Warp Technology Holdings, Inc.
Notes to Consolidated Financial Statements for Period Ended December 31, 2005 (Continued)

Tesseract, David, ProfitKey, Foresight, and Process been consummated on the dates assumed and does not project the Company s results of operations for any future period:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2005	2004	2005	2004
Revenue	$ 7,606,852	$ 9,581,947	$ 15,478,083	$ 19,421,400
Net loss	$ (5,401,586)	$ (485,135)	$ (6,915,745)	$ (106,269)
Beneficial Conversion and preferred dividends	(373,379)	(472,057)	(593,558)	(2,810,465)
Loss attributable to common stockholders	(5,774,965)	(957,192)	(7,509,303)	(2,916,734)
Basic and diluted net loss per share attributable to common stockholders	$ (1.59)	$ (0.99)	$ (2.19)	$ (3.00)
Weighted-average number of common shares	3,624,747	971,115	3,425,127	971,115

For the period from July 1, 2005 through July 5, 2005, Kenosia had no significant operations.

Note 7. 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

Warp Technology Holdings, Inc.
Notes to Consolidated Financial Statements for Period Ended December 31, 2005 (Continued)

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 $1,083,872. These closing costs have been deferred, and will be amortized over 4 years. $67,743 and $112,904 was amortized for the three and six months ended December 31, 2005, respectively. The remaining balance 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.

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 theses 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.

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, 2005, the Company accrued and expensed $279,136 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 eighteen months after the closing date of the Credit Agreement, with the complete Loan to be repaid in full no later than the Maturity Date which is four years after the closing.

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 incurrence 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

Warp Technology Holdings, Inc.
Notes to Consolidated Financial Statements for Period Ended December 31, 2005 (Continued)

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. 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.

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 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 Mortgages 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.

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

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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 accreted over 48 months. For the three months and six months ended December 31, 2005, $99,975 and $166,625 respectively were accreted and charged to interest expense.

On October 26, 2005, in connection with the acquisition of the five software companies (referred to as Agreements to Acquire Five Software Companies in Note 5 of the Notes to the Consolidated Financial Statements), the Company entered into Amendment Agreement No. 1 (Amendment Agreement) 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 Agreement, the Lender made a loan of $15,000,000 under Tranche B of the credit facility under the Credit Agreement. Additional information of this amendment is qualified in its entirety by reference to Amendment Agreement No. 1, which was previously filed as Exhibit 10.87 of the Current Report on Form 8-K filed by the Company with the Securities and Exchange Commission on November 1, 2005.

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 accreted over 45 months. For the three months ended December 31, 2005, $89,024 was accreted 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.

Note 8. Promissory Notes

On September 20, 2005, the Company entered into a Promissory Note in the principal amount of Five Hundred Thousand Dollars ($500,000) payable to the order of DCI Master LDC or its affiliates. Interest accrues under the Promissory Note at the rate of ten percent (10%) per annum. The principal amount of the Promissory Note, together with accrued interest, is due and payable 90 days after the date it was entered into, December 19, 2005, unless the Promissory Note is converted into debt or equity securities of the Company in the Company s next financing involving sales by the Company of a class of its preferred stock or convertible debt securities, or any other similar or equivalent financing transaction. The terms of such conversion have not yet been determined. As of December 31, 2005, the Company has not repaid this Promissory Note or converted it into debt or equity securities. As such, interest of $12,361

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Notes to Consolidated Financial Statements for Period Ended December 31, 2005 (Continued)

was accrued and charged to interest expense in the current quarter. The principal and accrued interest may be converted to Series E Stock per the Subscription Agreements reached on January 11, 2006. Further information on these agreements is in Note 14 Subsequent Event.

Also on September 20, 2005, the Company issued to DCI Master LDC a Warrant to Purchase 181,818 Shares of Common Stock, par value $0.00001 per share of the Company. The Warrant was issued in connection with the Promissory Note described above. The exercise price for the Warrant Shares is $1.375, subject to adjustment as provided in the Warrant. The Warrant is exercisable until September 20, 2010. The Warrant contains an automatic exercise provision in the event that the warrant has not been exercised but the Fair Market Value of the Warrant Shares (as defined in the Warrant) is greater than the exercise price per share on the expiration date. The Warrant also contains a cashless exercise provision. The Warrant also contains a limitation on exercise which limits the number of shares of Common Stock that may be acquired by the Holder on exercise to that number of shares as will insure that, following such exercise, the total number of shares of Common Stock then beneficially owned by such Holder and its affiliates will not exceed 9.99% of the total number of issued and outstanding shares of Common Stock. This provision is waivable by the Holder on 60 days notice.

The proceeds from the Promissory Note were allocated to the fair value of the warrants and Promissory Note. Based on the fair market value, $276,606 was allocated to the warrants and the remainder of $223,394 was allocated to Promissory Note. The fair value of the warrants was determined by utilizing Black-Scholes method. The discount to the Promissory Note will be accreted over 3 months. For the three and six months ended December 31, 2005, $245,872 and $276,606 was accreted and charged to interest expense respectively.

On October 14, 2005, one of the Company s directors, David Howitt, made a short-term loan to the Company for $150,000. This loan will be converted into equity under the Subscription Agreement described under *Convertible Promissory Notes and Effect on Previously Issued Convertible Notes* in Note 14 Subsequent Evens.

On October 21, 2005, the Company entered into certain Convertible Promissory Notes in the aggregate principal amount of One Million Dollars ($1,000,000). Interest accrues under the Notes at the rate of ten percent (10%) per annum. The principal amount of the Notes, together with accrued interest, is due and payable 90 days after the date it was entered into, unless the Notes are converted into debt or equity securities of the Company in the Company s next financing involving sales by the Company of a class of its preferred stock or convertible debt securities, or any other similar or equivalent financing transaction. During the three months ended December 31, 2005, interest of $19,444 was accrued and charged to interest expense. The principal and accrued interest may be converted to Series E Stock per the Subscription Agreements reached on January 11, 2006. Further information on these agreements is in Note 14 Subsequent Event. The Company also issued warrants (the Warrants) to purchase an aggregate of 363,636 Shares of Common Stock, par value $0.00001 per share of the Company in connection with the Convertible Promissory Notes described above. The exercise price for the Warrant Shares is $1.375, subject to adjustment as provided in the Warrant. The Warrants are exercisable for five years after the date of the Warrants. Based on the fair market value, $512,691 was allocated to the warrants and the remainder of $487,309 was allocated to the Convertible Promissory Notes. The fair value of the warrants was determined by utilizing Black-Scholes method. The discount to Convertible Promissory Notes will be accreted over 3 months. For the three months ended December 31, 2005, $404,461 was accreted and charged to interest expense.

On October 26, 2005, as part of the Merger Consideration under the 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

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of the Company, provided that until such shares are registered, interest shall be paid in cash. During the three months ended December 31, 2005, interest of $28,875 was accrued and charged to interest expense. 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 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. The agreement also provided for a Working Capital Adjustment of $1,000,000 to be paid no later than November 30, 2005. If not paid by such date, at the option of the Seller, the Working Capital Adjustment may be converted into up to 1,818,181 shares of Series D Preferred Stock. Additionally, if the Working Capital Adjustment is 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, 2005, the Working Capital Adjustment has not been paid or converted to Series D Preferred Stock. As such, the Company accrued $50,000 for the advisory fee as of December 31, 2005.

Note 9. Registration Rights

The Company agreed, within forty-five (45) days after the closing of the Series C notes, Bridge Notes and Subordinated notes financing, to complete all required audits and make all related filings concerning the acquisition of Gupta. Within fifteen (15) days after the end of such 45-day period, the Company agreed to file a registration statement for the purpose of registering all of the Conversion Shares for resale, and to use its best efforts to cause such registration statement to be declared effective by the Securities and Exchange Commission (the Commission) at the earliest practicable date thereafter.

If (i) the registration statement has not been filed with the Commission by the filing deadline or (ii) the registration statement has not been declared effective by the Commission before the date that is ninety (90) days after the filing deadline or, in the event of a review of the Registration Statement by the Commission, one hundred and twenty (120) days after the filing deadline, or (iii) after the registration statement is declared effective, the registration statement or related prospectus ceases for any reason to be available to the investors and noteholders as to all Conversion Shares the offer and sale of which it is required to cover at any time prior to the expiration of the effectiveness period (as defined in the Investors Agreement) for an aggregate of more than twenty (20) consecutive trading days or an aggregate of forty (40) trading days (which need not be consecutive) in any twelve (12) month period, the Company will pay to the Investors an amount in cash equal to 2% of the face value of the Series C Stock issued under the Subscription Agreement or upon conversion of the Bridge Notes, and 2% in cash of the principal amount of the Senior Notes and Subordinated Notes, and will continue to pay such 2% monthly penalties every thirty days until such registration statement if filed, declared effective and available to the investors at the earliest practicable date thereafter. The registration statement was filed after the date due. Accordingly, the Company may have incurred a penalty. The Company is seeking an acknowledgement

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from the affected investors that no penalty has yet incurred and that no such penalty will be incurred so long as the registration statement is declared effective within the applicable time period. If such acknowledgement is not forthcoming, the Company will seek a waiver of the penalty. As there can be no assurance it will receive an acknowledgement or waiver, the Company accrued $386,000 for the fiscal year ended June 30, 2005.

Note 10. Series C Subscription Agreement

On January 31, 2005, the Company entered into certain Series C Subscription Agreements (collectively, the Subscription Agreement), with the Investors. Since the Series C Notes were not converted by March 17, 2005, due to a delay in receiving approval required before effecting the Amendment to the Company s Articles of Incorporation, the Company may be required to pay to the Investors a penalty in cash equal to ten percent (10%) of the principal amount of the Series C Notes. Accordingly, the Company anticipates that it will need to obtain a waiver or an acknowledgment that the penalties do not apply. The Company intends to work with the Investors to obtain waiver of this penalty or an acknowledgement that no penalty is due, and has received such waiver and acknowledgement from certain Investors. However, there is no assurance that the Company will receive sufficient waivers or acknowledgements from other Investors. As such the Company accrued $647,500 for this penalty for the fiscal year ended June 30, 2005.

Note 11. Commitments and Contingencies

Legal Proceedings

On May 6, 2005, the Company received notice of a demand for arbitration before the American Arbitration Association from attorneys representing Michael Liss, a former employee of the Company who had the title Chief Operating Officer. Mr. Liss disputes the circumstances surrounding the termination of his employment and claims that he is entitled to severance benefits, other compensation and damages totaling approximately $187,000 in addition to attorneys fees and statutory damages. The Company believes that Mr. Liss s claim is without merit and intends to vigorously defend itself. The Company has accrued $50,000 for legal cost related to this matter.

Lease of Office Space for Principal Executive Offices

The Company entered into a lease for office space in Greenwich, Connecticut, where the Company has relocated its principal executive offices.

The lease commenced on August 29, 2005 and expires on August 14, 2009. Under the terms of the lease, the Company will pay an aggregate rent over the term of the lease of $313,362.

Note 12. Acquisition of InfoNow

On December 23, 2005, the Company entered into a Agreement and Plan of Merger (the Merger Agreement) with WTH Merger Sub, Inc. (Merger Sub), a wholly-owned subsidiary of the Company, and InfoNow Corporation (InfoNow) in a transaction valued at $7.2 million (the Merger). Pursuant to the Merger Agreement, Merger Sub will be merged with and into InfoNow, with InfoNow surviving the merger as a wholly-owned subsidiary of the Company.

Under the terms of the Merger Agreement, which was approved by both companies boards of directors, each share of InfoNow s common stock outstanding immediately prior to the Merger will be converted into the right to receive approximately $0.71 in a combination of cash and common stock of the Company. The amount of cash per share to be received in the Merger by InfoNow stockholders will be determined by the amount of InfoNow s cash on hand and net working capital available to it three days

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prior to the closing. The lesser of the two amounts will be paid in cash by the Company pro rata in proportion to each stockholder s ownership in InfoNow at the closing of the Merger. The remainder of the approximately $0.71 per share Merger consideration will be paid in shares of the Company s common stock, the value of which will be deemed to be the greater of $1.00 or the average closing price of the Company s common stock as reported on the over-the-counter bulletin board for the twenty consecutive trading days ending two trading days prior to the closing of the Merger (the HALO Conversion Price). The Merger is intended to qualify as a tax-free reorganization under Section 368(a) of the Internal Revenue Code of 1986, as amended.

In addition, each InfoNow common stock option outstanding at the closing with an exercise price less than $0.71 per share will be converted into the right to receive cash and the Company common stock to the extent that the approximately $0.71 per share merger consideration exceeds the applicable exercise price. The amount of cash and the Company common stock to be issued in respect of the outstanding in-the-money stock options as described above will be calculated based upon the relative proportions of the cash and the Company common stock issued in the Merger in respect of the outstanding Company common stock.

The Company will also issue a contingent value right (a CVR) in respect of each share of the Company s common stock issued in the Merger. The CVRs will be payable on the 18-month anniversary of the closing date, and will entitle each holder thereof to an additional cash payment if the trading price of the Company s common stock (based on a 20-day average) is less than the HALO Conversion Price. The CVRs will expire prior to the 18-month payment date if during any consecutive 45-day trading period during that time when the volume of the Company s common stock is not less than 200,000 per day, the stock price is 175% of the HALO Conversion Price. The shares of the Company common stock and related CVRs to be issued in the Merger are expected to be registered with the Securities and Exchange Commission (SEC).

The Merger Agreement includes representations and warranties regarding, among other things, InfoNow s corporate organization and capitalization, the accuracy of its reports and financial statements filed under the Securities Exchange Act of 1934, as amended (the Exchange Act), the absence of certain changes or events relative to InfoNow since September 30, 2005, and InfoNow s receipt of a fairness opinion regarding the Merger from its financial advisor. Similarly, the Company makes representations and warranties regarding, among other things, its corporate organization and capitalization and the accuracy of its reports and financial statements filed under the Exchange Act. The Merger Agreement also includes covenants governing, among other things, InfoNow s and the Company s operations outside the ordinary course of business prior to the

InfoNow is a public enterprise software company, headquarted in Denver, Colorado. InfoNow provides channel visibility and channel management solutions, in the form of software and services, to companies that sell their products through complex networks of distributors, dealers, resellers, retailers, agents or branches (i.e., channel partners). Companies use InfoNow s software and services to collaborate with their channel partners to create demand, increase revenues, lower operating costs and maximize the return on investment of their channel strategies. InfoNow s clients are generally companies with extensive channel partner networks, and include companies such as Apple, Hewlett-Packard, Juniper Networks, NEC Display Solutions of America, The Hartford, Visa, and Wachovia Corporation. closing. Consummation of the Merger is subject to several closing conditions, including, among others, approval by a majority of InfoNow s common shares entitled to vote thereon, negotiation of the final terms of the CVR agreement and the effectiveness of a registration statement on Form S-4 to be filed by the Company, registering the shares of the Company common stock and related CVRs to be issued in the Merger. In addition, the Merger Agreement contains certain termination rights allowing InfoNow, the

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Company or both parties to terminate the agreement upon the occurrence of certain conditions, including the failure to consummate the Merger by July 31, 2006.

This Merger is expected to close in Fiscal Q4, 2006. A copy of the Merger Agreement is attached as Exhibit 10.110 to the Company s Current Report on Form 8-K filed December 27, 2005, and is incorporated herein by reference. The foregoing description of the Merger Agreement is qualified in its entirety by reference to the full text of the Merger Agreement.

Note 13. Employment Agreement and Related Agreements with Mark Finkel

On December 28, 2005, the Company entered into an employment agreement with Mark Finkel in connection with Mr. Finkel s appointment as the Company s Chief Financial Officer. Under the terms of Mr. Finkel s employment agreement, the Company agreed to pay Mr. Finkel a monthly salary of $20,833. Mr. Finkel s base salary is subject to upward adjustment pursuant to the terms of the employment agreement. In addition to base salary, Mr. Finkel is to receive a quarterly bonus equivalent to 25% of his annual Base Salary for each quarter, commencing with the fiscal quarter ending March 31, 2006, in which Mr. Finkel has met the objectives determined by the Company s Compensation Committee. In addition, Mr. Finkel will participate in cash and equity compensation bonuses under the Company s Fiscal 2006 Senior Management Incentive Plan (which was filed as Exhibit 10.93 to the Company s third Current Report on form 8-K filed on October 27, 2005). The initial term of the employment agreement ends on December 31, 2006. The employment agreement automatically renews for successive one-year terms unless either party gives notice of his or its intention to terminate at least 120 days prior to the end of the then current term. The Company may terminate Mr. Finkel s employment at any time for Cause (as defined in the employment agreement) or at any time upon 120 days prior written notice other than for Cause. Mr. Finkel may terminate his employment at any time for Good Reason (as defined in the employment agreement) or upon 120 days written notice without Good Reason. Mr. Finkel is eligible for up to 12 months severance if he is terminated by the Company without Cause or terminates his employment with Good Reason. A copy of the employment agreement was attached as Exhibit 10.111 to the Company s Current Report on Form 8-K filed January 4, 2006.

Pursuant to the terms of the employment agreement, Mr. Finkel was also required to execute the Company s standard form of Non-Competition Agreement and Confidential Information Agreement. The Non-Competition Agreement provides that, during a period commencing with the execution of the agreement and terminating (i) one (1) year after the termination of Mr. Finkel s employment with the Company, or (ii) if termination of employment is under circumstances where severance is due under the Employment Agreement, the period during which severance is paid by the Company, Mr. Finkel will not engage in certain activities which are competitive with the Company s Business (as defined in such agreement). The Confidential Information Agreement provides that Mr. Finkel shall maintain the confidentiality of the Company s Proprietary Information, and that Mr. Finkel assign any intellectual property rights arising during his employment to the Company. A copy of the Non-Competition Agreement is attached as Exhibit 10.112 to the Company s Current Report on Form 8-K filed January 4, 2006. A copy of the Confidentiality Agreement is attached as Exhibit 10.113 to the Company s Current Report on Form 8-K filed January 4, 2006.

Note 14. Subsequent Events

Options Granted to Mark Finkel

In connection with his employment by the Company, and under the Halo Technology Holdings 2005 Equity Incentive Plan, on January 4, 2006, Mr. Finkel received stock options for 600,000 shares of the Company s Common Stock. The options were awarded pursuant to the form of Stock Option Agreement which was attached as Exhibit 10.91 to the Company s third Current Report on form 8-K filed on

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October 27, 2005, and hereby incorporated by reference. The exercise price for Mr. Finkel s options is $1.22 per share (the Fair Market Value on the date of grant by the Compensation Committee). The options granted to Mr. Finkel have a ten year term. 25% of these options vest on the first anniversary of the award, provided Mr. Finkel remains in his position through that date, and the remaining options vest ratably over the following 36 months, provided that Mr. Finkel remains with the Company.

Convertible Promissory Notes and Effect on Previously Issued Convertible Notes

On January 11, 2006, the Company entered into certain convertible promissory notes (the Notes) in the aggregate principal amount of Seven Hundred Thousand Dollars ($700,000). Interest accrues under the Notes at the rate of ten percent (10%) per annum. The Notes will automatically convert into (i) such number of fully paid and non-assessable shares of the Company s Series E Preferred Stock (the Series E Stock) equal to the aggregate outstanding principal amount due under the Notes plus the amount of all accrued but unpaid interest under the Notes divided by $1.25, and (ii) warrants (the Warrants) to purchase a number of shares of the Company s Common Stock equal to 40% of such number of shares of Series E Stock issued to the holder. This automatic conversion will occur upon the effectiveness of the filing of the Certificate of Designations, Preferences and Rights (the Certificate of Designations) pertaining to the Company s Series E Preferred Stock. In the event that the Certificate of Designations is not filed 30 days after the notes were entered into (February 10, 2006) then the holders of the Notes may demand that the Company pay the principal amount of the Notes, together with accrued interest. No demand for payment has been made, and the Company expects the holders to convert their notes into equity. A copy of the form of the Notes is attached as Exhibit 4.14 to the Company s Current Report on Form 8-K filed January 18, 2006, and is incorporated herein by reference. The foregoing description of the Notes is qualified in its entirety by reference to the full text of the Notes.

Also on January 11, 2006, the Company entered into certain Subscription Agreements (the Subscription Agreements) for the sale of Series E Stock and Warrants. In addition to the conversion of the principal and interest under the Notes, investors (the Investors) under the Subscription Agreements agreed to invest $150,000 and committed to convert the principal and interest due under certain promissory notes issued by the Company in the aggregate principal amount of $1,000,000. Of these notes, an aggregate of $500,000 in principal amount was issued on September 20, 2005 and described in the Company s current report on Form 8-K filed on September 26, 2005, and an aggregate of $500,000 in principal amount was issued in October 21, 2005 and described in the second Current Report on Form 8-K filed by the Company on October 27, 2005. Accordingly, these notes were amended by the Subscription Agreement. Also under the Subscription Agreement, an investor agreed to convert $67,500 in certain advisory fees due from the Company into Series E Stock and Warrants.

The material terms of the Subscription Agreements are as follows. The Company designates the closing date. The closing is anticipated to occur when the Series E Certificate of Designations becomes effective. The obligations of the investors under the Subscription Agreement are irrevocable, provided that if the closing has not occurred within 30 days of the date of the agreement, the investors may revoke the agreement.

No later than seventy five (75) days after the completion of the offering, the Company agreed to file with the SEC a registration statement covering the Common Stock underlying the Series E Stock and the Warrants, and any Common Stock that the Company may elect to issue in payment of the dividends due on the Series E Stock.

Upon the completion of this offering, with a full round of investment of $10,000,000, the Investors will have the right for 15 months to invest, in the aggregate, an additional $10,000,000 in Common Stock of the Company, at $2.00 per share of Common Stock (as adjusted for stock splits, reverse splits, and

Warp Technology Holdings, Inc.
Notes to Consolidated Financial Statements for Period Ended December 31, 2005 (Continued)

stock dividends) or a 20% discount to the prior 30 day trading period, whichever is lower. Each Investor s right shall be his, her or its pro rata amount of the initial offering.

In the event that the Company completes or enters into agreements to sell equity securities on or before February 15, 2006, the Investor may convert the Securities received under the Subscription Agreement into such other equity securities as if the Investor had invested the amount invested in such securities. The Company will provide the Investor will five business days notice of such right. The Investor will be required to execute and deliver all such transaction documents as required by the Company in order to convert the Securities into such other securities. If the Investor so converts, all rights in the Securities shall cease.

Certain of these transactions were entered into by Mr. David Howitt, a director of the Company. Mr. Howitt invested $350,000 under the Notes, and agreed to invest another $150,000 under the Subscription Agreement. Mr. Howitt recused himself from the Board of Directors decisions approving these transactions.

A copy of the form of the Subscription Agreement is attached as Exhibit 10.115 to the Company s Current Report on Form 8-K filed January 18, 2006.

Issuance of Common Stock in connection with the Acquisition of Empagio, Inc.

The Company entered into a Merger Agreement (the Merger Agreement) dated December 19, 2005, with EI Acquisition, Inc., a Georgia corporation and wholly owned subsidiary of the Company (Merger Sub), Empagio, Inc. (Empagio), and certain stockholders of Empagio (the Sellers). On January 13, 2006, the closing occurred under the Merger Agreement. Accordingly, under the terms of the Merger Agreement, Empagio was merged with and into the Merger Sub (the Merger) and Empagio survived the Merger and in now a wholly-owned subsidiary of the Company.

Upon the closing of the Merger, the Company issued 1,438,455 shares of its Common Stock (the Halo Shares). The Company has delivered to the Empagio Stockholders 1,330,571 Halo Shares and retained 107,884 Halo Shares as security for Empagio Stockholder indemnification obligations under the Merger Agreement (the Indemnity Holdback Shares). The Indemnity Holdback Shares shall be released to the Empagio Stockholders on the later of (i) the first anniversary of the Closing Date and (ii) the date any indemnification issues pending on the first anniversary of the Closing Date are finally resolved.

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. The Company intends to integrate Empagio with additional HR solutions already within its portfolio to create a premier human resources management solutions provider.

A copy of the Merger Agreement was attached as Exhibit 10.109 to the Company s Current Report on Form 8-K filed on December 23, 2005.

Convertible Promissory Notes in the Principal Amount of $1,375,000

On January 27 and on January 30, 2006, the Company entered into certain convertible promissory notes (the Notes) in the aggregate principal amount of One Million Three Hundred Seventy-Five Thousand Dollars ($1,375,000). The principal amount of the Notes, together with accrued interest, shall be due and payable on demand by the Lender on any date which is no earlier than sixty (60) days after the date of the Notes (the Original Maturity Date), unless the Note is converted into Common Stock and Warrants as described below. In the event that the Notes are not converted by the Original Maturity Dates of the Notes, interest will begin to accrue at the rate of ten percent (10%) per annum.

Warp Technology Holdings, Inc.
Notes to Consolidated Financial Statements for Period Ended December 31, 2005 (Continued)

Each Note shall convert into (i) such number of fully paid and non-assessable shares of the Company s Common Stock (the Common Stock) equal to the aggregate outstanding principal amount due under the Note plus the amount of all accrued but unpaid interest on the Note divided by $1.25, and (ii) warrants (the Warrants) to purchase a number of shares of the Company s Common Stock equal to 75% of such number of shares of Common Stock. The Notes shall so convert automatically (Mandatory Conversion) and with no action on the part of the Lender on the Original Maturity Date to the extent that upon such conversion, the total number of shares of Common Stock then beneficially owned by such Lender, does not exceed 9.99% of the total number of issued and outstanding shares of Common Stock. For such purposes, beneficial ownership shall be determined in accordance with Section 13(d) of the Exchange Act and the rules and regulations promulgated thereunder. In the event that a portion of the principal and interest under the Notes has not been converted on the first Mandatory Conversion (and the Lender has not demanded payment), there will be subsequent Mandatory Conversions until all of the principal and interest has been converted, provided that at each such Mandatory Conversion the total number of shares of Common Stock then beneficially owned by such Lender does not exceed 9.99% of the total number of issued and outstanding shares of Common Stock. Prior to any Mandatory Conversion the Lender may at its option exercisable in writing to the Company, convert all or a portion of the principal and interest due hereunder into Common Stock and Warrants provided that at each such conversion the total number of shares of Common Stock then beneficially owned by such Lender does not exceed 9.99% of the total number of issued and outstanding shares of Common Stock. By written notice to the Company, each Lender may waive the foregoing limitations on conversion but any such waiver will not be effective until the 61st day after such notice is delivered to the Company.

A copy of the form of the Notes was attached as Exhibit 4.15 to the Company s Current Report on Form 8-K filed February 2, 2006.

Also on January 27 and January 30, 2006, the Company entered into certain Subscription Agreements (the Subscription Agreements) for the sale of the Notes and the underlying Common Stock and Warrants.

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.

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. If a registration statement covering the Registrable Shares has not been declared effective no later than 180 days from the closing, the holders shall receive a number of shares of Common Stock equal to 1.5% of the number of shares received upon conversion of the Notes for each 30 days thereafter during which the Registrable Shares have not been registered, subject to a maximum penalty of 9% of the number of shares received upon conversion of the Notes.

The Subscription Agreement allows the Investors to piggyback on the registration statements filed by the Company. The Company agreed that it will maintain the registration statement effective under the Securities Act until the earlier of (i) the date that all of the Registrable Shares have been sold pursuant to such Registration Statement, (ii) all Registrable Shares have been otherwise transferred to Persons who may trade such shares without restriction under the Securities Act, or (iii) all Registrable Shares may be sold at any time, without volume or manner of sale limitations pursuant to Rule 144(k) under the Securities Act.

Warp Technology Holdings, Inc.
Notes to Consolidated Financial Statements for Period Ended December 31, 2005 (Continued)

Upon the completion of the offering under the Subscription Agreements, with a full round of investment of $10,000,000, the Investors in the Offering, together with the investors who participated in the Company s offering of Series E Preferred Stock and Warrants (the Series E Offering) as described initially in the Company s current report on Form 8-K filed on January 18, 2006, will have the right for 15 months after the final closing of the Offering, to invest, in the aggregate (together with any investors in such Series E offering), an additional $10,000,000 in Common Stock of the Company. The price of such follow-on investment will be $2.00 per share of Common Stock or a 20% discount to the prior 30 day trading period, whichever is lower; provided that the price per share shall not be less than $1.25. The aggregate amount which may be invested pursuant to this follow-on right will be equivalent to the aggregate amount invested by the Investor in the Offering or in the Series E Offering. Each Investor s right shall be his, her or its pro rata amount of the initial offering.

Once the Company has raised a total of $5,000,000 in this Offering and the Series E Offering, the Investors will be able to invest up to 50% of the amount which they may invest pursuant to this follow-on right; subsequent to the completion of the full round of $10,000,000 the Investors may invest the remainder of the amount which they may invest pursuant to this follow-on right.

Notwithstanding anything to the contrary in the Subscription Agreements, the number of shares of Common Stock that may be acquired by the Investor upon any exercise of this follow-on right (or otherwise in respect hereof) shall be limited to the extent necessary to insure that, following such exercise (or other issuance), the total number of shares of Common Stock then beneficially owned by such Investor and its Affiliates and any other Persons whose beneficial ownership of Common Stock would be aggregated with the Investor s for purposes of Section 13(d) of the Exchange Act, does not exceed 9.99% of the total number of issued and outstanding shares of Common Stock. By written notice to the Company, the Investor may waive the provisions of this Section but any such waiver will not be effective until the 61st day after such notice is delivered to the Company.

A copy of the form of the Subscription Agreement is attached as Exhibit 10.116 to the Company s Current Report on Form 8-K.

Acquisition of Executive Consultants, Inc.

On January 30, 2006, the Company entered into a Merger Agreement (the Merger Agreement) with ECI Acquisition, Inc., a Maryland corporation and wholly owned subsidiary of the Company (Merger Sub), Executive Consultants, Inc., a Maryland corporation (ECI), and certain stockholders of ECI (the Sellers). Under the terms of the Merger Agreement, the Merger Sub shall be merged with and into ECI (the Merger) and ECI shall be the surviving corporation. The total merger consideration for all of the equity interests in ECI (the Purchase Price) shall be $603,571 in cash and cash equivalents and 330,668 shares of the Company s Common Stock (the Halo Shares), subject to adjustment based on the Net Working Capital (as defined in the Merger Agreement) on the Closing Date.

The Purchase Price shall be paid as follows:

At the Closing, Halo shall make available for delivery to the ECI Stockholders $603,571 in cash and cash equivalents and 330,668 Halo Shares.

Not later than thirty (30) days after the Closing Date, Halo shall calculate the Net Working Capital as of the Closing Date and shall provide Sellers with a written copy of such calculation. Such calculation shall be definitive and binding upon the parties unless Sellers shall give Halo written notice of any objection to such calculation within thirty (30) days after the receipt thereof (an Objection Notice). If Sellers deliver an Objection Notice, the parties shall negotiate in good faith to resolve all disputes regarding the Net Working Capital. If the parties can not resolve such a

Warp Technology Holdings, Inc.
Notes to Consolidated Financial Statements for Period Ended December 31, 2005 (Continued)

dispute they shall mutually agree upon a nationally or regionally recognized accounting firm to determine the Net Working Capital, whose decision, absent manifest error, shall be binding upon the parties.

On January 30, 2006, the Company entered into a Merger Agreement with Executive Consultants, Inc., a Maryland corporation (ECI). Upon the closing under the Merger Agreement, ECI will become a wholly owned subsidiary of the Company. The total merger consideration for all of the equity interests in ECI (the Purchase Price) will be $603,571 in cash and cash equivalents and 330,668 shares of the Company s Common Stock (the Halo Shares), subject to adjustment based on the Net Working Capital (as defined in the Merger Agreement) on the Closing Date. Following completion of the transaction, ECI will be combined with Empagio, a subsidiary of the Company. The acquisition of ECI s clients, will enhance Empagio s human resources software offerings. The Merger is scheduled to close in February 2006, subject to customary closing conditions.

To the extent the Net Working Capital as of the Closing Date is less than $0 (the amount of any such difference referred to as the Purchase Price Reduction Amount), the Purchase Price, shall be reduced, dollar for dollar and share for share (based on the per share closing valuation), by the Purchase Price Reduction Amount. To the extent the Net Working Capital as of the Closing Date is greater than $0 (the amount of any such difference referred to as the Purchase Price Increase Amount) the Purchase Price, shall be increased, dollar for dollar and share for share (based on the per share closing valuation), by such amount. The amount due under the Net Working Capital adjustment shall be paid within five (5) business days of the final determination of the Purchase Price Reduction Amount or Purchase Price Increase Amount, as the case may be, by wire transfer of immediately available funds and transfer of Halo Shares. To the extent the calculation of Net Working Capital results in a Purchase Price Reduction Amount, the Sellers shall be responsible for this amount, although the Sellers may make arrangements among the ECI Stockholders to allocate this obligation pro rata among all ECI Stockholders.

Under the Merger Agreement, the Sellers made certain customary representations and warranties to the Company concerning ECI and the Company made certain customary representations and warranties to the Sellers. The Merger Agreement contains indemnity terms which provide that each party shall indemnify the other party for breaches of representations and warranties and covenants made under the agreement, provided that neither party shall be required to pay any damages unless the aggregate amount of all damages exceeds certain limits and provided further that neither party shall be liable for damages in excess of certain limits, other than for breaches by the Seller of representations relating to authority to enter into the agreement, capitalization, subsidiaries, certain liabilities, taxes and brokers fees.

The Merger is scheduled to close in February 2006, subject to customary conditions precedent including accuracy of representations and warranties at the closing date, and satisfaction of all closing conditions, but in no event later than February 28, 2006.

A copy of the Merger Agreement is attached as Exhibit 10.117 to the Company s Current Report on Form 8-K filed on February 3, 2006.

FINANCIAL STATEMENTS
Tesseract Corporation
Years ended June 30, 2005 and 2004
with Report of Independent Registered Public Accounting Firm
Contents

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Report of Independent Registered Public Accounting Firm

The Shareholders
Tesseract Corporation

We have audited the accompanying balance sheet of Tesseract Corporation (the Company) as of June 30, 2005, and the statements of income, shareholder s deficit, and cash flows for the years ended June 30, 2005 and 2004. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tesseract Corporation as of June 30, 2005, and the results of its operations and its cash flows for the years ended June 30, 2005 and 2004 in conformity with accounting principles generally accepted in the United States.

Mahoney Cohen & Company, CPA, P.C.
January 6, 2006
New York, NY

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Tesseract Corporation
Balance Sheet

	June 30, 2005
ASSETS	
Current assets:	
Cash	$ 825,104
Accounts receivable, net of allowance for doubtful accounts of $2,809	126,630
Prepaid expenses and other current assets	89,036
Total current assets	1,040,770
Property and equipment, net of accumulated depreciation of $193,316	6,120
Intangible assets, net of accumulated amortization of $1,225,918	94,302
Due from affiliates	3,198,463
Total assets	$ 4,339,655
LIABILITIES AND SHAREHOLDER S DEFICIT	
Current liabilities:	
Accounts payable	$ 226,856
Other accrued liabilities	368,186
Due to affiliates	156,041
Loan payable	82,174
Note payable	72,442
Deferred revenue-current portion	4,649,081
Total current liabilities	5,554,780
Deferred revenue-long-term portion	101,734
Total liabilities	5,656,514
Commitments	
Shareholder s deficit:	
Common stock, $.01 par value, 1,000 shares authorized, 100 shares issued and outstanding at June 30, 2005	1
Additional paid in capital	1,805,469
Accumulated deficit	(3,122,329)
Total shareholder s deficit	(1,316,859)
Total liabilities and member s deficit	$ 4,339,655

See accompanying notes.

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Tesseract Corporation
Statements of Income

	Years Ended June 30,	
	2005	**2004**
Revenues:		
Products	$ 762,585	$ 127,604
Services	9,136,808	10,649,571
Total revenues	9,899,393	10,777,175
Cost of revenues:		
Cost of products	85,647	128,767
Cost of services	1,522,840	1,637,651
Total cost of revenues	1,608,487	1,766,418
Gross profit	8,290,906	9,010,757
Operating expenses:		
Selling, general, and administrative expenses	2,974,832	3,570,116
Research and development expenses	1,803,455	1,671,009
Depreciation and amortization	200,174	256,093
Management fees to Platinum Equity, LLC	2,575,000	2,400,000
Total operating expenses	7,553,461	7,897,218
Income from operations	737,445	1,113,539
Other income (expense):		
Interest income	258,018	237,204
Interest expense	(102,354)	(85,853)
Other income (expense), net	12,000	(10,127)
Income before provision (benefit) for income taxes	905,109	1,254,763
Provision (benefit) for income taxes	(2,281)	43,066
Net income	$ 907,390	$ 1,211,697
Earnings per share	$ 9,073.90	$ 12,116.97
Weighted-average number of common shares	100	100

See accompanying notes.

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Tesseract Corporation
Statements of Shareholder s Deficit
For the Years Ended June 30, 2005 and 2004

	Common Stock			Accumulated Other		Total
	Shares	Amount	Paid in Capital	Comprehensive (Loss)	Accumulated Deficit	Shareholder s Deficit
Balance at July 1, 2003	100	$ 1	$ 496,419	$ (53,253)	$ (3,921,436)	$ (3,478,269)
Contributions			500,000			500,000
Distributions					(1,319,980)	(1,319,980)
Unrealized holding gain arising during the year				38,423		38,423
Reclassification adjustment for realized loss				14,830		14,830
Net income					1,211,697	1,211,697
Balance at June 30, 2004		1	996,419		(4,029,719)	(3,033,299)
Contributions			809,050			809,050
Net income					907,390	907,390
Balance at June 30, 2005		$ 1	$ 1,805,469	$	$ (3,122,329)	$ (1,316,859)

See accompanying notes.

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Tesseract Corporation
Statements of Cash Flows

	Year Ended June 30	
	2005	**2004**
OPERATING ACTIVITIES		
Net income	$ 907,390	$ 1,211,697
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	200,174	256,093
Loss on sale of investments		14,830
Provision for bad debt	2,810	(26,711)
Changes in operating assets and liabilities:		
Accounts receivable	55,097	289,950
Due from affiliates	(258,018)	(237,204)
Prepaid expenses and other assets	(11,869)	(20,770)
Accounts payable	2,232	(220,309)
Other accrued liabilities	(105,951)	(141,873)
Due to affiliates	1,927	(118,649)
Deferred revenue	(543,360)	132,418
Net cash provided by operating activities	250,432	1,139,472
INVESTING ACTIVITIES		
Purchases of property and equipment	(3,760)	(5,589)
Proceeds from sale of securities		1,282,307
Net cash (used in) provided by investing activities	(3,760)	1,276,718
FINANCING ACTIVITIES		
Shareholder distributions		(1,319,965)
Shareholder contributions	809,050	500,000
Repayments of note payable	(1,271,256)	(500,000)
Repayments of loan payable	(410,870)	
Net cash used in financing activities	(873,076)	(1,319,965)
Net (decrease) increase in cash	(626,404)	1,096,225
Cash at beginning of year	1,451,508	355,283
Cash at end of year	$ 825,104	$ 1,451,508
Supplemental disclosures of cash flow information		
Cash paid for income taxes	$ 22,080	$ 43,066
Cash paid for interest	$ 102,354	$ 85,853

See accompanying notes.

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Tesseract Corporation
Notes to Financial Statements
June 30, 2005

1. Organization and Nature of Business

In January of 1999, Platinum Equity, LLC (Platinum), purchased Tesseract Corporation (Tesseract or Company) from Ceridian Corporation and Tesseract became a wholly owned subsidiary of Platinum. On October 26, 2005, the Company was acquired by WARP Technology Holdings, Inc. operating under the name Halo Technology Holdings, a publicly traded company. (See note 7). On December 31, 2004, Westgarde Holdings, Inc. (Westgarde), owned by Platinum, merged with Tesseract. Westgarde s issued and outstanding shares of common stock were retired and cancelled, Westgarde ceased to exist and Tesseract was the surviving entity, Due to the common ownership of the companies, Tesseract s financial statement give effect to the merger as of July 1, 2003.

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 features Fortune 100 corporations operating in a diverse range of industries, including financial services, transportation, utilities, insurance, manufacturing, petroleum, pharmaceuticals and retail.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

Cash

The Company typically maintains cash at commercial banks. At times, bank account balances exceed FDIC insurance limits. Generally, the FDIC insures depositor funds up to $100,000.

Concentration of Credit Risk and Certain Other Risks

Financial instruments that subject the Company to concentrations of credit risk include accounts receivable. The Company sells its products and services primarily to end-users in the United States and limited in Canada. Credit is extended based on an ongoing evaluation of the customer s financial condition and, generally, collateral is not required. The Company maintains allowances for potential credit losses based on management s evaluation of the customer s financial condition, past collection history, and age of the accounts receivable balances. Historically, losses have been within the range of management s expectations.

Fair Value of Financial Instruments

At June 30, 2005, the respective carrying values of the Company s financial instruments, including accounts receivable, accounts payable, accrued liabilities, loans payable and notes payable approximated their fair values.

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Tesseract Corporation
Notes to Financial Statements (Continued)

Comprehensive Income

Comprehensive income is comprised of net income or loss and unrelated gain or loss on marketable securities for the year ended June 30, 2004. For the year ended June 30, 2005, comprehensive income consisted of net income only. Comprehensive income for the year ended June 30, 2004 is as follows:

Net income	$ 1,211,697
Unrealized holding gain during the year	38,423
Reclassification adjustment for realized loss	14,830
Comprehensive income	$ 1,264,950

Marketable Securities

Marketable securities are stated at fair value as determined by quoted market price. The Company has classified its securities as investments available for sale pursuant to Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities. The related unrealized holding gains and losses are excluded from operations and recorded in Accumulated Other Comprehensive Loss on the Statement of Shareholders Equity. Realized gains and losses and declines in value judged to be other-than-temporary on marketable securities are included in other expense. In September 2003, the Company sold all of its Marketable Securities and recognized a loss of $14,830 for the year ended June 30, 2004.

Property and Equipment

Property and equipment recorded as part of the acquisition by Platinum was recorded at fair value. Property and equipment acquired subsequent to the date of the acquisition is recorded at cost. Significant renewals and betterments to property and equipment are capitalized and maintenance and repairs that do not improve or extend the lives of the assets are expensed as incurred. When assets are sold, replaced, or otherwise retired, the cost and related accumulated depreciation or amortization is eliminated from the accounts in the year of disposal and the related gains and losses are included in income. Depreciation or amortization is computed on the straight-line method over one to three years, the estimated useful lives of the assets.

Intangible Assets

Amortization of intangible assets is computed using the straight-line method over seven years, the useful lives of the assets.

Earnings Per Share

Earnings per share has been calculated by dividing net income by the weighted-average shares outstanding.

Revenue Recognition

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

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

Tesseract Corporation
Notes to Financial Statements (Continued)

recognizes the difference between the total arrangement fee and the amount deferred for the undelivered items as revenue. 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.

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.

At June 30, 2005, the Company recorded deferred revenue of $4,750,815, primarily for customer upfront payments on maintenance contracts and arrangements for which the Company is recognizing the total arrangement fee ratably over the contractual maintenance term.

Cost of Revenue

Cost of revenue includes costs related to product and service revenue. Cost of product revenue includes third-party licensing fees. Cost of service revenue includes salaries, benefits, and overhead costs associated with employees providing maintenance and technical support, training and consultant services. Third-party consultant fees are also included in cost of service revenue.

Impairment of Long-Lived Assets

The Company evaluates its long-lived assets and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the asset to the future net undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the future discounted cash flows compared to the carrying amount of the asset.

Income Taxes

The Company is an S corporation and is treated as a disregarded entity for federal income tax purposes and, therefore, is not liable for United States (U.S.) federal income taxes. As an S corporation, the Company s taxable income is included in the income tax returns of the shareholder. However, some states do not recognize the disregarded entity status and, therefore, the Company will continue to be taxed as a C corporation within those states. Additionally, there are certain states in the U.S. that assess a fee against S corporations. Accordingly, for those various states, the Company utilizes the liability method to determine the provision for income taxes.

Income tax expense and benefit relates to state income taxes and income tax refunds. The book and tax basis of the assets and liabilities with the exception of deferred revenue, intangible assets and accrued interest receivable are the same. Since the Company is an S corporation, a deferred tax asset or liability was not recorded.

Shipping and Handling Costs

Costs to ship products from the Company s facilities to customers are recorded as a component of cost of products in the statements of income.

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Tesseract Corporation
Notes to Financial Statements (Continued)

Advertising Expense

The Company expenses the costs of advertising when incurred. Advertising expense was $43,899 and $9,141 for the years ended June 30, 2005 and 2004, respectively.

Research and Development and Software Development Costs

Research and development expenses are charged to operations as incurred. Software development costs, which are required to be capitalized pursuant to Statement of Financial Accounting Standards No. 86, *Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed,* have been insignificant. Accordingly, no software development costs have been capitalized. Research and development expense was $1,803,455 and $1,671,009 for the years ended June 30, 2005 and 2004, respectively.

New 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. SFAS No. 123(R) will be effective for the interim period beginning July 1, 2006. The Company believes the adoption will not have an effect on our results of operations.

3. Property and Equipment

At June 30, 2005, property and equipment consisted of the following:

Computer Equipment	$	199,436
Less accumulated depreciation		(193,316)
Property and equipment, net	$	6,120

Depreciation expense was $11,570 and $67,489 for the years ended June 30, 2005 and 2004 respectively.

4. Intangible Assets

At June 30, 2005, intangible assets consisted of the following:

	Gross Carrying Amount	Accumulated Amortization	Net
Customer relationships	$ 1,320,220	$ 1,225,918	$ 94,302

Amortization expense was $188,604 for each of the years ended June 30, 2005 and 2004.

Amortization expense for the year ending June 30, 2006 will be $94,302 relating to customer relationships.

5. Related Party Transactions

Note Receivable, Management Fees and Expense Reimbursements

The Note Receivable from Platinum was $3,198,463 for the year ended June 30, 2005. The Promissory Note has a principal amount of $2,000,000 with interest on unpaid principal amount at an

Tesseract Corporation
Notes to Financial Statements (Continued)

interest rate equal to eight and one-half percent per annum due January 14, 2009. At June 30, 2005, accrued interest was $1,198,463. Interest income was $258,018 and $237,204 for the years ended June 30, 2005 and 2004, respectively.

The Company is party to a management agreement with Platinum that requires Platinum to provide the Company with financial, management and strategic services. The Company incurred management fees of $2,575,000 and $2,400,000 to Platinum for the years ended June 30, 2005 and 2004, respectively.

Expenses incurred by Platinum on behalf of the Company were $2,362 and $4,501 for the years ended June 30, 2005 and 2004, respectively. Such expense reimbursements are recorded in general and administrative expenses in the accompanying statements of operations. At June 30, 2005, the Company had $156,041 payable to Platinum for management fees and expense reimbursements.

Transactions with Affiliates

The Company enters into certain transactions with companies that are owned directly or indirectly by Platinum. Sales to affiliates were $12,000 during the year ended June 30, 2005. Purchases from affiliates were $1,673 and $14,523 during the years ended June 30, 2005 and 2004, respectively, and were included in selling, general, and administrative expenses in the statements of operations.

6. Notes and Loans Payable

The Company has a loan payable to a bank in the amount of $82,174 that bears interest at the bank s prime lending rate (6.25% at June 30, 2005). The loan was due July 2005 and was paid in full.

The Company has an unsecured note payable to a lender in the amount of $72,442 that bears interest at 8.0% annually. The loan was due July 2005 and was paid in full.

7. Commitments

Leases

The Company has operating leases for certain office facilities. Rental expense for the years ended June 30, 2005 and 2004 was approximately $471,000 and $392,000, respectively. Future minimum lease payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2005, are as follows:

2006	$ 471,345
2007	392,790
Total minimum lease payments	$ 864,135

Rental income in connection with a sublease was approximately $79,000 for the year ended June 30, 2004.

8. Employee Benefits

The Company has a 401(k) plan which includes an employer match of 50% of the first 6% of a participant s eligible contributions. The Company made matching contributions of $78,149 and $96,498 for the years ended June 30, 2005 and 2004, respectively.

9. Subsequent Event

On October 26, 2005, WARP Technology Holdings, Inc. operating under the name Halo Technology Holdings (Halo) completed the transactions contemplated by that certain Merger Agreement (the

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Tesseract Corporation
Notes to Financial Statements (Continued)

Merger Agreement) dated as of September 12, 2005 with Tac/ Halo, Inc., a wholly owned subsidiary of Halo (the Merger Sub), Tesseract and Platinum Equity, LLC (Seller). Under the terms of the Merger Agreement, Tesseract shall be merged with and into the Merger Sub (the Merger) and shall survive as a wholly-owned subsidiary of Halo. The aggregate consideration shall consist of (a) $4,500,000 in cash payable at the closing of the Merger, (b) 7,045,454 shares of Series D Preferred Stock as calculated by dividing $7,750,000 by $1.10, (c) a Promissory Note in the original principal amount of $1,750,000, delivered at closing and payable no later than March 31, 2006, and (d) a Working Capital Adjustment of $1,000,000 to be paid no later than November 30, 2005 (which have not been paid). If the Promissory Note is paid on or before March 31, 2006, Platinum will return for cancellation, without additional consideration from the Company, 909,091 shares of Series D Preferred Stock to Halo.

In addition, the amount due from Platinum at the closing was forgiven by the Company and accordingly, will not be collected by the Company.

Combined Financial Statements
Process Software, LLC and Affiliates
Years ended June 30, 2005 and 2004
With Report of Independent Registered Public Accounting Firm

Contents

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Report of Independent Registered Public Accounting Firm

The Members and Shareholders
Process Software, LLC and Affiliates

We have audited the accompanying combined balance sheet of Process Software, LLC and Affiliates (the Company) as of June 30, 2005, and the combined statements of operations, member s and shareholder s equity, and cash flows for the years ended June 30, 2005 and 2004. These combined financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Process Software, LLC and Affiliates as of June 30, 2005, and the combined results of their operations and their cash flows for the years ended June 30, 2005 and 2004 in conformity with accounting principles generally accepted in the United States.

Mahoney Cohen & Company, CPA, P.C.
January 6, 2006
New York, NY

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Process Software, LLC and Affiliates
Combined Balance Sheet

		June 30, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$	983,630
Accounts receivable, net of allowances of $112,281		1,546,015
Due from affiliates		22,138
Prepaid expenses and other assets		322,782
Total current assets		2,874,565
Property and equipment, net of accumulated depreciation of $2,411,177		101,540
Other assets		111,154
Goodwill		1,642,760
Intangible assets, net of accumulated amortization of $7,307,910		5,992,090
Total assets	$	10,722,109
LIABILITIES AND MEMBER S AND SHAREHOLDER S EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$	1,214,904
Deferred revenues current portion		5,688,873
Due to Platinum Equity, LLC		2,259,460
Total current liabilities		9,163,237
Deferred revenues long term		20,323
Commitments		
Member s and shareholder s equity:		
Member s equity		2,026,293
Common stock		120,000
Paid in capital		3,672,736
Accumulated deficit		(4,280,480)
Total member s and shareholder s equity		1,538,549
Total liabilities and member s and shareholder s equity	$	10,722,109

See accompanying notes.

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Process Software, LLC and Affiliates
Combined Statements of Operations

	Year Ended June 30 2005	Year Ended June 30 2004
Revenues:		
Products	$ 2,463,329	$ 2,578,529
Service	13,654,402	15,364,931
Total revenues	16,117,731	17,943,460
Cost of revenues:		
Cost of products	684,046	830,834
Cost of services	1,785,936	2,127,438
Total cost of revenues	2,469,982	2,958,272
Gross profit	13,647,749	14,985,188
Operating expenses:		
Engineering and development	3,412,322	3,780,801
Selling and marketing	1,613,641	2,126,612
General and administrative	3,873,562	4,025,906
Depreciation and amortization	1,611,512	1,543,197
Management fees to Platinum Equity, LLC	2,916,046	4,509,677
Total operating expenses	13,427,083	15,986,193
Income (loss) from operations	220,666	(1,001,005)
Other income (expense):		
Interest income, net	(35,924)	17,488
Other expense, net	(2,248)	(84,938)
Income (loss) before provision for taxes	182,494	(1,068,455)
Provision for Income taxes	22,707	6,900
Net income (loss)	$ 159,787	$ (1,075,355)

See accompanying notes.

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Process Software, LLC and Affiliates
Combined Statements of Member s and Shareholder s Equity

	Member s Equity	David Common Stock Shares	David Common Stock Amount	Foresight Common Stock Shares	Foresight Common Stock Amount	Paid in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Totals
Balance at June 30, 2003	$ 1,003,019	10	$	12,000,000	$ 120,000	$ 3,568,394	$ (3,406,637)	$ (109,986)	$ 1,174,790
Contributions						104,342			104,342
Distributions to Shareholder							(135,000)		(135,000)
Distributions to Member	(6,251)								(6,251)
Unrealized holding gain arising during the year								41,039	41,039
Reclassification adjustment for realized loss								68,947	68,947
Net loss	(684,038)						(391,317)		(1,075,355)
Balance at June 30, 2004	312,730	10		12,000,000	120,000	3,672,736	(3,932,954)		172,512
Contributions	1,306,250								1,306,250
Distributions to Shareholder							(100,000)		(100,000)
Net income (loss)	407,313						(247,526)		159,787
Balance at June 30, 2005	$ 2,026,293	10		12,000,000	$ 120,000	$ 3,672,736	$ (4,280,480)	$	$ 1,538,549

See accompanying notes.

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Process Software, LLC and Affiliates
Combined Statements of Cash Flows

	Year Ended June 30, 2005	Year Ended June 30, 2004
Operating activities		
Net income (loss)	$ 159,787	$ (1,075,355)
Adjustments to reconcile net income (loss) to cash used in operating activities:		
Depreciation and amortization	1,611,512	1,543,197
Loss on sale of securities		68,947
Changes in operating assets and liabilities:		
Accounts receivable	251,954	333,473
Due from affiliate	14,907	(3,387)
Prepaid expenses and other assets	103,102	70,293
Other assets	35,600	13,093
Accounts payable and accrued expenses	401,571	(467,159)
Due to affiliates	(3,519,528)	(547,820)
Deferred revenue	(790,071)	(668,804)
Net cash used in operating activities	(1,731,166)	(733,522)
Investing activities		
Purchases of property and equipment	(61,912)	(170,789)
Sale of marketable securities		451,117
Net cash (used in) provided by investing activities	(61,912)	280,328
Financing activities		
Stockholder s and member s distributions	(100,000)	(141,251)
Member s contribution	1,306,250	104,342
Net cash provided by (used in) in financing activities	1,206,250	(36,909)
Net decrease in cash and cash equivalents	(586,828)	(490,103)
Cash and cash equivalents at beginning of year	1,570,458	2,060,561
Cash and cash equivalents at end of year	$ 983,630	$ 1,570,458
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	$ 22,707	$ 6,900
Cash paid for interest	$ 35,770	$ 40,042

See accompanying notes

Process Software, LLC and Affiliates
Notes to Combined Financial Statements
June 30, 2005

1. Organization and Nature of Business

The combined financial statements include Process Software, LLC (Process), David Corporation (David), ProfitKey International, LLC (ProfitKey) and Foresight Software, Inc. (Foresight) (combined the Company). These four entities are affiliated through common ownership and management. Platinum Equity, LLC (Platinum) either directly or indirectly owns all the common stock or complete membership interest in these affiliated companies. All intercompany balances and transactions have been eliminated in combination.

Process designs, develops and markets networking software solutions, including a suite of TCP/ IP applications and services for Compaq s OpenVMS Alpha and VAX systems. Process focuses on providing the most advanced, secure and reliable networking software available. Process products are cross-platform, directory-centric solution sets for the administration and proactive provisioning of secure reliable end-to-end network services and applications.

David provides risk management information systems, and serves clients ranging from Fortune 500 companies to public entities and third-party administrators. David offers client/server-based products to companies that provide their own workers compensation and liability insurance.

ProfitKey designs, develops and markets ERP Software and Manufacturing Execution Software (MES) to small to mid-market make-to-order/make-to-stock manufacturers. ProfitKey focuses on providing a comprehensive solution including quality control, engineering change management and e-commerce capabilities. ProfitKey s products are written using the GUPTA programming language and operate on the Oracle, SQL server and Linux database platforms.

Foresight designs, develops and markets ERP and SMS software to small to mid-market make-to-order/make-to-stock manufacturers. The Foresight s products are written using the Progress programming language and operate on the Progress database platform.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentrations of Credit Risk and Major Customers

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of accounts receivable.

The credit risk with respect to accounts receivable is limited due to the creditworthiness of the Company s customers, and the Company s credit and collection policies. The Company performs ongoing credit evaluations of its customers, generally does not require collateral and maintains allowances for potential credit losses which, when realized, have been within the range of management s expectations. No one customer accounted for a significant percentage of the Company s revenue during the years ended June 30, 2004 or 2005. Additionally, no one customer accounted for a significant percentage of the Company s accounts receivable at June 30, 2005.

Process Software, LLC and Affiliates
Notes to Combined Financial Statements (Continued)

Cash and Cash Equivalents

The Company invests its excess cash primarily in money market mutual funds. Accordingly, these investments are subject to minimal credit and market risk. For financial reporting purposes, the Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Income Taxes

Process and ProfitKey are single member limited liability companies that are treated as a disregarded entity for federal income tax purposes and, therefore, are not liable for United States (U.S.) federal income taxes. As a limited liability company treated as a disregarded entity, the Process and ProfitKey s taxable income is included in the income tax returns of the member. However, some states do not recognize the disregarded entity status and, therefore, the Company will continue to be taxed as a C corporation in those states. Additionally, there are certain states in the U.S. that assess a fee against limited liability companies. Accordingly, for those various states, the Company utilizes the liability method to determine the provision for income taxes.

David and Foresight are entities that are an S corporation and are treated as a disregarded entity for federal income tax purposes and, therefore, are not liable for United States (U.S.) federal income taxes. As an S Corporation they are treated as a disregarded entity, the David and Foresight s taxable income is included in the income tax returns of the shareholder. However, some states do not recognize the disregarded entity status and, therefore, the Company will continue to be taxed as a C corporation in those states. Additionally, there are certain states in the U.S. that assess a fee against S corporations. Accordingly, for those various states, the Company utilizes the liability method to determine the provision for income taxes.

Income tax expense relates to state income taxes. The book and tax basis of the assets and liabilities with the exception of deferred revenue, intangible assets and goodwill are the same. Since the Company comprises of entities that are limited liability companies and S corporations, a deferred tax asset or liability was not recorded.

Property and Equipment

Property and equipment recorded are cost. Property and equipment acquired subsequent to the date of acquisition is stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from three to seven years. Leasehold improvements are amortized over the shorter of the estimated life of the asset or lease term.

Engineering and Development and Software Development Costs

Engineering and development expenses are charged to operations as incurred. Software development costs incurred subsequent to the establishment of technological feasibility are capitalized. Based on the Company s product development process, technological feasibility is established upon completion of a working model. Costs incurred by the Company between completion of the working model and the point at which the product is ready for general release have been insignificant. Accordingly no software development costs have been capitalized.

Goodwill and Intangible Assets

Intangible assets are primarily comprised of customer relationships, and developed technology. 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

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Process Software, LLC and Affiliates
Notes to Combined Financial Statements (Continued)

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.

Revenue Recognition

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

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 the 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 the Company s software to independent software vendors, revenue is recognized upon shipment to the independent software vendors. For licensing of the Company s software through it s indirect Sales channel revenue is recognized when the distributor sells the software to it s end-user, including value-added resellers. For licensing of the Company s software to independent software vendors, revenue is recognized upon shipment to the independent software vendors.

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

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

Deferred Revenue

At June 30, 2005, the Company recorded deferred revenue of $5,709,196 primarily for customer upfront payments on maintenance contractual arrangements for which the Company is recognizing the total arrangement fee ratably over the contractual maintenance term.

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Process Software, LLC and Affiliates
Notes to Combined Financial Statements (Continued)

Cost of Revenue

Cost of revenue includes costs related to product and service revenue. Cost of product revenue includes material, packaging, shipping, and other production costs. Cost of service revenue includes salaries, benefits, and overhead costs associated with employees providing maintenance and technical support, training, and consulting services. Third-party consultant fees are also included in cost of service revenue.

Impairment of Long-Lived Assets

The Company evaluates its long-lived assets and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the asset to the future net undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the future discounted cash flows compared to the carrying amount of the asset.

Comprehensive Income

For the year ended June 30, 2004, comprehensive loss consist of following:

Net loss	$	(1,075,355)
Unrealized holding gain arising during the year		41,039
Reclassification adjustment for realized loss		68,947
Comprehensive loss	$	(965,369)

For the year ended June 30, 2005, comprehensive income consisted of net income only.

Marketable Securities

Marketable securities are stated at fair value as determined by quoted stock price. The Company has classified its securities as investments available for sale pursuant to Statement of Financial Accounting Standards No. 115 Accounting for Certain Investments in Debt and Equity Securities . The related unrealized holding gains or losses are excluded from operations and recorded in Accumulated Other Comprehensive Loss on the Combined Statement of Member s and Shareholder s Equity. Realized gains and losses and declines in value judged to be other than temporary on marketable securities are included in other expense. In May 2004, the Company sold all of its securities for proceeds of approximately $451,000 and recognized a loss of approximately $69,000 for the year ended June 30, 2004.

Fair Value of Financial Instruments

At June 30, 2005, the respective carrying values of the Company s financial instruments, including receivables, accounts payable, and accrued liabilities, approximated their fair values.

Shipping and Handling Costs

Costs to ship products from the Company s warehouse facilities to customers are recorded as a component of cost of products in the combined statement of operations.

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Process Software, LLC and Affiliates
Notes to Combined Financial Statements (Continued)

Advertising Expense

The Company expenses the costs of advertising when incurred. Advertising expense were $20,000 and $9,000 for the years ended June 30, 2005 and 2004, respectively.

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. SFAS No. 123 (R) will be effective for the period beginning July 1, 2006. The adoption of SFAS No. 123 (R) will not have an effect on our results of operations.

Earnings (Loss) Per Share

Earnings (Loss) per share for the years ended June 30, 2005 and 2004 is not applicable to the Company as they are a combination of privately held companies that are different legal entities, and accordingly, the weighted-average number of common shares outstanding is not determinable.

3. Property and Equipment

Property and equipment consisted of the following:

	June 30, 2005
Computer equipment	$ 1,482,510
Furniture and fixtures	757,409
Leasehold improvements	272,798
	2,512,717
Less accumulated depreciation and amortization	2,411,177
	$ 101,540

Depreciation and amortization expense was $199,012 in 2005 and $130,697 in 2004.

4. Intangible Assets

Intangible assets are amortized on a straight-line basis over their expected useful lives ranging from eight to ten years. Amortization expense was $1,412,500 in 2005 and 2004.

Intangible assets consisted of the following:

	Amortization Period (in Years)	June 30 2005
Customer relationships	10	$ 10,000,000
Technology core and developed	8	3,300,000
		13,300,000
Less accumulated amortization		7,307,910

	$ 5,992,090

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Process Software, LLC and Affiliates
Notes to Combined Financial Statements (Continued)

The Company expects to incur amortization expense of the following:

Year ending June 30:	
2006	$ 1,413,000
2007	1,413,000
2008	1,344,000
2009	1,000,000
2010	822,000
	$ 5,992,000

5. Related Party Transactions

Management Fees and Expense Reimbursements

The Company is party to a management agreement with Platinum that requires Platinum to provide the Company with financial, management and strategic services. The Company incurred management fees of $2,916,046 and $4,509,677 to Platinum in 2005 and 2004, respectively. At June 30, 2005, $2,259,460 was payable to Platinum Equity, LLC for unpaid management fees.

Expenses incurred by Platinum on behalf of the Company were $165,491 and $826,041 during 2005 and 2004, respectively. Such expense reimbursements are recorded in general and administrative expense in the accompanying combined statements of operations.

The Company paid approximately $36,000 and $35,000, interest to Platinum for the years ended June 30, 2005 and 2004, respectively.

Transactions with Affiliates

The Company enters into certain transactions with companies that are owned directly or indirectly by Platinum. Purchases from affiliates were $181,225 and $253,533 during the years ended June 30, 2005 and 2004, respectively, and were included in general, and administrative expense in the combined statements of operations. Amounts due from affiliates at June 30, 2005 were $22,138.

6. Lease Commitments

The Company has operating leases for its principle office facilities.

Future minimum lease payments required under all operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2005 are as follows:

Year ending June 30:	
2006	$ 668,735
2007	572,488
2008	379,620
	$ 1,620,843

Rent expense incurred under these leases for the years ended June 30, 2005 and 2004 were approximately $764,000 and $742,000, respectively.

Total minimum lease payments have not been reduced by $183,000 to be received in the future under a non-cancelable sublease with an uncombined affiliate. Rental income for the years ended June 30, 2005 and 2004 were approximately $88,000.

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Process Software, LLC and Affiliates
Notes to Combined Financial Statements (Continued)

Note 7 Common Stock

At June 30, 2005 and 2004, common stock consists of:

David Corporation, No par value:	
Authorized 10,000,000 shares	
Issued and outstanding 10 shares	$
Foresight Software, Inc., $0.01 par value:	
Authorized 15,000,000 shares	
Issued and outstanding 12,000,000	120,000
	$ 120,000

8. Employee Benefit Plan

The Company maintains a qualified defined contribution plan for all employees. The Company s plan is part of Platinum s defined contribution plan. Platinum s plan allows participating companies to have different contribution and vesting formula. Participants may elect to defer up to 19% of their wages (subject to the annual limitations imposed by Section 402 of the Internal Revenue Code). The Company matches participant contributions at the rate of 50% of the first 6% of salary contributed. The Company made matching contributions of $139,166 and $168,776 in 2005 and 2004, respectively.

9. Segment Information

For the years ended June 30, 2005 and 2004, the breakdown of revenues and depreciation and amortization and total assets by segment were as follows:

	Year Ended June 30, 2005				
	Process	**David**	**ProfitKey**	**Foresight**	**Total**
Revenue					
Products	$ 917,839	$ 391,266	$ 491,815	$ 662,409	$ 2,463,329
Service	8,320,292	1,887,756	2,395,812	1,050,542	13,654,402
Total	$ 9,238,131	$ 2,279,022	$ 2,887,627	$ 1,712,951	$ 16,117,731
Depreciations and Amortization	$ 1,567,496	$ 25,200	$ 13,570	$ 5,246	$ 1,611,512
Net income (loss)	$ 260,989	$ (372,312)	$ 146,324	$ 124,786	$ 159,787
Total Assets	$ 9,155,899	$ 745,134	$ 446,310	$ 374,766	$ 10,772,109

	Year Ended June 30, 2004				
	Process	**David**	**ProfitKey**	**Foresight**	**Total**
Revenue					
Products	$ 1,467,192	$ 415,942	$ 414,510	$ 280,885	$ 2,578,529
Service	9,574,852	2,013,645	2,388,011	1,388,423	15,364,931

Total	$ 11,042,044	$ 2,429,587	$ 2,802,521	$ 1,669,308	$ 17,943,460
Depreciations and Amortization	$ 1,486,779	$ 27,357	$ 23,411	$ 5,650	$ 1,543,197
Net income (loss)	$ (644,418)	$ 101,770	$ (39,620)	$ (493,087)	$ (1,075,355)
Total Assets	$ 10,735,257	$ 1,299,345	$ 674,089	$ 555,469	$ 13,264,160

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Process Software, LLC and Affiliates
Notes to Combined Financial Statements (Continued)

No one customer accounted for more that 10% of the Company s revenue for the years ended June 30, 2005 and 2004. The Company sells its product and services to customers primarily in North America.

10. Subsequent Event

On October 26, 2005, WARP Technology Holdings Inc. (Halo) completed the transactions contemplated by WARP Technology Holdings Inc. operating under that certain Purchase Agreement (the Purchase Agreement) dated as of September 12, 2005 by and among the Halo and Platinum Equity, LLC (Platinum), EnergyTRACS Acquisition Corp. (the Foresight Seller) and Milgo Holdings, LLC (the Process Seller and together with Platinum and the Foresight Seller, the Sellers) for the acquisition of 100% of the Equity Interests in David, ProfitKey, Foresight, and Process (the Acquisition). Pursuant to the Purchase Agreement, Platinum sold, assigned and delivered 100% of the common stock of David and a 100% membership interest in ProfitKey, the Foresight Seller sold, assigned and delivered 100% of the common stock of Foresight, and the Process Seller sold, assigned and delivered a 100% membership interest in Process to Halo in exchange for the payment of an aggregate of $12,000,000.

In addition, the amount due to Platinum at the closing was not be assumed by the Company.

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Process Software, LLC and Affiliates
Notes to Combined Financial Statements (Continued)
WARP TECHNOLOGY HOLDINGS, INC.
TESSERACT Corporation/Process Software, LLC and Affiliates
UNAUDITED PRO FORMA
CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

On October 26, 2005, Warp Technology Holdings, Inc. operating under the name Halo Technology Holdings (the Company or WARP), completed the transactions contemplated by that certain Merger Agreement (the Merger Agreement) dated as of September 12, 2005 by and among the Company and TAC/ Halo, Inc., a wholly owned subsidiary of the Company (the Merger Sub), Tesseract Corporation (Tesseract) and Platinum Equity, LLC (Platinum), as amended by Amendment No. 1 to Merger Agreement (the Amendment) dated October 26, 2005 by and among such parties and TAC/ Halo, LLC, a Delaware limited liability company and wholly owned subsidiary of the Company (New Merger Sub). Pursuant to the Merger Agreement, Tesseract was merged with and into the New Merger Sub (the Merger) which survived as a wholly-owned subsidiary of the Company. The Amendment provided that the Merger Consideration shall consist of (i) $4,500,000 in cash payable at Closing, (ii) 7,045,454 shares of Series D Preferred Stock of the Company, and (iii) $1,750,000 payable no later than March 31, 2006 and evidenced by a Promissory Note. The Amendment provided for a Working Capital Adjustment of $1,000,000 to be paid no later than November 30, 2005. If not paid by such date, at the option of the Seller, the Working Capital Adjustment may be converted into up to 1,818,181 shares of Series D Preferred Stock. Additionally, if the Working Capital Adjustment is 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. Under the Amendment, Platinum agrees to retain 909,091 shares of Series D Preferred Stock delivered as part of the Merger Consideration. If the Promissory Note is paid on or before March 31, 2006, Platinum will return for cancellation, without additional consideration from the Company, 909,091 shares of Series D Preferred Stock to the Company. The Amendment 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 (as defined in the Amendment). If the next round is not a Qualified Equity Offering, 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 at the option of the holder. The descriptions of the Merger Agreement and Amendment No. 1 to the Merger Agreement are qualified in their entirety by reference to the Merger Agreement, which was previously filed as Exhibit 10.87 of the Current Report on Form 8-K filed by the Company with the Securities and Exchange Commission on September 16, 2005, and to Amendment No. 1 to the Merger Agreement filed as Exhibit 10.94 of the Current Report on Form 8-K filed on November 1, 2005.

Also on October 26, 2005, the Company completed the transactions contemplated by that certain Purchase Agreement (the Purchase Agreement) dated as of September 12, 2005 by and among Warp Technology Holdings, Inc. operating under the name Halo Technology Holdings (Company) and Platinum Equity, LLC (Platinum), EnergyTRACS Acquisition Corp. (the Foresight Seller) and Milgo Holdings, LLC (the Process Seller and together with Platinum and the Foresight Seller, the Sellers) for the acquisition of 100% of the Equity Interests in David Corporation, ProfitKey International, LLC, Foresight Software, Inc. and Process Software, LLC (the Acquisition). Pursuant to the Purchase Agreement, Platinum sold, assigned and delivered 100% of the common stock, no par value per share of the David Corporation, a California Corporation and a 100% membership interest in ProfitKey International LLC, a Delaware limited liability company, the Foresight Seller sold, assigned and delivered 100% of the common stock, par value $0.01 per share of the Foresight Software, Inc., a Delaware corporation and the Process Seller sold, assigned and delivered a 100% membership interest in Process Software, LLC, a Delaware limited liability company to the Company in exchange for the payment of an aggregate of twelve million dollars ($12,000,000) in cash. These four companies are collectively referred to as Process and Affiliates . The Purchase Agreement has previously been filed as Exhibit 10.86 of the Current Report on Form 8-K filed by the Company with the Securities and Exchange Commission on September 16, 2005 and is incorporated herein by reference.

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WARP TECHNOLOGY HOLDINGS, INC.
TESSERACT Corporation/Process Software, LLC and Affiliates
UNAUDITED PRO FORMA
CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

This unaudited pro forma information should be read in conjunction with the consolidated financial statements of the Company included in our Annual Report filed on Form 10-KSB for the year ended June 30, 2005 and our Quarterly Report filed on Form 10-QSB for the three months ended September 30, 2005 filed on November 14, 2005. In addition, this pro forma information should be read in conjunction with the financial statements of Tesseract for the years ended June 30, 2005 and 2004 and with the financial statements of Process and Affiliates for the years ended June 30, 2005 and 2004, both of which are included within this Amendment to Current Report on Form 8-K/A.

The following unaudited pro forma statement of operations for the year ended June 30, 2005 has been prepared in accordance with accounting principles generally accepted in the United States to give effect to the October 26, 2005 acquisition of Tesseract, and Process and Affiliates as if the transaction occurred on July 1, 2004. The pro forma statement of operations combines the results of operations of the Company for the year ended June 30, 2005 with the results of operations of Tesseract, and Process and Affiliates for the year ended June 30, 2005. Pro forma adjustments include decrease in intangible amortization, decrease in deferred revenue amortization, elimination of management fees paid to Platinum, interest on debt relating to this acquisition, amortization of financing costs, and accretion of the fair value of the warrants issued as part of this financing. Platinum was the sole owner of Tesseract, and Process and Affiliates at June 30, 2005.

The following unaudited pro forma statement of operations for the three months ended September 30, 2005 has been prepared in accordance with accounting principles generally accepted in the United States to give effect to the October 26, 2005 acquisition of Tesseract, and Process and Affiliates as if the transaction occurred on July 1, 2005. Such pro forma statement of operations combines the results of operations of the Company for the three months ended September 30, 2005 with the results of operations of Tesseract, and Process and Affiliates for the three months ended September 30, 2005. Pro forma adjustments include decrease in intangible amortization, decrease in deferred revenue amortization, elimination of management fees paid to Platinum, interest on debt relating to this acquisition, amortization of financing costs, and accretion of the fair value of the warrants issued as part of this financing.

The following unaudited pro forma balance sheet has been prepared in accordance with accounting principles generally accepted in the United States; gives effect to the October 26, 2005 acquisition of Tesseract, and Process and Affiliates and the financing raised in connection with the acquisition as if the acquisition and financing occurred on September 30, 2005; and combines the consolidated balance sheet of the Company as of September 30, 2005, which is included in the Company s Quarterly Report filed on Form 10-QSB for the three months ended September 30, 2005 with the balance sheets of Tesseract, and Process and Affiliates as of September 30, 2005.

Under the purchase method of accounting, the estimated cost of approximately $14 million to acquire Tesseract, plus transaction costs, will be allocated to Tesseract s underlying net assets at their respective fair values. Similarly, the estimated cost of approximately $12 million to acquire Process and Affiliates, plus transaction costs, will be allocated to their underlying net assets at their respective fair values. As more fully described in the notes to the pro forma consolidated condensed financial statements, a preliminary allocation of the excess of the purchase price over the value of the net assets acquired has been allocated to goodwill. Intangible assets consisting of trade names, customer relationships, and developed technologies, are expected to be amortized over approximately seven years. At this time, the work needed to provide the basis for estimating these fair values, and amortization periods, has not been completed. As a result, the final allocation of the purchase price, intangible assets acquired, and their estimated useful lives, as well as the amount recorded as goodwill could differ materially. Accordingly, a change in the amortization period would impact the amount of annual amortization expense.

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WARP TECHNOLOGY HOLDINGS, INC.
TESSERACT Corporation/Process Software, LLC and Affiliates
UNAUDITED PRO FORMA
CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

These unaudited pro forma financial statements are prepared for informational purposes only and are not necessarily indicative of future results or of actual results that would have been achieved had the acquisition of Tesseract, and Process and Affiliates been consummated as of the dates specified above.

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WARP Technology Holdings, Inc.
Pro Forma Consolidated Condensed Balance Sheet
September 30, 2005

				Pro Forma Adjustments			
	WARP(A)	Tesseract(B)	Process and Affiliates(C)	Financing	Tesseract Purchase Accounting	Process and Affiliate Purchase Accounting	WARP Pro Forma
				(Unaudited)			
ASSETS							
Current assets:							
Cash and cash equivalents	$ 751,033	$ 369,075	$ 947,953	$ 14,704,906(D)	$ (3,500,000)(G)	$ (12,000,000)(H)	$ 1,272,967
Accounts receivable, net	2,129,875	64,673	1,677,514				3,872,062
Due from Platinum Equity, LLC and Affiliates		3,266,430	124,183		(3,275,685)(G)		114,928
Prepaid expenses and other current assets	443,217	72,534	249,195				764,946
Total current assets	3,324,125	3,772,712	2,998,845	14,704,906	(6,775,685)	(12,000,000)	6,024,903
Property and equipment, net	246,688	4,339	79,618				330,645
Deferred financing cost, net	1,325,110			295,094(F)			1,620,204
Intangible assets, net	16,462,587	47,150	5,638,961		3,919,650(G)	(891,481)(H)	25,176,867
Goodwill	7,601,420		1,642,765		12,094,214(G)	6,998,535(H)	28,336,934
Investment and other assets	1,086,360		111,154		(1,000,000)(G)		197,514
Total assets	$ 30,046,290	$ 3,824,201	$ 10,471,343	$ 15,000,000	$ 8,238,179	$ (5,892,946)	$ 61,687,067
LIABILITIES AND STOCKHOLDERS EQUITY							
Current liabilities:							
Accounts payable	$ 997,060	$ 169,432	$ 312,678	$	$	$	$ 1,479,170

Accrued expenses	3,579,633	407,048	833,740		84,000(G)	266,000(H)	5,170,421
Due to Platinum Equity, LLC and Affiliates		153,537	1,356,897		(153,537)(G)	(1,039,123)(H)	317,774
Note payable to Bristol Technology, Inc.	500,000						500,000
Note payable	254,128				2,750,000(G)		3,004,128
Deferred revenue	4,098,187	3,532,063	5,694,951		(1,681,030)(G)	(2,879,758)(H)	8,764,413
Due to ISIS	1,293,701						1,293,701
Total current liabilities	10,722,709	4,262,080	8,198,266		999,433	(3,652,881)	20,529,607
Subordinated notes payable	1,083,336						1,083,336
Senior notes payable	8,467,035			13,107,585(D,E)			21,574,620
Other long term liabilities	41,602	50,867	33,012				125,481
Total liabilities	20,314,682	4,312,947	8,231,278	13,107,585	999,433	(3,652,881)	43,313,044
Commitments and Contingencies							
Stockholders equity:							
Preferred stock (Canadian subsidiary)	2						2
Series C Preferred Stock	13,936,644						13,936,644
Series D Preferred Stock					6,750,000(G)		6,750,000
Shares of Common Stock to be issued for accrued dividends on Series C Preferred Stock	211,636						211,636
	42,500						42,500

Shares of Common Stock to be issued for accrued interest on subordinated debt							
Common stock	35	1	120,000		(1)(I)	(120,000)(I)	35
Additional paid-in capital	61,885,439	1,805,469	3,672,736	1,892,415(E)	(1,805,469)(I)	(3,672,736)(I)	63,777,854
Deferred compensation	(870,562)						(870,562)
Accumulated other comprehensive loss	(62,664)						(62,664)
(Accumulated deficit) retained earnings	(65,411,422)	(2,294,216)	(4,259,470)		2,294,216(I)	4,259,470(I)	(65,411,422)
Member s equity			2,706,799			(2,706,799)(I)	
Total stockholders equity	9,731,608	(488,746)	2,240,065	1,892,415	7,238,746	(2,240,065)	18,374,023
Total liabilities and stockholders equity	$ 30,046,290	$ 3,824,201	$ 10,471,343	$ 15,000,000	$ 8,238,179	$ (5,892,946)	$ 61,687,067

See accompanying notes to unaudited pro forma consolidated condensed financial statements.

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NOTES TO THE PRO FORMA CONSOLIDATED CONDENSED BALANCE SHEET (UNAUDITED)

(A) Reflects the historical financial position of the Company at September 30, 2005.

(B) Reflects the historical financial position of Tesseract at September 30, 2005.

(C) Reflects the historical financial position of Process and Affiliates at September 30, 2005

(D) The Company used a credit facility previously secured with Fortress Credit Corp. (Lender) in order to complete the acquisition of Tesseract, and Process and Affiliates. The Lender made a loan of $15,000,000 under the credit facility. The cash received by the company is net of financing costs of $295,094.

(E) The company issued 1,265,425 shares of warrants in connection with the $15,000,000 loan. The fair market value of these warrants, $1,892,415 as estimated by using the Black-Scholes method, adjusts the original amount of the loan down and increases the equity.

(F) The Company has paid $295,094 for financing costs in connection with the financing raised, as it is included in other assets as deferred financing costs.

(G) The following represents the acquisition of Tesseract and the preliminary allocation of the purchase price: The final allocation of the purchase price will be determined based on a comprehensive final evaluation of the fair value of the tangible and intangible assets acquired and liabilities assumed.

Calculation of Purchase Price for Tesseract:

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 (6,136,363 shares)		6,750,000
Transaction costs		84,000
Total purchase price	$	14,084,000

Allocation of Purchase Price for Tesseract:

Assets:		
Tesseract s historical assets	$	3,824,201
Write-up of intangibles assets consisting of trade names, developed technologies and customer relationships		3,919,650
Write-up of goodwill		12,094,214
Forgiveness of receivables due from Platinum		(3,275,685)
Liabilities:		
Tesseract s historical liabilities		(4,312,947)
Adjustment of deferred revenues to fair market value		1,681,030
Forgiveness of payables to Platinum		153,537
Total purchase price	$	14,084,000

(H) The following represents the acquisition of Process and Affiliates and the preliminary allocation of the purchase price: The final allocation of the purchase price will be determined based on a comprehensive final evaluation of the fair value of the tangible and intangible assets acquired and liabilities assumed.

NOTES TO THE PRO FORMA CONSOLIDATED CONDENSED BALANCE SHEET (UNAUDITED) (Continued)

Calculation of Purchase Price for Process and Affiliates:

Cash	$	12,000,000
Transaction costs		266,000
Total purchase price	$	12,266,000

Allocation of Purchase Price for Process and Affiliates:

Assets:		
Process and Affiliates historical assets	$	10,471,343
Write-down of intangibles assets consisting of developed technologies and customer relationships		(891,481)
Increase in goodwill		6,998,535
Liabilities:		
Process and Affiliates historical liabilities		(8,231,278)
Adjustment of deferred revenues to fair market value		2,879,758
Forgiveness of payables to Platinum		1,039,123
Total purchase price	$	12,266,000

(I) Eliminate Tesseract s stockholder s equity of $488,746 and Process and Affiliates member s and stockholder s equity of $2,240,065 related to the pre-acquisition period.

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WARP Technology Holdings, Inc.
Pro Forma Consolidated Condensed Statements of Operations
Three Months ended September 30, 2005

	WARP(J)	Tesseract(K)	Process and Affiliates(L)	Pro Forma Adjustment	WARP Pro Forma
			(Unaudited)		
Revenue					
Licenses	$ 1,314,569	$ 56,250	$ 877,518	$	$ 2,248,337
Services	1,893,760	2,144,550	3,129,265	(1,929,564)(P)	5,238,011
Total revenue	3,208,329	2,200,800	4,006,783	(1,929,564)	7,486,348
Cost of revenue					
Cost of licenses	45,734		232,505		278,239
Cost of services	293,908	268,526	373,969		936,403
Total cost of revenue	339,642	268,526	606,474		1,214,642
Gross Profit	2,868,687	1,932,274	3,400,309	(1,929,564)	6,271,706
Product development	956,557	162,500	636,011		1,755,068
Sales, marketing and business development	1,372,525	51,194	355,697		1,779,416
General and administrative	1,315,926	818,388	1,064,075		3,198,389
Amortization of intangibles	486,432	47,151	366,610	(118,274)(O)	781,919
Platinum management fees		50,000	(317,130)	267,130(Q)	
Income (Loss) before interest	(1,262,753)	803,041	1,295,046	(2,078,420)	(1,243,086)
Interest (expense) income	(1,296,102)	25,101	203,533	(653,488)(R,S,T)	(1,720,956)
Net Income (loss) before income taxes	(2,558,855)	828,142	1,498,579	(2,731,908)	$ (2,964,042)
Income taxes	52,163	30	2,061	(U)	54,254
Net Income (loss)	$ (2,611,018)	$ 828,112	$ 1,496,518	$ (2,731,908)	$ (3,018,296)
Computation of loss applicable to common shareholders					
Net Income (loss) before beneficial conversion and preferred dividends	$ (2,611,018)	$ 828,112	$ 1,496,518	$ (2,731,908)	$ (3,018,296)
Beneficial conversion and preferred dividends	(220,179)				(220,179)
Income (Loss) attributable to common stockholders	$ (2,831,197)	$ 828,112	$ 1,496,518	$ (2,731,908)	$ (3,238,475)

Basic and diluted net loss per share	$ (0.88)	$ (1.01)
Weighted-average shares outstanding	$ 3,209,597	3,209,597

See accompanying notes to unaudited pro forma consolidated condensed financial statement

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WARP Technology Holdings, Inc.
Pro Forma Consolidated Condensed Statements of Operations
Year ended June 30, 2005

	WARP(J)	Tesseract(M)	Process and Affiliates(N)	Pro Forma Adjustment	WARP Pro Forma
			(Unaudited)		
Revenue					
Licenses	$ 2,986,752	$ 762,585	$ 2,463,329	$	$ 6,212,666
Services	2,137,170	9,136,808	13,654,402	(4,560,788)(P)	20,367,592
Total revenue	5,123,922	9,899,393	16,117,731	(4,560,788)	26,580,258
Cost of revenue					
Cost of licenses	151,051	85,647	684,046		920,744
Cost of services	396,490	1,522,840	1,785,936		3,705,266
Total cost of revenue	547,541	1,608,487	2,469,982		4,626,010
Gross Profit	4,576,381	8,290,906	13,647,749	(4,560,788)	21,954,248
Product development	1,589,099	1,803,455	3,412,322		6,804,876
Sales, marketing and business development	3,652,117	239,348	1,613,641		5,505,106
General and administrative	4,042,702	2,747,054	4,072,574		10,862,330
Amortization of intangibles	946,063	188,603	1,412,500	(419,155)(O)	2,128,011
Platinum management fees		2,575,000	2,916,046	(5,491,046)(Q)	
Late filing penalty	1,033,500				1,033,500
Intangible impairment	62,917				62,917
Goodwill impairment	3,893,294				3,893,294
Income (Loss) before interest	(10,643,311)	737,446	220,666	1,349,413	(8,335,786)
Interest (expense) income	(4,631,683)	167,663	(38,172)	(2,416,074)(R,S,T)	(6,918,266)
Net Income (loss) before income taxes	(15,274,994)	905,109	182,494	(1,066,661)	(15,254,052)
Income taxes (benefit)	97,945	(2,281)	22,707	(U)	118,371
Net Income (loss)	$ (15,372,939)	$ 907,390	$ 159,787	$ (1,066,661)	$ (15,372,423)
Computation of loss applicable to common shareholders					
	$ (15,372,939)	$ 907,390	$ 159,787	$ (1,066,661)	$ (15,372,423)

Net Income (loss) before beneficial conversion and preferred dividends									
Beneficial conversion and preferred dividends		(7,510,590)							(7,510,590)
Income (Loss) attributable to common stockholders	$	(22,883,529)	$	907,390	$	159,787	$	(1,066,661)	$ (22,883,013)
Basic and diluted net loss per share	$	(11.97)							$ (11.97)
Weighted-average shares outstanding		1,912,033							1,912,033

See accompanying notes to unaudited pro forma consolidated condensed financial statements.

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NOTES TO THE PRO FORMA CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS (UNAUDITED)

(J) Reflects the Company s historical statement of operations for the three months ended September 30, 2005 and the year ended June 30, 2005.

(K) Reflects Tesseract s historical statement of operations for the three months ended September 30, 2005.

(L) Reflects Process and Affiliates historical statement of operations for the three months ended September 30, 2005.

(M) Reflects the historical operations of Tesseract for the year ended June 30, 2005, including various reclassifications to conform to the company s financial statement presentation.

(N) Reflects the historical operations of Process and Affiliates for the year ended June 30, 2005, including various reclassifications to conform to the company s financial statement presentation.

(O) To record the decreased amortization of intangibles for the three months ended September 30, 2005 for $118,274. To record decreased amortization of intangibles for the year ended June 30, 2005 of $419,155. The decrease in the amortization results from the increase in the estimated useful lives of the intangible assets acquired.

(P) To record the decrease in amortization of the deferred revenue as a result of a fair value adjustment of $1,929,564 and $4,560,788 for the three months ended September 30, 2005 and for the year ended June 30, 2005, respectively, which is included in services revenue.

(Q) Elimination of Platinum fees/ (credits) of ($267,130) and $5,491,046 for the three months ended September 30, 2005 and for the year ended June 30, 2005, respectively as Tesseract, and Process and Affiliates will operate on their own and will not have these costs.

(R) Record interest expense of $516,769 and $1,869,197 for the three months ended September 30, 2005 and for the year ended June 30, 2005, respectively, on the debt raised by the Company in connection with the acquisition of Tesseract, and Process and Affiliates.

(S) To record amortization of deferred financing cost of $18,443 and $73,773 for the three months ended September 30, 2005 and for the year ended June 30, 2005, respectively, which is included in interest expense.

(T) To record accretion of fair market value of the warrants issued in connection with the debt raised of $118,276 and $473,104 for the three months ended September 30, 2005 and for the year ended June 30, 2005, respectively, which is included in interest expense.

The following summarizes the adjustment to interest expense:

Note	Year Ended June 30, 2005	Three Months Ended September 30, 2005
(R)	$ 1,869,197	$ 516,769
(S)	73,773	18,443
(T)	473,104	118,276
	$ 2,416,074	$ 653,488

(U) The Company did not record an income tax benefit because the company provided a full valuation allowance against the deferred tax asset.

INFONOW CORPORATION
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Independent Auditors Report

To the Board of Directors and Stockholders of InfoNow Corporation
Denver, Colorado

We have audited the accompanying balance sheet of InfoNow Corporation (the Company) as of December 31, 2005, and the related statements of operations, stockholders equity and cash flows for each of the two years in the period ended December 31, 2005. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of InfoNow Corporation as of December 31, 2005, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

/s/ DELOITTE & TOUCHE LLP
Denver, Colorado
April 13, 2006

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INFONOW CORPORATION
BALANCE SHEET

	December 31, 2005	
	(In thousands, except share information)	
ASSETS		
Current assets:		
Cash and cash equivalents	$	3,032
Accounts receivable:		
Billed, net of allowance of $10		873
Unbilled		14
Prepaid expenses and other current assets		376
Total current assets		4,295
Property and equipment, net		331
Other assets and deferred charges		467
Total assets	$	5,093
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$	670
Payroll related liabilities		310
Other liabilities		52
Short-term deferred revenues		1,934
Total current liabilities		2,966
Long-term deferred revenues		84
Deferred rent		63
Commitments and contingencies (Note 6)		
Stockholders equity:		
Preferred stock, $.001 par value; 1,712,335 shares authorized Series A Convertible, 213,483 shares authorized, none issued and outstanding		
Series B Convertible Participating Preferred Stock, 550,000 shares authorized none issued and outstanding		
Common stock, $.001 par value; 40,000,000 shares authorized; 10,055,398 issued and outstanding		10
Additional paid-in capital		40,146
Accumulated deficit		(38,176)
Total stockholders equity		1,980
Total liabilities and stockholders equity	$	5,093

See notes to the financial statements.

INFONOW CORPORATION
STATEMENTS OF OPERATIONS

	Years Ended December 31,	
	2005	2004
	(In thousands, except per share information)	
Revenues:		
Service and other fees	$ 7,174	$ 9,292
Implementation and software license fees	1,589	1,587
Total revenues	8,763	10,879
Cost of revenues	5,922	5,864
Gross margin	2,841	5,015
Operating expenses:		
Selling and marketing	1,144	2,024
Product development	647	933
General and administrative	2,833	2,767
Total operating expenses	4,624	5,724
Loss from operations	(1,783)	(709)
Other income (expense):		
Interest income	79	31
Interest expense	(4)	(8)
	75	23
Net loss	$ (1,708)	$ (686)
Net loss per common share:		
Basic	$ (.17)	$ (.07)
Fully diluted	$ (.17)	$ (.07)
Weighted average common shares outstanding:		
Basic	10,055	9,920
Fully diluted	10,055	9,920

See notes to the financial statements.

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INFONOW CORPORATION
STATEMENTS OF STOCKHOLDERS EQUITY
For the Years Ended December 31, 2005 and 2004

	Preferred Stock		Common Stock							
	Shares	Amount	Shares		Amount		Additional Paid-in Capital		Accumulated Deficit	
	(In thousands, except share information)									
Balances, December 31, 2003		$	9,640,499	$	10	$	39,602	$	(35,782)	
Common shares issued upon exercise of options			404,232				534			
Net income									(686)	
Balances, December 31, 2004			10,044,731		10		40,136		(36,468)	
Common shares issued upon exercise of options			10,667				10			
Net loss									(1,708)	
Balances, December 31, 2005		$	10,055,398	$	10	$	40,146	$	(38,176)	

See notes to the financial statements.

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INFONOW CORPORATION
STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2005	**2004**
	(In thousands)	
Cash flows provided by (used in) operating activities:		
Net loss	$ (1,708)	$ (686)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	318	396
Allowance for bad debt expense (recovery)	(25)	31
Loss on asset disposition	1	13
Changes in operating assets and liabilities:		
Accounts receivable	564	62
Other current assets	102	134
Other assets and deferred charges	(42)	(11)
Accounts payable	320	93
Payroll related and other liabilities	(249)	31
Deferred revenue	628	204
Net cash provided by (used in) operating activities	(91)	267
Cash flows from investing activities:		
Purchase of property and equipment	(196)	(266)
Capitalized software costs	(399)	
Net cash used in investing activities	(595)	(266)
Cash flows from financing activities:		
Proceeds from exercise of options	10	534
Principal payments on debt obligations	(56)	(70)
Net cash provided by (used in) financing activities	(46)	464
Net increase (decrease) in cash and cash equivalents	(732)	465
Cash and cash equivalents, beginning of year	3,764	3,299
Cash and cash equivalents, end of year	$ 3,032	$ 3,764
Supplemental cash flow information:		
Cash paid for interest	$ 2	$ 8

See notes to the financial statements.

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1. Organization and Summary of Significant Accounting Policies:

Organization and Business Activity The Company was incorporated under the laws of the State of Delaware on October 29, 1990. The Company provides channel visibility and channel management solutions, in the form of software and services, to companies that sell their products through complex networks of distributors, dealers, resellers, retailers, agents or branches (i.e., channel partners). Companies use InfoNow s software and services to collaborate with their channel partners to create demand, increase revenues, lower operating costs, calculate sales commissions, and maximize the return on investment of their channel strategies.

On December 23, 2005, Halo Technology Holdings (Halo), a holding company for established enterprise software companies and the Company announced that Halo agreed to acquire InfoNow in a merger transaction valued at $7.2 million. Pursuant to the terms of the definitive Agreement and Plan of Merger dated December 23, 2005, a newly formed, wholly owned subsidiary of Halo will be merged with and into the Company with the Company surviving the merger as a wholly owned subsidiary of Halo.

Use of Estimates The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and the differences could be material. Significant estimates include the estimate of a client life, over which deferred revenue and implementation expenses are recognized; the percentage of completion on client contracts; the percentage of hours that technical staff devote to activities related to the cost of revenues versus product development activities, which drives the allocation of related costs; estimates of capitalizable software development costs including assessment of when technological feasibility is reached and the period of amortization of the related costs; and the allowance for doubtful accounts.

Reclassifications Certain reclassifications have been made in the 2004 statement of cash flows to conform to the 2005 presentation.

Cash and Cash Equivalents The Company considers all highly liquid investments with original maturity dates of three months or less to be cash equivalents. The Company s excess cash is maintained in a money market fund.

Property and Equipment Property and equipment are stated at cost. Replacements, renewals and improvements are capitalized and costs for repairs and maintenance are expensed as incurred. Depreciation is computed using the straight-line method over estimated useful lives of three to five years.

During the third quarter of 2004, the Company elected to abandon the patent application process related to its proprietary e-commerce cataloging technology. Accordingly, the Company wrote off $13,000 in previously capitalized patent costs associated with this effort. This cost is reflected in the Company s product development expenses. The Company continues to pursue U.S. patent protection for its Channel Insight technology and algorithms and expects that completing the patent process for this technology will take one to three years.

Capitalization of Software Product Development Costs Capitalized software product development costs consist of technical personnel salaries, overhead related to technical personnel, and the cost of the facilities they occupy. The Company allocates these costs to the software product based on the amount of time an employee devotes directly to the product development effort in relation to that employee s total time worked during a given period. In accordance with SFAS No. 86, *Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed*, software development costs are required to be expensed until the point that technological feasibility of the product is established which the Company has determined to be when a working model is complete. Once technological feasibility is established, such costs are required to be capitalized until the product is available for general release to customers. The establishment of technological feasibility and continuing evaluation of the recoverability of the capitalized software development costs requires management s judgment with respect to the impact of external factors

such as future revenue, estimated economic life and changes in software and hardware technologies. Periodic amortization of capitalized software development costs will be based on either (a) the ratio that current period revenues for the product bear to the total estimated revenue for that product or (b) the straight-line method over the estimated economic life of the product, whichever results in a larger amortization expense. The Company capitalized $399,000 of software development costs during 2005. No software development costs were capitalized for product development efforts that took place prior to 2005 because the period between technological feasibility and general availability was short and costs qualifying for capitalization were insignificant. The Company has not begun amortizing capitalized software development costs because the related product is not yet available for general release to customers. Capitalized software development costs are recorded in other assets.

Capitalization of Computer Software Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*, requires costs of internally developed software to be charged to operations as incurred until certain capitalization criteria are met. The Company capitalized $72,000 in costs and amortized $45,000 for the year ended December 31, 2005. The Company capitalized $40,000 in costs and amortized $33,000 for the year ended December 31, 2004. These costs are included in property and equipment.

Revenue Recognition The Company offers its software and services to clients in two forms. The first (and historical) method utilizes an application service provider, or ASP, model. Under this business model, the Company sells the right to use its software for the term of a specific agreement, and it implements and hosts that solution to meet specific client requirements. Accordingly, the Company charges the client an implementation fee, a managed service fee and, in many cases, variable monthly fees. The implementation fee and related direct costs are deferred and recognized ratably over the longer of the expected client life or contract term. Managed service fees and variable monthly fees are recognized as services are performed.

The second method of delivering software and services is via a license-hosted model. Under this model, the Company sells its clients a perpetual license for its software. The client can install the software on their own in-house systems or the Company will host the software and perform related services under a managed services agreement.

Sales of solutions under the license-hosted model typically include a software license fee, an implementation fee, a software maintenance fee, a managed service fee and, in many cases, variable monthly fees. The Company establishes vendor specific objective evidence, or VSOE, of fair value for the managed service fee element of a contract based on the following two considerations: 1) it is sold independently of the other elements in a contract, and independently of each other; and 2) these services generally are, and have historically been, renewed in subsequent years (independent of the other elements) at the same fees, or the current market value of those fees, charged when all elements are sold together. The Company s contracts also typically contain renewal rates for software maintenance fees, which are substantive. Therefore, the Company relies on these renewal rates as VSOE of fair value for those fees. Based on these considerations, the VSOE of fair value for managed service fees and software maintenance fees can be properly determined by reference to the applicable clients contractual fee rates relating to those services.

The Company is not, however, currently able to establish VSOE of fair value for the software license and implementation fee elements of its contracts. Therefore, it uses the residual value method to recognize revenue in accordance with Statement of Position 97-2, *Software Revenue Recognition* (SOP 97-2). Using this method, revenue from the managed service and software maintenance elements of a contract is recognized ratably over the term of the managed service arrangement and the software maintenance arrangement, respectively. Since the Company is currently unable to establish VSOE of fair value for the software license fee and implementation fee components of a contract and the installation services are essential to the functionality of the software, the Company applies contract accounting to both the software license and implementation elements of the arrangement in accordance with Accounting Research Bulletin No. 45, *Long-Term Construction-Type Contracts* (ARB 45) and Statement of Position 81-1,

Accounting for Performance of Construction-Type and Certain Production-Type Contracts (SOP 81-1). Accordingly, license and implementation revenues are recognized on a percentage of completion basis. As changes occur in the estimate of completion percentage, revenue recognition is adjusted accordingly. The estimate of completion percentage is based on the ratio of the actual effort spent on a project as of the financial statement date to the estimate of total effort to complete the implementation.

If, for any solution implementation, the Company determines that it is unable to estimate the effort to implement a solution with a high degree of certainty, the Company defers recognition of the revenue and related cost until project completion in accordance with SOP 81-1. Losses are recognized immediately if projected implementation costs exceed anticipated revenues. For purposes of determining the profit or loss on a project, the Company includes direct labor and direct subcontractor costs, as well as an allocation of fringe benefits, payroll taxes, personnel support costs, and facilities costs. These costs are allocated to projects based on the amount of time an employee or subcontractor devotes directly to the project in relation to that person s total time worked during a given period. As of December 31, 2005 and 2004, the Company had $20,000 and $68,000, respectively, accrued for estimated future implementation losses related to projects for which implementation costs are projected to exceed implementation fee revenue. These accruals are included in other liabilities on the Company s balance sheet. Revenue from variable monthly fees is recognized as services are performed.

The Company has historically sold its solutions primarily through direct sales efforts; however, when the Company sells solutions through a reseller channel it recognizes revenue consistent with the methods described above.

Income Taxes The Company accounts for its income tax assets and liabilities in accordance with SFAS No. 109, *Accounting for Income Taxes.* SFAS No. 109 requires recognition of deferred tax assets and liabilities for the expected future income tax consequences of transactions. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Net deferred tax assets are then reduced by a valuation allowance for amounts which do not satisfy the realization criteria of SFAS No. 109. As a result of the valuation allowance, the Company had no net deferred tax assets at December 31, 2005.

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Stock Compensation Expense The Company records its stock compensation expense in accordance with SFAS No. 123, *Accounting for Stock-Based Compensation.* SFAS No. 123 specifies a fair value based method to measure compensation cost of issued stock options and similar instruments issued using a Black-Scholes model or other comparable method. However, the Company has elected an option under SFAS No. 123 that allows a Company to continue to recognize compensation cost for employees and directors in accordance with the guidance in APB No. 25, *Accounting for Stock Issued to Employees*, and disclose the pro forma results of operations as if SFAS No. 123 had been applied to the financial statements. Transactions in which the Company issues stock options or other equity instruments to acquire goods or services from non-employees are accounted for in accordance with SFAS No. 123. The Company accounts for stock compensation for employees via the intrinsic value method and for non-employees via the fair value method. The intrinsic value method results in no compensation expense for new stock option grants because the market value and strike price of the stock option grant are the same on the grant date. Had compensation cost for the Company s plans been determined consistent with SFAS No. 123, the Company s net loss and loss per share would have been increased to the pro forma amounts indicated below:

	Twelve Months Ended December 31,	
	2005	**2004**
	(In thousands, except per share amounts)	
Net loss		
As reported	$ (1,708)	$ (686)
Add: Stock-based employee compensation expense included in reported net income, net of tax effect of $0		
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of tax effect of $0	(830)	(3,444)
Pro forma	$ (2,538)	$ (4,130)
Net loss per share:		
Basic and diluted-as reported	$ (.17)	$ (.07)
Basic and diluted-pro forma	$ (.25)	$ (.42)

The fair value of each grant was determined using the Black-Scholes option pricing model with the following assumptions used for grants for 2005 and 2004: (1) risk-free interest rates of approximately 4.16% in 2005 and 3.41% in 2004; (2) no expected dividend yield; (3) expected lives of 5 years; and (4) assumed volatility of approximately 96% in 2005 and 108% in 2004. The 2004 pro forma expense reflects the impact of accelerating certain options. See Note 4.

During the twelve months ended December 31, 2005 and 2004, the Company received $10,000 and $534,000, respectively, from the exercise of 10,667 and 404,232 options, respectively, by employees and former employees pursuant to the terms of the original options.

Net Loss Per Common Share Earnings per share is presented in accordance with the provisions of SFAS No. 128, Earnings Per Share. Basic earnings per share (EPS) is calculated by dividing the income or loss available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. Stock options, warrants outstanding and their equivalents are included in diluted earnings per share computations through the treasury stock method unless they are antidilutive.

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The components of basic and diluted earnings per share were as follows:

	Twelve Months Ended December 31,	
	2005	2004
	(In thousands, except per share amounts)	
Net loss available for common shareholders(A)	$ (1,708)	$ (686)
Weighted average common shares outstanding(B)	10,055	9,920
Dilutive effect of employee stock based compensation		
Common stock and common stock equivalents(C)	10,055	9,920
Loss per share:		
Basic (A/B)	$ (.17)	$ (.07)
Diluted (A/C)	$ (.17)	$ (.07)

As of December 31, 2005, options to purchase 5,668,209 shares of common stock were outstanding, but were not included in the computation of loss per share for the year ended December 31, 2005 because their effect would have been antidilutive. As of December 31, 2004, options to purchase 4,820,720 shares of common stock were outstanding, but were not included in the computation of loss per share for the year ended December 31, 2004 because their effect would have been antidilutive.

401(k) Plan In 1996, the Company adopted a defined contribution plan (the 401(k) Plan) under Section 401(k) of the Internal Revenue Code. Substantially all employees are eligible for participation in the 401(k) Plan and may contribute a portion of their compensation up to certain limits. The Company amended the 401(k) Plan during 2005 to provide for matching contributions and contributed $17,000 to the 401(k) Plan during 2005. The Company did not match employee contributions to the 401(k) Plan prior to 2005.

Concentrations of Credit Risk Financial instruments which potentially subject the Company to concentrations of credit risk are cash equivalents and accounts receivable. The Company attempts to limit its credit risk associated with cash equivalents by placing the Company s financial instruments with a major institution. A portion of the Company s cash and cash equivalents balance at December 31, 2005 was in excess of federally insured limits. The Company s clients are primarily large multi-national entities located throughout the U.S. The Company grants credit, generally without collateral, to these clients under specific contractual terms. The Company has not experienced any material losses related to its accounts receivable to date.

During the year ended December 31, 2005, the Company earned $3,236,000, or 37%, of its revenue from one global organization. This revenue consisted of $2,094,000 from Channel Insight solutions and $1,142,000 from channel management solutions. Only one other organization accounted for more than 10% of the Company s total revenue during 2005, representing $984,000, or 11%, of the Company s total revenue during 2005. No other organization accounted for more than 10% of the Company s revenue during the year ended December 31, 2004.

As of December 31, 2005, the Company s largest client accounted for approximately 24%, or $217,000, of the Company s net accounts receivable balance. The loss of this client, reduction in revenues from this client, or its inability or failure to pay would have a material adverse impact on the Company s financial condition and results of operations. Two other clients accounted for more than 10% of the Company s accounts receivable balance as of December 31, 2005. These clients represented 18%, or $153,000, and 12%, or $109,000, respectively, of the Company s net accounts receivable balance as of December 31, 2005. No other clients accounted for more than 10% of the Company s accounts receivable balance at December 31, 2005.

During the year ended December 31, 2004, the Company earned $5,456,000, or 50%, of its revenue from one global organization. During the year ended December 31, 2004, this revenue consisted of

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$4,096,000 from Channel Insight solutions and $1,360,000 from channel management solutions. No other organization accounted for more than 10% of the Company s revenue during the year ended December 31, 2004.

Entering 2005, approximately $148,000, or 26%, of the Company s total monthly contracted managed service fees of $564,000 was attributable to Channel Insight contracts with its largest client. These managed service fees expired on October 31, 2005 and, in November 2005, the client agreed to a contract extension through April 30, 2006 at a reduced monthly fee of $120,000. In April 2006, the client agreed to a further extension of this contract through October 31, 2006 at a monthly fee of $120,000. The Company expects to work with this client to negotiate a longer-term extension to the contract associated with this solution. In addition, the Company continues to work with this client for purposes of selling new solutions; however, there can be no assurance that it will be successful in renewing, extending or expanding solutions for this client.

Segment Information The Company operates in a single reportable segment and all revenues from clients are primarily from the sale of the Company s channel visibility and channel management software and services. The Company sells its solutions and services domestically to clients that, in some cases, have an international presence. All solutions and services are delivered from the Company s Denver, Colorado, office and two data centers located in Denver and Thornton, Colorado.

Recent Accounting Pronouncements In December 2004, the FASB issued SFAS No. 123(R), *Share Based Payment*, that requires companies filing as small business issuers to expense the value of employee stock options and similar awards for interim and annual periods beginning on or after December 15, 2005 and applies to all outstanding and unvested stock-based awards at a company s adoption date. The Company believes that the adoption of this standard could have a material impact on its financial position and results of operations since the Company expects to continue to utilize stock-based compensation to motivate employees in the future, and, as a result, the Company expects that the implementation of SFAS No. 123(R) will result in increased compensation expense in future years. The Company will adopt SFAS No. 123(R) on January 1, 2006 using a modified prospective application.

In December 2004, the FASB issued SFAS No. 153, *Exchanges of Nonmonetary Assets*, which eliminates the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. SFAS No. 153 will be effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The Company does not believe the adoption of this standard will have a material impact on its financial position or results of operations.

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections a replacement of APB Opinion No. 20 and FASB Statement No. 3*. The Statement changes the requirements for the accounting for, and reporting of, a change in accounting principle. This Statement applies to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. When a pronouncement includes specific transition provisions, those provisions should be followed. This Statement requires retrospective application to prior periods financial statements for changes in accounting principle, unless it is impractical to determine either the period-specific effects or the cumulative effect of the change. When it is impractical to determine the period-specific effect 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 practical and that a corresponding adjustment be made to the opening balance of retained earnings for that period rather than being reported as a component of income. When it is impractical 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 practical. This Statement is effective for business enterprises and not-for-profit organizations for accounting changes and corrections of errors made in fiscal years beginning

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after December 15, 2005. The Company does not believe the adoption of this standard will have a material impact on its financial position or results of operations.

2. Property and Equipment:

Property and equipment consist of the following (in thousands):

		December 31, 2005
Computer equipment	$	4,245
Furniture and fixtures		405
Leasehold improvements		237
Computer software		1,099
		5,986
Less accumulated depreciation and amortization		(5,655)
Property and equipment, net	$	331

Depreciation and amortization during the years ended December 31, 2005 and 2004 was $315,000 and $374,000, respectively.

3. Line of Credit:

The Company has a bank credit facility with both a $1,000,000 revolving line of credit to support future operating needs of the Company and a $1,000,000 equipment facility to support future investing needs of the organization. The bank credit facility requires that the Company meet various covenants. The Company is not permitted to draw on the bank credit facility if it is out of compliance with any of the covenants. As of the date of this report, the Company is out of compliance with its debt covenants; however, it expects to work with the bank to obtain waivers for this non-compliance. The interest rate on the revolving line of credit is the prime rate plus 1 percent, and the interest rate on the equipment facility is the U.S. Treasury note yield to maturity for a term equal to 36 months as quoted in the Wall Street Journal plus 587 basis points. There were no amounts outstanding under this facility at December 31, 2005.

4. Stockholders Equity:

Preferred Stock Shares of preferred stock may be issued from time to time in one or more series, with the rights and powers of each series set by the Board of Directors. The Company has a total of 1,712,335 authorized shares of preferred stock. There were no shares of preferred stock outstanding as of December 31, 2005.

Series A Convertible Preferred Stock The Board has designated 213,483 shares of the Company s total authorized shares of preferred stock as Series A Convertible Preferred Stock. No shares of Series A Convertible Preferred Stock are outstanding. Pursuant to the terms of the Company s Series A Convertible Preferred Stock designation, if and when issued the Series A Convertible Preferred Stock would be convertible to common stock at the rate of four shares of common stock for one share of preferred stock, would have a liquidation preference of $1.593 per share, and would have voting rights equal to the voting rights of the Common Stock on an as-converted basis. The Company has no present intention to issue shares of its Series A Convertible Preferred Stock.

Series B Convertible Participating Preferred Stock The Board has designated 550,000 shares of the Company s total authorized shares of preferred stock as Series B Convertible Participating Preferred Stock (Series B Preferred Stock). No shares of Series B Preferred Stock are outstanding. Pursuant to the terms of the Company s Series B Preferred Stock designation, if and when issued the Series B Preferred Stock would participate in any dividends declared on the Company s Common Stock on an as-converted

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basis and would have voting rights equal to the voting rights of the Common Stock on an as-converted basis. Upon liquidation, dissolution, or change in control of the Company, the Series B Preferred Stock would have a liquidation preference equal to the greater of the amount that the holders would have received if the Series B Preferred Stock had been converted to Common Stock, or $20 per share plus unpaid dividends plus a pro rata share of any remaining assets on an as-converted basis, limited to an amount equal to twice the original issue price.

Stock Option Plans The Company has two Stock Option Plans to provide directors, officers and other key employees options to purchase shares of the Company s common stock, the 1990 Stock Option Plan (the 1990 Plan) and the 1999 Stock Option Plan (the 1999 Plan). As of December 31, 2005, there were 2,200,000 and 6,000,000 shares reserved for issuance under the 1990 Plan and 1999 Plan, respectively. As of December 31, 2005, 645,970 shares were available for grant under the 1999 Plan and there were no shares available for grant under the 1990 Plan. Under the terms of the plans, the Board of Directors may grant officers and key employees either non-qualified or incentive stock options as defined by the Internal Revenue Service code and regulations and may grant non-qualified options to non-employee directors. Under the terms of the plans, the purchase price of the shares subject to an option will be the fair market value of the Company s common stock on the date the option is granted. If the grantee owns more than 10% of the total combined voting power or value of all classes of stock on the date of grant, the purchase price shall be at least 110% of the fair market value at the date of grant and the exercise term shall be up to five years from the date of grant. All other options granted under the 1990 Plan and 1999 Plan are exercisable up to 10 years from the date of the grant. Options issued under the plans vest over periods determined appropriate by the Board of Directors in accordance with the plans.

On December 13, 2004, the Company s Board of Directors, in order to motivate employees, unanimously approved the acceleration of the vesting of all outstanding Company stock options having an exercise price greater than $1.19, the fair market value of the underlying shares of common stock at the close of market on such date as quoted on the Nasdaq Stock Market, that had been previously granted to employees of the Company as of December 13, 2004. When the Company becomes subject to the new accounting rules governing the expensing of stock options in SFAS No. 123(R), beginning in 2006, this action will result in the reduction of the Company s compensation expense. As a result, approximately 1.2 million options or 93% of the total outstanding options with varying remaining vesting schedules became immediately exercisable. Of such options, approximately 700,000 options or 52% were held by our directors and named executive officers.

A summary of the status of the Company s stock option plans as of December 31, 2004 and 2005 and changes during the years ended on those dates is presented below:

	Shares Under Option	Weighted Average Exercise Price	
Balance, December 31, 2003	5,499,009	$	2.46
Granted	1,134,633	$	2.55
Exercised	(404,232)		1.32
Canceled	(1,408,690)		4.20
Balance, December 31, 2004	4,820,720	$	2.07
Granted	1,552,100	$	0.81
Exercised	(10,667)		0.98
Canceled	(693,944)		3.19
Balance, December 31, 2005	5,668,209	$	1.59

Shares exercisable in the plans were 5,133,514 and 4,720,441 for the years ended 2005 and 2004, respectively. The weighted-average fair value of each option granted in 2005 and 2004 was $0.61 and $2.03 per share, respectively.

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The following table summarizes information about fixed stock options outstanding at December 31, 2005:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	**Number Outstanding**	**Weighted Average Remaining Contractual Life (Years)**	**Weighted Average Exercise Price**	**Number Exercisable**	**Weighted Average Exercise Price**
$0.51 to $.97	1,679,670	8.9	$ 0.80	1,159,878	$ 0.92
$1.00 to $1.98	2,652,932	4.2	1.38	2,642,196	1.38
$2.11 to $2.95	930,217	5.6	2.47	926,050	2.47
$3.00 to $16.19	405,390	6.9	4.11	405,390	4.11
$0.55 to $16.19	5,668,209	6.0	$ 1.59	5,133,514	$ 1.69

5. Income Taxes:

The significant components of the net deferred tax asset at December 31, 2005 consist of the following (in thousands):

Deferred Tax Assets	
Net operating loss carryforwards	$ 5,829
Other Accruals	286
Total deferred tax assets	6,115
Deferred Set Up and Implementation	(50)
Net Deferred Tax Assets	6,065
Valuation allowance	(6,065)
Net Asset	$

Income tax expenses differed from the amounts computed by applying the U.S. Federal and State income tax rates to loss before income taxes as a result of the following:

	2005	**2004**
Federal Tax expected expense (benefit)	(581)	(234)
State Tax expected expense (benefit)	(52)	(21)
Permanent Items	3	8
Stock Option Benefit		(43)
Other		
Valuation Allowance	630	290
Income Tax Benefit		

The benefits of the Company s net operating loss carryforwards as of December 31, 2005 and 2004, do not satisfy the realization criteria set forth in SFAS No. 109 and accordingly, the Company has recorded a valuation allowance for the entire net deferred tax asset. The valuation allowance increased by $630,000 in 2005 and by $290,000 in 2004, due to changes in the net operating loss carryforward.

Because the Company experienced a significant change in control and substantially changed its business on May 22, 1995, the Company believes that, under current tax regulations, the utilization of tax loss carryforwards will be limited to loss carryforwards (NOL) generated after May 23, 1995, which amounted to approximately $15,729,000 as of December 31, 2005. The Company s NOL expires commencing in 2015.

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6. Commitments and Contingencies:

Operating Lease Commitments The Company has non-cancelable leases for its facilities and certain office equipment. Following is a summary of future lease commitments at December 31, 2005 (in thousands):

Year Ended December 31,	
2006	$ 496
2007	370
	$ 866

Rent expense related to operating leases was approximately $390,000 and $413,000 for the years ended December 31, 2005 and 2004, respectively.

The Company leases approximately 27,000 square feet of office space at a rate of $18.00 per square foot through September 2007, when the lease expires.

The Company has contracts with certain of its clients that contain indemnification clauses, which could require the Company to make payments to the client if it is determined that the solution provided under the contract infringes any proprietary right of a third party, and such infringement cannot be resolved by the Company. The Company does not believe there are currently any outstanding obligations related to indemnification clauses and, accordingly, there is no liability reflected in the accompanying balance sheet for these contingencies.

From time to time, the Company may be involved in litigation that arises in the normal course of business operations. At December 31, 2005, the Company is not a party to any litigation that it believes could reasonably be expected to have a material adverse effect on the business or results of operations.

In September 2004, the Company settled a dispute with a terminated employee by agreeing to pay between $85,000 and $91,000, depending on the length of time needed for the terminated employee to obtain other employment. The ultimate cost to the Company was $87,000, of which $85,000 was paid in 2004 and $2,000 was paid in 2005. The cost associated with this obligation is included in the Company s general and administrative expenses.

7. Selected Quarterly Financial Data (Unaudited):

	2005 Quarter Ended			
	March 31(1)	**June 30(1)**	**September 30(1)**	**December 31(1)**
	(In thousands, except per share information)			
Revenues:				
Service and other fees	$ 1,748	$ 1,729	$ 1,969	$ 1,728
Implementation and software license fees	524	441	353	271
Total revenues	2,272	2,170	2,322	1,999
Gross margin	539	907	874	521
Net income (loss)	$ (1,109)	$ (23)	$ 1	$ (577)
Basic earnings (loss) per common share	$ (0.11)	$	$	$ (0.06)
Fully diluted earnings (loss) per common share	$ (0.11)	$	$	$ (0.06)

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	2004 Quarter Ended			
	March 31	June 30	September 30	December 31(1)
Revenues:				
Service and other fees	$ 2,313	$ 2,422	$ 2,462	$ 2,095
Implementation and software license fees	686	400	187	314
Total revenues	2,999	2,822	2,649	2,409
Gross margin	1,684	1,454	1,104	773
Net income (loss)	$ 114	$ 98	$ (355)	$ (543)
Basic earnings (loss) per common share	$ 0.01	$ 0.01	$ (0.04)	$ (0.05)
Fully diluted earnings (loss) per common share	$ 0.01	$ 0.01	$ (0.04)	$ (0.05)

(1) Reflects the impact of a $222,000 per month reduction in service fees related to the Channel Insight contract with the Company s largest client, effective November 1, 2004.

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HALO TECHNOLOGY HOLDINGS, INC.
InfoNow Corporation
UNAUDITED PRO FORMA
CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

On December 23, 2005, Warp Technology Holdings, Inc. operating under the name Halo Technology Holdings (Halo or the Company) entered into an Agreement and Plan of Merger (the Merger Agreement) with WTH Merger Sub, Inc. (Merger Sub), a wholly-owned subsidiary of the Company, and InfoNow Corporation (InfoNow) in a transaction valued at $7.2 million excluding transaction costs (the Merger). Pursuant to the Merger Agreement, Merger Sub will be merged with and into InfoNow, with InfoNow surviving the merger as a wholly-owned subsidiary of Halo.

Under the terms of the Merger Agreement, which was approved by both companies boards of directors, each share of InfoNow s common stock outstanding immediately prior to the Merger will be converted into the right to receive approximately $0.71 in a combination of cash and common stock of Halo. The amount of cash per share to be received in the Merger by InfoNow stockholders will be determined by the amount of InfoNow s cash on hand and net working capital available to it three days prior to the closing. The lesser of the two amounts will be paid in cash by Halo pro rata in proportion to each stockholder s ownership in InfoNow at the closing of the Merger. The remainder of the approximately $0.71 per share Merger consideration will be paid in shares of Halo common stock, the value of which will be deemed to be the greater of $1.00 or the average closing price of Halo s common stock as reported on the over-the-counter bulletin board for the twenty consecutive trading days ending two trading days prior to the closing of the Merger (the Halo Conversion Price). The Merger is intended to qualify as a tax-free reorganization under Section 368(a) of the Internal Revenue Code of 1986, as amended.

In addition, each InfoNow common stock option outstanding at the closing with an exercise price less than $0.71 per share will be converted into the right to receive cash and Halo common stock to the extent that the approximately $0.71 per share merger consideration exceeds the applicable exercise price. The amount of cash and Halo common stock to be issued in respect of the outstanding in-the-money stock options as described above will be calculated based upon the relative proportions of the cash and Halo common stock issued in the Merger in respect of the outstanding Company common stock.

Halo will also issue one contingent value right (a CVR) in respect of each share of Halo common stock issued in the Merger. The CVRs will be payable on the 18-month anniversary of the closing date, and will entitle each holder thereof to an additional cash payment if the trading price of Halo s common stock (based on a 20-day average) is less than the Halo Conversion Price. The CVRs will expire prior to the 18-month payment date if during any consecutive 45-day trading period during that time when the volume of Halo s common stock is not less than 200,000 per day, the stock price is 175% of the Halo Conversion Price. The shares of Halo common stock and related CVRs to be issued in the Merger are being registered with the Securities and Exchange Commission (SEC).

This unaudited pro forma information should be read in conjunction with the consolidated financial statements of the Company included in Halo s Annual Report filed on Form 10-KSB for the year ended June 30, 2005 and our Quarterly Report filed on Form 10-QSB for the six months ended December 31, 2005. In addition, this pro forma information should be read in conjunction with the financial statements of InfoNow for the years ended December 31, 2005 and 2004, which are included within this registration statement S-4.

The following unaudited pro forma statement of operations for the year ended June 30, 2005 has been prepared in accordance with accounting principles generally accepted in the United States to give effect to the acquisition of InfoNow as if the transaction occurred on July 1, 2004. The pro forma statement of operations combines the results of operations of the Company for the year ended June 30, 2005 with the results of operations of InfoNow for the twelve months ended June 30, 2005. Pro forma adjustments include an increase in intangible amortization, and a decrease in deferred revenue amortization.

The following unaudited pro forma statement of operations for the six months ended December 31, 2005 has been prepared in accordance with accounting principles generally accepted in the United States to give effect to the acquisition of InfoNow as if the transaction occurred on July 1, 2005. Such pro forma statement of operations combines the results of operations of the Company for the six months ended December 31, 2005 with the results of operations of InfoNow for the six months ended December 31, 2005. Pro forma adjustments include an increase in intangible amortization, and a decrease in deferred revenue amortization.

The following unaudited pro forma balance sheet has been prepared in accordance with accounting principles generally accepted in the United States; gives effect to the acquisition of InfoNow as if the acquisition occurred on December 31, 2005; and combines the consolidated balance sheet of the Company as of December 31, 2005, which is included in the Company s Quarterly Report filed on Form 10-QSB for the six months ended December 31, 2005 with the balance sheet of InfoNow as of December 31, 2005.

Under the purchase method of accounting, the estimated cost of approximately $7.2 million to acquire InfoNow, plus transaction costs of approximately $.3 million, will be allocated to InfoNow s underlying net assets at their respective fair values. As more fully described in the notes to the pro forma consolidated condensed financial statements, a preliminary allocation of the excess of the purchase price over the value of the net assets acquired has been allocated to goodwill. Intangible assets consisting of trade names, customer relationships, and developed technologies, are expected to be amortized over approximately seven years. At this time, the work needed to provide the basis for estimating these fair values, and amortization periods, has not been completed. As a result, the final allocation of the purchase price, intangible assets acquired, and their estimated useful lives, as well as the amount recorded as goodwill could differ materially. Accordingly, a change in the amortization period would impact the amount of annual amortization expense.

These unaudited pro forma financial statements are prepared for informational purposes only and are not necessarily indicative of future results or of actual results that would have been achieved had the acquisition of InfoNow been consummated as of the dates specified above.

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HALO TECHNOLOGY HOLDINGS, INC.
PRO FORMA CONSOLIDATED CONDENSED BALANCE SHEET
December 31, 2005
(Unaudited)

	Halo(A)	InfoNow(B)	Purchase Accounting Adjustments	Halo Pro Forma
ASSETS				
Current Assets:				
Cash and cash equivalents	$ 1,844,373	$ 3,031,708	$ (1,349,447)(C)	$ 3,526,634
Accounts receivable, net of allowance for doubtful accounts	4,550,514	887,361		5,437,875
Due from Platinum Equity, LLC	465,000			465,000
Prepaid expenses and other current assets	925,460	376,029		1,301,489
Total current assets	7,785,347	4,295,098	(1,349,447)	10,730,998
Property and equipment, net	286,369	330,467		616,836
Deferred financing costs, net	1,529,036			1,529,036
Intangible assets, net of accumulated amortization	24,604,981	466,681	2,090,774(C)	27,162,436
Goodwill	28,730,708		2,876,285(C)	31,606,993
Investment and other assets	193,190			193,190
Total assets	$ 63,129,631	$ 5,092,246	$ 3,617,612	$ 71,839,489
LIABILITIES AND STOCKHOLDERS EQUITY				
Current liabilities:				
Accounts payable	$ 1,832,028	$ 670,008		$ 2,502,036
Accrued expenses	6,825,837	362,023	275,000(C)	7,462,860
Note payable to Bristol Technology, Inc	500,000			500,000
Note payable to Platinum Equity, LLC	2,750,000			2,750,000
Notes payable	1,591,770			1,591,770
Deferred revenue	11,263,432	1,933,656	(551,092)(C)	12,645,996
Due to ISIS	1,293,717			1,293,717
Total current liabilities	26,056,784	2,965,687	(276,092)	28,746,379
Subordinate notes payable	1,453,504			1,453,504
Senior notes payable	21,763,619			21,763,619
Other long term liabilities	52,972	146,794	(24,011)(C)	175,755
Total liabilities	49,326,879	3,112,481	(300,103)	52,139,257
Commitments and contingencies				
Stockholders equity:				
Preferred stock (Canadian subsidiary)	2			2
Series C Preferred Stock	13,802,837		(13,802,837)(F)	
Series D Preferred Stock	6,750,000			6,750,000

Shares of Common Stock to be issued for accrued dividends on Series C Preferred Stock	208,006			208,006
Shares of Common Stock to be issued for accrued dividends on Series D Preferred Stock	165,372			165,372
Shares of Common Stock to be issued for accrued interest on subordinate debt	41,667			41,667
Common stock	56	10,157	43(C)	237
			(10,157)(D)	
Additional paid-in-capital	64,733,038	40,145,725	5,897,437(C)	84,433,174
			138(E)	
			(40,145,725)(D)	
			13,802,699(E)	
Deferred compensation	(874,123)			(874,123)
Accumulated other comprehensive loss	(71,087)			(71,087)
Accumulated deficit	(70,953,016)	(38,176,117)	38,176,117(D)	(70,953,016)
Total stockholders equity	13,802,752	1,979,765	3,917,715	19,700,232
Total liabilities and stockholders equity	$ 63,129,631	$ 5,092,246	$ 3,617,612	$ 71,839,489

See accompanying notes to unaudited pro forma consolidated condensed financial statements.

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NOTES TO THE PRO FORMA CONSOLIDATED CONDENSED BALANCE SHEET (UNAUDITED)

(A) Reflects the historical financial position of the Company at December 31, 2005.

(B) Reflects the historical financial position of InfoNow at December 31, 2005.

(C) The following represents the acquisition of InfoNow and the preliminary allocation of the purchase price. Estimates are made based on InfoNow s balance sheet, common stock, and stock options information as of December 31, 2005. The final allocation of the purchase price will be determined based on a comprehensive final evaluation of the fair value of the tangible and intangible assets acquired and liabilities assumed.

Calculation of Purchase Price:

Estimated number of InfoNow shares to be acquired	10,055,398		
Conversion price	$ 0.71		
Total conversion value	$ 7,139,333		100%
InfoNow cash balance as of 12/31/05	$ 3,031,708		
InfoNow net working capital as of 12/31/05	$ 1,329,411		
Lesser of two (to be paid in cash to InfoNow stockholders)		$ 1,329,411	19%
Total conversion value minus cash consideration (to be paid in Halo common shares)		$ 5,809,922	81%
Estimated value of InfoNow stock options with exercise price of $.71 or lower	$ 107,593		100%
Option conversion value allocated to cash		20,036	19%
Option conversion value allocated to stock		87,558	81%
Estimated transaction costs accrued		275,000	
Total purchase price		$ 7,521,927	

* The estimated purchase prices by category: cash $1,349,447; 4,304,730 shares of common stock par value $0.00001, $5,897,480; and transaction costs $275,000.

Allocation of Purchase Price:

Assets:	
InfoNow s historical assets	$ 5,092,246
Write-up of intangible assets consisting of developed technologies and customer relationships	2,090,774
Recording of goodwill	2,876,285
Liabilities:	
InfoNow s historical liabilities ($24,011 of long-term liabilities)	(3,112,481)
Adjustment of deferred revenue to fair market value ($24,011 long term)	575,103
Total purchase price	$ 7,521,927

(D) InfoNow s stockholder s equity related to the pre-acquisition period is eliminated.

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Closing Condition:

(E) As a condition to be met before closing this merger, Halo s Preferred Series C Stock is to be converted to Halo s common stock at a one share to one share ratio. 13,802,837 shares of Preferred Series C Stock (the liquidation of $13,802,837) are converted into the same number of shares of Halo s stock. At the $.00001 par value, $138 is recorded for common stock. $13,802,699 is recorded for additional paid in capital.

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HALO TECHNOLOGY HOLDINGS, INC.
PRO FORMA CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
Six Months Ended December 31, 2005
(Unaudited)

	Halo(E)	InfoNow(F)	Pro Forma Adjustments	Halo Pro Forma
Revenue				
Licenses	$ 2,819,062	$	$	$ 2,819,062
Services	5,759,979	4,320,659	(402,721)(G)	9,677,917
Total revenues	8,579,041	4,320,659	(402,721)	12,496,979
Cost of revenue				
Cost of license	200,500			200,500
Cost of services	1,098,048	2,925,688		4,023,736
Total cost of revenues	1,298,548	2,925,688		4,224,236
Gross Profit	7,280,493	1,394,971	(402,721)	8,272,743
Product development	2,516,793	271,691		2,788,484
Sales, marketing and business development	3,436,457	509,090		3,945,547
General and administrative	4,271,743	1,234,991		5,506,734
Amortization of intangibles	1,194,439		182,675(H)	1,377,114
Loss before interest	(4,138,939)	(620,801)	(585,396)	(5,345,136)
Interest (expense) income	(3,553,807)	45,714		(3,508,093)
Net loss before income taxes	(7,692,746)	(575,087)	(585,396)	(8,853,229)
Income taxes	(86,488)		(I)	(86,488)
Net Loss	$ (7,779,234)	$ (575,087)	$ (585,396)	$ (8,939,717)
Computation of loss applicable to Common Shareholders				
Net loss before beneficial conversion Preferred dividends	$ (7,779,234)	$ (575,087)	$ (585,396)	$ (8,939,717)
Beneficial conversion Preferred dividends	(593,558)			(593,558)
Loss attributable to common stockholders	$ (8,372,792)	$ (575,087)	$ (585,396)	$ (9,533,275)
Basic and diluted loss per share pro forma	$ (2.44)			$ (0.44)
Weighted average shares outstanding pro forma	3,425,127			21,532,694(J)

See accompanying notes to unaudited pro forma consolidated condensed financial statement

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HALO TECHNOLOGY HOLDINGS, INC.
PRO FORMA CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
Year Ended June 30, 2005
(Unaudited)

	Halo(E)	InfoNow(F)	Pro Forma Adjustments	Halo Pro Forma
Revenue				
Licenses	$ 2,986,752	$	$	$ 2,986,752
Services	2,137,170	9,501,411	(551,092)(G)	11,087,489
Total revenues	5,123,922	9,501,411	(551,092)	14,074,241
Cost of revenue				
Cost of license	151,051			151,051
Cost of services	396,490	6,177,554		6,574,044
Total cost of revenues	547,541	6,177,554		6,725,095
Gross Profit	4,576,381	3,323,857	(551,092)	7,349,146
Product development	1,589,099	865,067		2,454,166
Sales, marketing and business development	3,652,117	1,534,301		5,186,418
General and administrative	4,042,702	3,002,134		7,044,836
Amortization of intangibles	946,063		365,351(H)	1,311,414
Late filing penalty	1,033,500			1,033,500
Intangible impairment	62,917			62,917
Goodwill impairment	3,893,294			3,893,294
Loss before interest	(10,643,311)	(2,077,645)	(916,443)	(13,637,399)
Interest (expense) income	(4,631,683)	47,859		(4,583,824)
Net loss before income taxes	(15,274,994)	(2,029,786)	(916,443)	(18,221,223)
Income taxes	(97,945)		(I)	(97,945)
Net Loss	$ (15,372,939)	$ (2,029,786)	$ (916,443)	$ (18,319,168)
Computation of loss applicable to Common Shareholders				
Net loss before beneficial conversion Preferred dividends	$ (15,372,939)	$ (2,029,786)	$ (916,443)	$ (18,319,168)
Beneficial conversion Preferred dividends	(7,510,590)			(7,510,590)
Loss attributable to common stockholders	$ (22,883,529)	$ (2,029,786)	$ (916,443)	$ (25,829,758)
Basic and diluted loss per share pro forma	$ (11.97)			$ (1.29)
Weighted average shares outstanding pro forma	1,912,033			20,019,600(J)

See accompanying notes to unaudited pro forma consolidated condensed financial statements.

NOTES TO THE PRO FORMA CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS (UNAUDITED)

(E) Reflects the Company s historical statement of operations for the six months ended December, 2005 and the year ended June 30, 2005.

(F) Reflects InfoNow s historical statement of operations for the six months ended December 31, 2005 and the twelve months ended June 30, 2005, including various reclassifications to conform to the company s financial statement presentation. In order to conform InfoNow s fiscal year end from calendar year end to Halo s June 30 year end, InfoNow s historical operating results have been derived from combinations of quarters in its two fiscal years. For the pro forma statements of operations for the six months ended December 31, 2005, InfoNow s results were derived by combining the last two quarters ended December 31, 2005 in its fiscal year ended December 31, 2005. For the pro forma statements of operations for the year ended June 30, 2005, InfoNow s results were derived by combining the first two quarters of its the fiscal year ended December 31, 2005 and last two quarters of its fiscal year ended December 31, 2004.

(G) To record the decrease in amortization of the deferred revenue as a result of a fair value adjustment (in accordance with EITF 01-03, Accounting in a Business Combination for Deferred Revenue of an Acquiree) of $402,721 and $551,092 for the six months ended December 31, 2005 and for the twelve months ended June 30, 2005, respectively, which is included in services revenue.

(H) To record the increased amortization of intangibles of $182,675 and $365,351 for the six months ended December 31, 2005 and for the year ended June 30, 2005, respectively. The increase in the amortization results from the increase in the fair market value of the intangible assets acquired.

(I) The Company did not record an income tax benefit because the company provided a full valuation allowance against the deferred tax asset.

(J) The weighted average number of shares are calculated as follows:

	Six Months Ended December 31, 2005	Year Ended June 30, 2005
Halo s weighted average shares as reported on 10Q and 10K	3,425,127	1,912,033
Common stock to be issued to InfoNow stockholders	4,304,730	4,304,730
Preferred Series C to be converted as closing condition	13,802,837	13,802,837
Weighted average shares pro forma	21,532,694	20,019,600

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HALO TECHNOLOGY HOLDINGS, INC.
Unify Corporation and InfoNow Corporation
UNAUDITED PRO FORMA
CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Acquisition of Unify Corporation

On March 14, 2006, Warp Technology Holdings, Inc. operating under the name Halo Technology Holdings (Halo or the Company) entered into an Agreement and Plan of Merger (the Merger Agreement) by and between UCA Merger Sub, Inc. (Merger Sub), a wholly-owned subsidiary of the Company, and Unify Corporation (Unify) in a transaction valued at approximately $21 million, excluding transaction costs, based on Halo s then current market valuation (the Merger). Pursuant to the Merger Agreement, Merger Sub will be merged with and into Unify, with Unify surviving the merger as a wholly-owned subsidiary of Halo. In connection with the Merger Agreement, two shareholders of Unify representing approximately thirty-three percent (33%) of outstanding voting rights of Unify have executed stockholder agreements which, subject to limited exceptions, require these stockholders to vote their Unify shares in favor of the Merger.

Under the terms of the Merger Agreement, which was approved by the boards of directors of each of Halo and Unify, each share of Unify s common stock outstanding immediately prior to the Merger will be converted into the right to receive 0.437 shares of common stock of Halo (the Exchange Ratio). The Merger is intended to qualify as a tax-free reorganization under Section 368(a) of the Internal Revenue Code of 1986, as amended.

In addition, each outstanding option to purchase shares of common stock of Unify that has an exercise price of less than $1.00 per share shall become and represent an option to purchase the number of shares of Halo common stock (rounded down to the nearest full share) determined by multiplying (X) the number of shares of Unify common stock subject to the option immediately prior to the effective time of the Merger by (Y) the Exchange Ratio, at an exercise price per share of Halo common stock equal to the result of dividing (A) the exercise price of the Unify option by (B) the Exchange Ratio, and rounding the result up to the nearest tenth of one cent. All other outstanding options to purchase Unify common stock shall be cancelled at the effective time of the Merger. The Halo options issued in substitution of Unify options shall contain substantially the same terms and conditions as the applicable Unify options.

Each outstanding warrant to purchase shares of common stock of Unify shall become and represent a warrant to purchase the number of shares of Halo common stock (rounded down to the nearest full share) determined by multiplying (X) the number of shares of Unify common stock subject to the warrant immediately prior to the effective time of the Merger by (Y) the Exchange Ratio. The exercise price for the Halo shares issuable upon exercise of the Halo warrants issued in replacement of the Unify warrants shall be $1.836 per share. The Halo warrants issued in substitution of Unify Warrants shall contain substantially the same terms and conditions as the applicable Unify warrants.

Consummation of the Merger is subject to several closing conditions (Closing Conditions), including, among others, approval by a majority of Unify s common shares entitled to vote thereon, holders of less than ten percent (10%) of Unify s outstanding common stock exercising appraisal or dissenter s rights, Halo receiving a new equity investment of at least $2.0 million, Halo converting certain of its outstanding convertible debt into common stock of Halo, the holders of outstanding shares of Halo s preferred stock converting to shares of Halo common stock, no material adverse change in the business or condition of either company prior to the effective time of the Merger, and the effectiveness of a registration statement on Form S-4 to be filed by Halo, registering the shares of Halo common stock to be issued in the Merger. In addition, the Merger Agreement contains certain termination rights allowing

HALO TECHNOLOGY HOLDINGS, INC.
Unify Corporation and InfoNow Corporation
UNAUDITED PRO FORMA
CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

Unify, Halo or both parties to terminate the agreement upon the occurrence of certain conditions, including the failure to consummate the Merger by September 30, 2006.

Acquisition of InfoNow Corporation

On December 23, 2005, Halo entered into an Agreement and Plan of Merger (the Merger Agreement) with WTH Merger Sub, Inc. (Merger Sub), a wholly-owned subsidiary of the Company, and InfoNow Corporation (InfoNow) in a transaction valued at $7.2 million excluding transaction costs (the Merger). Pursuant to the Merger Agreement, Merger Sub will be merged with and into InfoNow, with InfoNow surviving the merger as a wholly-owned subsidiary of Halo.

Under the terms of the Merger Agreement, which was approved by both companies boards of directors, each share of InfoNow s common stock outstanding immediately prior to the Merger will be converted into the right to receive approximately $0.71 in a combination of cash and common stock of Halo. The amount of cash per share to be received in the Merger by InfoNow stockholders will be determined by the amount of InfoNow s cash on hand and net working capital available to it three days prior to the closing. The lesser of the two amounts will be paid in cash by Halo pro rata in proportion to each stockholder s ownership in InfoNow at the closing of the Merger. The remainder of the approximately $0.71 per share Merger consideration will be paid in shares of Halo common stock, the value of which will be deemed to be the greater of $1.00 or the average closing price of Halo s common stock as reported on the over-the-counter bulletin board for the twenty consecutive trading days ending two trading days prior to the closing of the Merger (the Halo Conversion Price). The Merger is intended to qualify as a tax-free reorganization under Section 368(a) of the Internal Revenue Code of 1986, as amended.

In addition, each InfoNow common stock option outstanding at the closing with an exercise price less than $0.71 per share will be converted into the right to receive cash and Halo common stock to the extent that the approximately $0.71 per share merger consideration exceeds the applicable exercise price. The amount of cash and Halo common stock to be issued in respect of the outstanding in-the-money stock options as described above will be calculated based upon the relative proportions of the cash and Halo common stock issued in the Merger in respect of the outstanding Company common stock.

Halo will also issue one contingent value right (a CVR) in respect of each share of Halo common stock issued in the Merger. The CVRs will be payable on the 18-month anniversary of the closing date, and will entitle each holder thereof to an additional cash payment if the trading price of Halo s common stock (based on a 20-day average) is less than the Halo Conversion Price. The CVRs will expire prior to the 18-month payment date if during any consecutive 45-day trading period during that time when the volume of Halo s common stock is not less than 200,000 per day, the stock price is 175% of the Halo Conversion Price. The shares of Halo common stock and related CVRs to be issued in the Merger are being registered with the Securities and Exchange Commission (SEC).

Unaudited Pro Forma Information

This unaudited pro forma information should be read in conjunction with the consolidated financial statements of the Company included in Halo s Annual Report filed on Form 10-KSB for the year ended June 30, 2005 and our Quarterly Report filed on Form 10-QSB for the six months ended December 31, 2005. In addition, this pro forma information should be read in conjunction with the financial statements of Unify for the nine months ended January 31, 2006 and the years ended April 30, 2005 and 2004, which are included within this registration statement S-4.

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HALO TECHNOLOGY HOLDINGS, INC.
Unify Corporation and InfoNow Corporation
UNAUDITED PRO FORMA
CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

The following unaudited pro forma statement of operations for the year ended June 30, 2005 has been prepared in accordance with accounting principles generally accepted in the United States to give effect to the acquisition of Unify and InfoNow as if the transaction occurred on July 1, 2004. The pro forma statement of operations combines the results of operations of the Company for the year ended June 30, 2005 with the results of operations of Unify for the twelve months ended July 31, 2005 and the results of operations of InfoNow for the twelve months ended June 30, 2005. Pro forma adjustments include an increase in intangible amortization, a decrease in deferred revenue amortization, an increase in amortization of deferred compensation, and increases in expense for warrants issued in connection with convertible notes that are converted to common stock.

The following unaudited pro forma statement of operations for the six months ended December 31, 2005 has been prepared in accordance with accounting principles generally accepted in the United States to give effect to the acquisition of Unify and InfoNow as if the transaction occurred on July 1, 2005. Such pro forma statement of operations combines the results of operations of the Company for the six months ended December 31, 2005 with the results of operations of Unify for the six months ended January 31, 2006 and the results of operations of InfoNow for the six months ended December 31, 2005. Pro forma adjustments include an increase in intangible amortization, a decrease in deferred revenue amortization, an increase in amortization of deferred compensation, and increases in expense for warrants issued in connection with convertible notes that are converted to common stock.

The following unaudited pro forma balance sheet has been prepared in accordance with accounting principles generally accepted in the United States; gives effect to the acquisition of Unify as if the acquisition occurred on December 31, 2005; and combines the balance sheet of the Company as of December 31, 2005, which is included in the Company s Quarterly Report filed on Form 10-QSB for the six months ended December 31, 2005 with the balance sheet of Unify as of January 31, 2006 and the balance sheet of InfoNow as of December 31, 2005.

Under the purchase method of accounting, the estimated cost of approximately $21 million to acquire Unify, plus transaction costs of approximately $.3 million, will be allocated to Unify s underlying net assets at their respective fair values. The estimated cost of approximately $7.2 million to acquire InfoNow, plus transaction costs of approximately $.3 million, will be allocated to InfoNow s underlying net assets at their respective fair values. As more fully described in the notes to the pro forma consolidated condensed financial statements, a preliminary allocation of the excess of the purchase price over the value of the net assets acquired has been allocated to goodwill. Intangible assets consisting of trade names, customer relationships, and developed technologies, are expected to be amortized over approximately seven years. At this time, the work needed to provide the basis for estimating these fair values, and amortization periods, has not been completed. As a result, the final allocation of the purchase price, intangible assets acquired, and their estimated useful lives, as well as the amount recorded as goodwill could differ materially. Accordingly, a change in the amortization period would impact the amount of annual amortization expense.

These unaudited pro forma financial statements are prepared for informational purposes only and are not necessarily indicative of future results or of actual results that would have been achieved had the acquisition of Unify and InfoNow been consummated as of the dates specified above.

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HALO TECHNOLOGY HOLDINGS, INC.
PRO FORMA CONSOLIDATED CONDENSED BALANCE SHEET
December 31, 2005
(Unaudited)

			Pro Forma Adjustments			Pro Forma Adjustment	
	Halo(A)	Unify(B)	Conditions(C)	Purchase Accounting	InfoNow (J)	Purchase Accounting	Halo Pro Forma
Assets							
Current Assets:							
Cash and cash equivalents	$ 1,844,373	$ 2,729,170	$ 2,000,000(D)	$	$ 3,031,708	$ (1,349,447)(K)	$ 8,255,804
Accounts receivable, net of allowance for doubtful accounts	4,550,514	2,673,676			887,361		8,111,551
Due from Platinum Equity, LLC	465,000						465,000
Prepaid expenses and other current assets	925,460	618,100			376,029		1,919,589
Total current assets	7,785,347	6,020,946	2,000,000		4,295,098	(1,349,447)	18,751,944
Property and equipment, net	286,369	301,585			330,467		918,421
Deferred financing costs, net	1,529,036						1,529,036
Intangible assets, net of accumulated amortization	24,604,981	242,667		6,466,116(G)	466,681	2,090,774(K)	33,871,219
Goodwill	28,730,708	1,405,111		9,609,706(G)		2,876,285(K)	42,621,809
Investment and other assets	193,190	412,103					605,293
Total assets	$ 63,129,631	$ 8,382,411	$ 2,000,000	$ 16,075,822	$ 5,092,246	$ 3,617,612	$ 98,297,722

Liabilities and stockholders equity							
Current liabilities:							
Accounts payable	$ 1,832,028	$ 160,764			$ 670,008		$ 2,662,800
Accrued expenses	6,825,837	1,325,816	(30,417)(E)	275,000(G)	362,023	275,000(K)	9,033,259
Note payable to Bristol Technology, Inc	500,000						500,000
Note payable to Platinum Equity, LLC	2,750,000						2,750,000
Notes payable	1,591,770	811,955	(1,095,885)(E)				1,307,840
Deferred revenue	11,263,432	3,361,788		(1,633,565)(G)	1,933,656	(551,092)(K)	14,374,219
Due to ISIS	1,293,717						1,293,717
Total current liabilities	26,056,784	5,660,323	(1,126,302)	(1,358,565)	2,965,687	(276,092)	31,921,835
Subordinate notes payable	1,453,504						1,453,504
Senior notes payable	21,763,619						21,763,619
Other long term liabilities	52,972	699,762			146,794	(24,011)(K)	875,517
Total liabilities	49,326,879	6,360,085	(1,126,302)	(1,358,565)	3,112,481	(300,103)	56,014,475
Commitments and contingencies							
Stockholders equity:							
Preferred stock (Canadian subsidiary)	2						2
Series C Preferred Stock	13,802,837		(13,802,837)(F)				
Series D Preferred Stock	6,750,000		(6,750,000)(F)				
Shares of Common	208,006						208,006

Stock to be issued for accrued dividends on Series C Preferred Stock							
Shares of Common Stock to be issued for accrued dividends on Series D Preferred Stock	165,372						165,372
Shares of Common Stock to be issued for accrued interest on subordinate debt	41,667						41,667
Common stock	56	29,373	16(D)	128(G)	10,157	43(K)	460
			9(E)	(29,373)(H)		(10,157)(L)	
			208(F)				
Additional paid-in-capital	64,733,038	63,885,760	1,999,984(D)	19,456,585(G)	40,145,725	5,897,437(K)	115,301,847
			2,147,924(E)	(63,885,760)(H)		(40,145,725)(L)	
			20,552,629(F)	514,250(I)			
Deferred compensation	(874,123)			(514,250)(I)			(1,388,373)
Accumulated other comprehensive loss	(71,087)	23,888		(23,888)(H)			(71,087)
Accumulated deficit	(70,953,016)	(61,916,695)	(1,021,631)(E)	61,916,695(H)	(38,176,117)	38,176,117(L)	(71,974,647)
Total stockholders equity	13,802,752	2,022,326	3,126,302	17,434,387	1,979,765	3,917,715	42,283,247
Total liabilities and stockholders equity	$ 63,129,631	$ 8,382,411	$ 2,000,000	$ 16,075,822	$ 5,092,246	$ 3,617,612	$ 98,297,722

See accompanying notes to unaudited pro forma consolidated condensed financial statements.

NOTES TO THE PRO FORMA CONSOLIDATED CONDENSED BALANCE SHEET (Unaudited)

(A) Reflects the historical financial position of the Company at December 31, 2005.

(B) Reflects the historical financial position of Unify at January 31, 2006.

(C) Pro forma adjustments for the conditions to be met before closing this acquisition per the Merger Agreement.

(D) Equity is to be raised for $2 million in Halo s common stock at $1.25 per share. As a result, 1,600,000 shares of Halo s common stock will be issued. The par value of the common stock is $.00001.$16 is recorded as common stock, and $1,999,984 is recorded as additional paid in capital.

(E) Certain existing Halo convertible notes are to be converted to Halo s common stock. As of December 31, 2005, these notes amounted to $1,150,000 in principal, and $30,417 in accrued interest. The total $1,180,417 is to be converted at $1.25 per share, issuing 944,334 shares of Halo s common stock. The value of the common stock issued is $1,293,738 at $1.37 per share market price as of December 31, 2005. At the $.00001 par value, $9 is recorded as common stock, and $1,293,729 is recorded as additional paid in capital. Interest expense of $113,321 is recorded for the excess of the market value of the common stock over the value of the original notes and accrued interest. One of these convertible notes were originally issued with warrants, whose fair market value was reduced from the principal. The accreted amount at December 31, 2005 was $1,095,885. The unaccreted amount of $54,115 as of December 31, 2005 is charged to interest expense as this note was converted to common stock. Furthermore, additional warrants are to be issued to the note holders on conversion of these notes. The fair market value of these warrants are estimated to be $854,195, using the Black-Scholes method. This amount is also expensed as interest.

(F) Halo s Preferred Series C and Preferred Series D Stock are to be converted to Halo s common stock at a one share to one share ratio. 13,802,837 shares of Preferred Series C Stock (the liquidation value of $13,802,837) and 7,045,454 shares of Preferred Series D Stock (the liquidation value of $6,750,000) were converted into the same number of shares of Halo s common stock. At the $.00001 par value, $208 ($138 for Series C and $70 for Series D) is recorded as common stock. $20,552,629 ($13,802,699 for Series C and $6,749,930 for Series D) is recorded as additional paid in capital.

(G) The following represents the acquisition of Unify and the preliminary allocation of the purchase price. Estimates are made based on Halo s stock price as of December 31, 2005, Unify s balance sheet, common stock, warrants, and stock options information as of January 31, 2006. The fair market value (FMV) of options and warrants are estimated using the Black-Scholes method. The final allocation of the purchase price will be determined based on a comprehensive final evaluation of the fair value of the tangible and intangible assets acquired and liabilities assumed.

Calculation of Purchase Price:

Estimated number of Unify shares to be acquired	29,373,201	
Exchange Ratio	0.437	
Estimated number of Halo shares to be issued	12,836,089	
Halo stock price as of 12/31/05	$ 1.37	
Estimated stock consideration		$ 17,585,442
FMV of vested Unify options to be converted to Halo options(1)		848,062
FMV of vested Unify warrants to be converted to Halo warrants(2)		1,023,209
Estimated transaction costs accrued		275,000
Total purchase price		$ 19,731,713

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NOTES TO THE PRO FORMA CONSOLIDATED CONDENSED BALANCE SHEET
(Unaudited) (Continued)

(1) Unify s number of shares underlying the options outstanding as of 1/31/06 was 2,703,991, of which 2,406,374 options had an exercise price of less than $1.00, and of which 1,498,008 options were vested. These options are converted into 654,622 Halo options whose FMV is estimated to be $848,062.

(2) Unify s number of shares underlying the warrants outstanding as of 1/31/06 was 2,272,715. These warrants were fully vested and are converted into 993,176 Halo warrants whose FMV was estimated to be $1,023,209.

Allocation of Purchase Price:

Assets:		
Unify s historical assets	$	8,382,411
Write-up of intangible assets consisting of developed technologies and customer relationships		6,466,116
Write-up of goodwill		9,609,706
Liabilities:		
Unify s historical liabilities		(6,360,085)
Adjustment of deferred revenue to fair market value		1,633,565
Total purchase price	$	19,731,713

(H) Unify s stockholder s equity related to the pre-acquisition period is eliminated.

(I) Unvested portion of Unify s stock options to be converted to Halo s stock options is recorded as deferred compensation instead of as part of the purchase price. The fair market value of these options are estimated to be $514,250 using the Black-Scholes method. This amount is amortized to expense over the vesting period of these options.

(J) Reflects the historical financial position of InfoNow at December 31, 2005.

(K) The following represents the acquisition of InfoNow and the preliminary allocation of the purchase price. Estimates are made based on InfoNow s balance sheet, common stock, and stock options information as of December 31, 2005. The final allocation of the purchase price will be determined based on a comprehensive final evaluation of the fair value of the tangible and intangible assets acquired and liabilities assumed.

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NOTES TO THE PRO FORMA CONSOLIDATED CONDENSED BALANCE SHEET
(Unaudited) (Continued)

Calculation of Purchase Price:

Estimated number of InfoNow shares to be acquired	10,055,398		
Conversion price	$ 0.71		
Total conversion value	$ 7,139,333		100%
InfoNow cash balance as of 12/31/05	$ 3,031,708		
InfoNow net working capital as of 12/31/05	$ 1,329,411		
Lesser of two (to be paid in cash to InfoNow stockholders)		$ 1,329,411	19%
Total conversion value minus cash consideration (to be paid in Halo common shares)		5,809,922	81%
Estimated value of InfoNow stock options with exercise price of $.71 or lower	$ 107,593		100%
Option conversion value allocated to cash		20,036	19%
Option conversion value allocated to stock		87,558	81%
Estimated transaction costs accrued		275,000	
Total purchase price		$ 7,521,927	

* The estimated purchase prices by category: cash $1,349,447; 4,304,730 shares of common stock par value $0.00001, $5,897,480; and transaction costs $275,000.

Allocation of Purchase Price:

Assets:	
InfoNow s historical assets	$ 5,092,246
Write-up of intangible assets consisting of developed technologies and customer relationships	2,090,774
Recording of goodwill	2,876,285
Liabilities:	
InfoNow s historical liabilities	(3,112,481)
Adjustment of deferred revenue to fair market value ($24,011 long term)	575,103
Total purchase price	$ 7,521,927

(L) InfoNow s stockholder s equity related to the pre-acquisition period is eliminated.

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HALO TECHNOLOGY HOLDINGS, INC.
PRO FORMA CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
Six Months ended December 31, 2005
(Unaudited)

	Halo(M)	Unify(N)	Pro Forma Adjustments	InfoNow(T)	Pro Forma Adjustments	Halo Pro Forma
Revenue						
Licenses	$ 2,819,062	$ 2,275,286	$	$	$	$ 5,094,348
Services	5,759,979	2,807,768	(1,193,759)(O)	4,320,659	(402,721)(U)	11,291,926
Total revenues	8,579,041	5,083,054	(1,193,759)	4,320,659	(402,721)	16,386,274
Cost of revenue						
Cost of license	200,500	216,367				416,867
Cost of services	1,098,048	1,031,564		2,925,688		5,055,300
Total cost of revenues	1,298,548	1,247,931		2,925,688		5,472,167
Gross Profit	7,280,493	3,835,123	(1,193,759)	1,394,971	(402,721)	10,914,107
Product development	2,516,793	1,367,097		271,691		4,155,581
Sales, marketing and business development	3,436,457	2,022,744		509,090		5,968,291
General and administrative	4,271,743	1,096,414	105,719(P)	1,234,991		6,708,867
Amortization of intangibles	1,194,439	60,666	479,199(Q)		182,675(V)	1,916,979
Loss before interest	(4,138,939)	(711,798)	(1,778,677)	(620,801)	(585,396)	(7,835,611)
Interest (expense) income	(3,553,807)	29,531	(1,021,631)(R)	45,714		(4,500,193)
Loss before income taxes	(7,692,746)	(682,267)	(2,800,308)	(575,087)	(585,396)	(12,335,804)
Income taxes	(86,488)		-(S)		-(W)	(86,488)
Net Loss	$ (7,779,234)	$ (682,267)	$ (2,800,308)	$ (575,087)	$ (585,396)	$ (12,422,292)
Computation of loss applicable to Common Shareholders						
Net loss before beneficial conversion	$ (7,779,234)	$ (682,267)	$ (2,800,308)	$ (575,087)	$ (585,396)	$ (12,422,292)

Preferred dividends						
Beneficial conversion Preferred dividends	(593,558)					(593,558)
Loss attributable to common stockholders	$ (8,372,792)	$ (682,267)	$ (2,800,308)	$ (575,087)	$ (585,396)	$ (13,015,850)
Basic and diluted loss per share pro forma	$ (2.44)					$ (0.30)
Weighted average shares outstanding pro forma	3,425,127					43,958,571(X)

See accompanying notes to unaudited pro forma consolidated condensed financial statement

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HALO TECHNOLOGY HOLDINGS, INC.
PRO FORMA CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
Year ended June 30, 2005
(Unaudited)

	Halo(M)	Unify(N)	Pro Forma Adjustments	InfoNow(T)	Pro Forma Adjustments	Halo Pro Forma
Revenue						
Licenses	$ 2,986,752	$ 5,210,035	$	$	$	$ 8,196,787
Services	2,137,170	6,085,751	(1,633,565)(O)	9,501,411	(551,092)(U)	15,539,675
Total revenues	5,123,922	11,295,786	(1,633,565)	9,501,411	(551,092)	23,736,462
Cost of revenue						
Cost of license	151,051	392,040				543,091
Cost of services	396,490	1,290,641		6,177,554		7,864,685
Total cost of revenues	547,541	1,682,681		6,177,554		8,407,776
Gross Profit	4,576,381	9,613,105	(1,633,565)	3,323,857	(551,092)	15,328,686
Product development	1,589,099	2,825,834		865,067		5,280,000
Sales, marketing and business development	3,652,117	6,231,706		1,534,301		11,418,124
General and administrative	4,042,702	2,537,618	191,660(P)	3,002,134		9,774,114
Amortization of intangibles	946,063	60,666	958,397(Q)		365,351(V)	2,330,477
Late filing penalty	1,033,500					1,033,500
Intangible impairment	62,917					62,917
Goodwill impairment	3,893,294					3,893,294
Loss before interest	(10,643,311)	(2,042,719)	(2,783,622)	(2,077,645)	(916,443)	(18,463,741)
Interest (expense) income	(4,631,683)	54,635	(1,021,631)(R)	47,859		(5,550,820)
Loss before income taxes	(15,274,994)	(1,988,084)	(3,805,254)	(2,029,786)	(916,443)	(24,014,561)
Income taxes	(97,945)	(14,002)	(S)		(W)	(111,947)
Net Loss	$ (15,372,939)	$ (2,002,086)	$ (3,805,254)	$ (2,029,786)	$ (916,443)	$ (24,126,508)

Computation of loss applicable to Common Shareholders						
Net loss before beneficial conversion Preferred dividends	$ (15,372,939)	$ (2,002,086)	$ (3,805,254)	$ (2,029,786)	$ (916,443)	$ (24,126,508)
Beneficial conversion Preferred dividends	(7,510,590)					(7,510,590)
Loss attributable to common stockholders	$ (22,883,529)	$ (2,002,086)	$ (3,805,254)	$ (2,029,786)	$ (916,443)	$ (31,637,098)
Basic and diluted loss per share pro forma	$ (11.97)					$ (0.75)
Weighted average shares outstanding pro forma	1,912,033					42,445,477(X)

See accompanying notes to unaudited pro forma consolidated condensed financial statements.

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NOTES TO THE PRO FORMA CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS (Continued) (Unaudited)

Notes related to Unify Corporation

(M) Reflects the Company s historical statement of operations for the six months ended December 31, 2005 and the year ended June 30, 2005.

(N) Reflects Unify s historical statement of operations for the six months ended January 31, 2006 and the twelve months ended July 31, 2005, including various reclassifications to conform to the company s financial statement presentation. In order to conform Unify s fiscal year end from April 30 year end to Halo s June 30 year end, Unify s historical operating results have been derived from combinations of quarters in its two fiscal years. For the pro forma statements of operations for the six months ended December 31, 2005, Unify s results were derived by combining the quarter ended January 31, 2006 and quarter ended October 31, 2005 in its fiscal year ending April 30, 2006. For the pro forma statements of operations for the year ended June 30, 2005, Unify s results were derived by combining the quarter ended July 31, 2005 in the fiscal year ending April 30, 3006 and last three quarters of its fiscal year ended April 30, 2005.

(O) To record the decrease in amortization of the deferred revenue as a result of a fair value adjustment (in accordance with EITF 01-03, Accounting in a Business Combination for Deferred Revenue of an Acquiree) of $1,193,759 and $1,633,565 for the six months ended December 31, 2005 and for the year ended June 30, 2005, respectively, which is included in services revenue.

(P) To record the increased amortization of deferred compensation of $105,719 and $191,660 for the six months ended December 31, 2005 and for the year ended June 30, 2005, respectively. These increases are the results of the conversion of unvested Unify stock options.

(Q) To record the increased amortization of intangibles of $479,199 and $958,397 for the six months ended December 31, 2005 and for the year ended June 30, 2005, respectively. The increase in the amortization results from the increase in the fair market value of the intangible assets acquired.

(R) To record the increased interest expense of $1,021,631 for both the six months ended December 31, 2005 and for the year ended June 30, 2005. The increase in the interest expense results from conversion of the convertible notes described in the note (E) of NOTES TO THE PRO FORMA CONSOLIDATED CONDENSED BALANCE SHEET.

(S) The Company did not record an income tax benefit because the company provided a full valuation allowance against the deferred tax asset.

Notes related to InfoNow Corporation

(T) Reflects InfoNow s historical statement of operations for the six months ended December 31, 2005 and the twelve months ended June 30, 2005, including various reclassifications to conform to the company s financial statement presentation. In order to conform InfoNow s fiscal year end from calendar year end to Halo s June 30 year end, InfoNow s historical operating results have been derived from combinations of quarters in its two fiscal years. For the pro forma statements of operations for the six months ended December 31, 2005, InfoNow s results were derived by combining the last two quarters ended December 31, 2005 in its fiscal year ended December 31, 2005. For the pro forma statements of operations for the year ended June 30, 2005, InfoNow s results were derived by combining the first two quarters of its the fiscal year ended December 31, 2005 and last two quarters of its fiscal year ended December 31, 2004.

(U) To record the decrease in amortization of the deferred revenue as a result of a fair value adjustment (in accordance with EITF 01-03, Accounting in a Business Combination for Deferred

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NOTES TO THE PRO FORMA CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS (Continued) (Unaudited)

Revenue of an Acquiree) of $402,721 and $551,092 for the six months ended December 31, 2005 and for the twelve months ended June 30, 2005, respectively, which is included in services revenue.

(V) To record the increased amortization of intangibles of $182,675 and $365,351 for the six months ended December 31, 2005 and for the year ended June 30, 2005, respectively. The increase in the amortization results from the increase in the fair market value of the intangible assets acquired.

(W) The Company did not record an income tax benefit because the company provided a full valuation allowance against the deferred tax asset.

(X) The weighted average number of shares are calculated as follows:

	Six months ended December 31, 2005	Year ended June 30, 2005
Halo s weighted average shares as reported on 10Q and 10K	3,425,127	1,912,033
Common stock to be issued under Closing Conditions		
Equity to be raised	1,600,000	1,600,000
Convertible notes to be converted	944,334	944,334
Preferred Series C and Series D to be converted	20,848,291	20,848,291
Common stock to be issued to Unify stockholders	12,836,089	12,836,089
Common stock to be issued to InfoNow stockholders	4,304,730	4,304,730
Weighted average shares pro forma	43,958,571	42,445,477

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ANNEX A

AGREEMENT AND PLAN OF MERGER

This AGREEMENT AND PLAN OF MERGER, dated as of December 23, 2005 (this **Agreement**), is entered into by and among Warp Technology Holdings, Inc., operating under the name Halo Technology Holdings, a Nevada corporation (**Parent**), WTH Merger Sub, Inc., a Delaware corporation and wholly-owned subsidiary of Parent (**Merger Sub**) and InfoNow Corporation, a Delaware corporation (the **Company**). Parent, Merger Sub and the Company are collectively referred to herein as the **Parties.**

WHEREAS, the respective Boards of Directors of Parent, Merger Sub and the Company (i) have approved and have declared advisable the merger of Merger Sub with and into the Company (the **Merger**), upon the terms and subject to the conditions set forth herein and (ii) have determined that the Merger and the other transactions contemplated hereby are consistent with, and in furtherance of, their respective business strategies and goals;

WHEREAS, the Parties desire to make certain representations, warranties, covenants and agreements in connection with the Merger and also to set forth various conditions to the Merger;

WHEREAS, for federal income tax purposes, if the aggregate of the Stock Payments (as defined below) payable pursuant to the Merger is at least $5,760,000, it is intended that the Merger will qualify as a reorganization under the provisions of Section 368(a) of the Internal Revenue Code of 1986, as amended (the **Code** or **IRC**), and the Parties to this Agreement intend to adopt this Agreement as a plan of reorganization within the meaning of Sections 1.368-2(g) and 1.368-3(a) of the United States Treasury Regulations; and

NOW, THEREFORE, in consideration of the mutual covenants, representations, warranties and agreements contained herein, and intending to be legally bound hereby, the Parties agree as follows:

ARTICLE I

THE MERGER

1.1 *The Merger.*

Upon the terms and subject to the conditions set forth in this Agreement, and in accordance with the Delaware General Corporation Law (the **DGCL**), Merger Sub shall be merged with and into the Company at the Effective Time. Following the Effective Time, the separate corporate existence of Merger Sub shall cease and the Company shall be the surviving corporation (the **Surviving Corporation**), shall succeed to and assume all the rights and obligations of Merger Sub in accordance with the DGCL and shall become a wholly-owned subsidiary of Parent.

1.2 *Closing.*

The closing of the Merger (the **Closing**) will take place at 10:00 a.m. on a date to be specified by the Parties (the **Closing Date**), which shall be no later than the second business day after satisfaction or waiver of the conditions set forth in Article VII (other than those conditions that by their nature are to be satisfied at the Closing, but subject to the satisfaction or waiver of those conditions), unless another time or date is agreed to by the Parties hereto. The Closing will be held at the offices of Hogan & Hartson L.L.P., 1200 17th Street, Suite 1500, Denver, Colorado 80202.

1.3 *Effective Time.*

Subject to the provisions of this Agreement, on the Closing Date, the Parties shall file a certificate of merger (the **Certificate of Merger**) executed in accordance with the relevant provisions of the DGCL and shall make all other filings or recordings required under the DGCL. The Merger shall become effective at such time (the **Effective Time**) as the Certificate of Merger is filed with the Secretary of

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State of the State of Delaware, or at such subsequent date or time as Parent and the Company shall agree and specify in the Certificate of Merger.

1.4 *Effects of the Merger.*

The Merger shall have the effects set forth in Section 259 of the DGCL.

1.5 *Certificate of Incorporation and Bylaws.*

At the Effective Time, subject to the provisions of Section 6.11, the certificate of incorporation of the Company shall be amended and restated to be the same in substance as the certificate of incorporation of Merger Sub as in effect immediately prior to the Effective Time (except that the name of the Company will remain unchanged), and said amended and restated certificate of incorporation shall be the certificate of incorporation of the Surviving Corporation. At the Effective Time, subject to the provisions of Section 6.11, the bylaws of the Company shall be amended and restated to be the same in substance as the bylaws of Merger Sub as in effect immediately prior to the Effective Time, and such amended and restated bylaws shall be the bylaws of the Surviving Corporation until thereafter amended.

1.6 *Directors and Officers.*

The directors of Merger Sub immediately prior to the Effective Time shall be the directors of the Surviving Corporation until the next annual meeting of stockholders of the Surviving Corporation (or their earlier resignation or removal) and until their respective successors are duly elected and qualified, as the case may be. The officers of Merger Sub immediately prior to the Effective Time shall be the officers of the Surviving Corporation, until their successors have been duly elected or appointed and qualified or until their earlier death, resignation or removal in accordance with the Surviving Corporation s certificate of incorporation and bylaws.

1.7 *Plan of Reorganization.*

For federal income tax purposes, if the aggregate of the Stock Payments payable pursuant to the Merger is at least $5,760,000, the Merger is intended to constitute a reorganization within the meaning of Section 368 of the Code. The Parties to this Agreement hereby adopt this Agreement as a plan of reorganization within the meaning of Sections 1.368-2(g) and 1.368-3(a) of the Income Tax Regulations.

ARTICLE II

EFFECT OF THE MERGER ON THE STOCK OF THE CONSTITUENT CORPORATIONS; EXCHANGE OF CERTIFICATES

2.1 *Effect on Stock.*

As of the Effective Time, by virtue of the Merger and without any action on the part of Merger Sub, the Company or the holders of any securities of the Company or Merger Sub:

(a) *Cancellation of Company Common Stock.* Each share of Company Common Stock that is owned directly by the Company or by Parent or any of their wholly-owned Subsidiaries, if any, shall automatically be cancelled and retired and shall cease to exist, and no consideration shall be delivered in exchange therefor.

(b) *Conversion of Company Common Stock.* Subject to Sections 2.1(e) and 2.2(e), each issued and outstanding share of Company Common Stock (other than shares to be cancelled in accordance with Section 2.1(a) and shares exercising appraisal rights in accordance with Section 2.1(g)) at the Effective Time shall be converted into the right to receive (i) the Stock Payment and (ii) the Cash Payment. The aggregate of (i) all Stock Payments and all Cash Payments made with respect to each issued and outstanding share of Company Common Stock; (ii) the Per Common Stock Option Closing Merger Consideration made with respect to each Company Stock Option; (iii) any cash in lieu of a fractional share as provided in Section 2.2(e); and (iv) the Contingent Value Rights issued under Section 2.1(f) shall constitute the **Merger Consideration.**

As of the Effective Time and without any action on the part of the holders thereof, all such shares of Company Common Stock shall no longer be outstanding and shall automatically be cancelled and retired and shall cease to exist, and each holder of a certificate or certificates that immediately prior to the Effective Time represented outstanding shares of Company Common Stock (the **Certificates**) shall cease to have any rights with respect thereto, except the right to receive (i) the Merger Consideration and (ii) certain dividends and other distributions in accordance with Section 2.2(c).

(c) *Conversion of Common Stock of Merger Sub.* Each issued and outstanding share of common stock, no par value per share, of Merger Sub shall be converted into and become one validly issued, fully paid and nonassessable share of common stock of the Surviving Corporation.

(d) *Common Stock Options.* At the Effective Time, each outstanding Common Stock Option under the InfoNow 1990 Stock Option Plan, as amended, and the InfoNow 1999 Stock Option Plan, as amended, or any stock option agreements to which the Company is a party, whether or not vested, shall be converted into the right to receive the Per Common Stock Option Closing Merger Consideration; provided that, the Per Common Stock Option Closing Merger Consideration shall be paid to the Common Stock Option Holders part in Parent Common Stock and part in cash in the following proportions: (x) the amount of the Per Common Stock Option Merger Consideration payable to any Common Stock Option Holder in cash shall be an amount (expressed as a percentage) equal to the Aggregate Cash Payment divided by $7,200,000 and (y) the remainder of the Per Common Stock Option Merger Consideration payable to any Common Stock Option Holder in Parent Common Stock shall be an amount (i) valued at the Parent s Conversion Price and (ii) equal to the difference between the applicable Per Common Stock Option Closing Merger Consideration and the amount of cash paid under the foregoing clause (x). All other outstanding options and warrants to purchase Company Common Stock shall be cancelled at the Effective Time.

(e) *Adjustments to Stock Payment and Contingent Value Rights for Organic Changes.* The number of shares of Parent Common Stock to be issued and the Contingent Value Rights to be issued and any other applicable numbers or amounts shall be adjusted to reflect appropriately the effect of any stock split, reverse stock split, stock dividend (including any dividend or distribution of securities convertible into or exercisable or exchangeable for Parent Common Stock or Company Common Stock), extraordinary dividend, reorganization, recapitalization, reclassification, combination, exchange of shares or other like change with respect to Parent Common Stock or Company Common Stock occurring or having a record date on or after the date hereof and prior to the Effective Time.

(f) *Contingent Value Rights.* At the Effective Time, as part of the Merger Consideration, Parent shall, pursuant the Contingent Value Rights Agreement, issue a CVR in respect of each share of Parent Common Stock issued in the Merger.

(g) *Appraisal Rights.* Notwithstanding any provision of this Agreement to the contrary, shares of Company Common Stock which are issued and outstanding immediately prior to the Effective Time and which are held by a holder who has not voted such shares in favor of the Merger and who has or may properly demand appraisal rights in the manner provided by Section 262 of the DGCL (**Dissenting Shares**) shall not be converted into a right to receive a portion of the Merger Consideration unless and until the holder of such shares becomes ineligible for such appraisal rights. The holders thereof shall be entitled only to such rights as are granted by Section 262 of the DGCL. Each holder of Dissenting Shares who becomes entitled to payment for such shares pursuant to Section 262 of the DGCL shall receive payment therefor from the Parent in accordance with the DGCL; provided, however, that (a) if any such holder of Dissenting Shares shall have failed to establish entitlement to appraisal rights as provided in Section 262 of the DGCL, (b) if any such holder of Dissenting Shares shall have effectively withdrawn demand for appraisal of such shares or lost the right to appraisal and payment for shares under

Section 262 of the DGCL or (c) if neither any holder of Dissenting Shares nor the Surviving Corporation shall have filed a petition demanding a determination of the value of all Dissenting Shares within the time provided in Section 262 of the DGCL, such holder shall forfeit the right to appraisal of such shares and each such share shall be

treated as if it had been, as of the Effective Time, converted into a right to receive the applicable portion of the Merger Consideration, without interest thereon, as provided in Section 2.1(b) of this Agreement. The Company shall give Parent prompt notice of any demands received by the Company for appraisal of any shares of Company Common Stock, and Parent shall have the right to direct all negotiations and proceedings with respect to such demands. The Company shall not, except with the prior written consent of Parent, make any payment with respect to, or settle or offer to settle, any such demands with respect to any holder of Dissenting Shares before the Effective Time.

2.2 *Exchange of Certificates.*

(a) *Exchange Agent.* Prior to the Closing Date, Parent shall enter into an agreement with such bank or trust company as may be designated by Parent and as shall be reasonably satisfactory to the Company to act as exchange agent for the purpose of exchanging Certificates and Common Stock Options for the Merger Consideration (the **Exchange Agent**). At or prior to the Effective Time, Parent shall deposit with the Exchange Agent, for the benefit of the holders of shares of Company Common Stock and Common Stock Options, for exchange in accordance with this Article II, through the Exchange Agent, the Aggregate Cash Payment, Parent certificates representing the number of whole shares of Parent Common Stock and Parent certificates representing Contingent Value Rights issuable pursuant to Section 2.1 in exchange for outstanding shares of Company Common Stock and Common Stock Options. Parent shall also make available to the Exchange Agent, from time to time as required after the Effective Time, cash necessary to pay dividends and distributions in accordance with Section 2.2(c) and to make payments in lieu of any fractional shares in accordance with Section 2.2(e). Any certificates of Parent Common Stock and cash deposited with the Exchange Agent as provided above shall hereinafter be referred to as the **Exchange Fund.**

(b) *Exchange Procedures.* As soon as reasonably practicable after the Effective Time, but no later than two days thereafter, the Exchange Agent shall mail to each holder of record of a Certificate or Common Stock Option whose shares or options were converted into the Merger Consideration pursuant to Section 2.1 of this Agreement, (i) a letter of transmittal (which shall specify that delivery shall be effected, and risk of loss and title to the Certificates or Common Stock Options, as applicable, shall pass, only upon delivery of the Certificates or Common Stock Options to the Exchange Agent and shall be in such form and have such other provisions as Parent and the Company may reasonably specify) and (ii) instructions for use in effecting the surrender of the Certificates or Common Stock Options in exchange for the Merger Consideration. Upon surrender of a Certificate or Common Stock Option for cancellation to the Exchange Agent, together with such letter of transmittal, duly executed, and such other documents as may reasonably be required by the Exchange Agent, the holder of such Certificate or Common Stock Option shall be entitled to receive in exchange therefor a Parent certificate representing that number of whole shares of Parent Common Stock issuable to such holder pursuant to the Merger, the Cash Payment payable to such holder, a Parent certificate representing that number of CVRs that correspond to the number of whole shares of Parent Common Stock issuable to such holder pursuant to the Merger, certain dividends or other distributions in accordance with Section 2.2(c) and cash in lieu of any fractional share in accordance with Section 2.2(e) that such holder has the right to receive pursuant to the provisions of this Article II, and the Certificate or Common Stock Option so surrendered shall forthwith be cancelled. The Cash Payment and any other cash distributions made in accordance with Section 2.2(c) and 2.2(e) shall be paid by check or wire transfer. In the event of a transfer of ownership of Company Common Stock that is not registered in the transfer records of the Company, a certificate representing the proper number of shares of Parent Common Stock may be issued to a Person other than the Person in whose name the Certificate so surrendered is registered if such Certificate shall be properly endorsed or otherwise be in proper form for transfer and the Person requesting such issuance shall pay any transfer or other non-income taxes required by reason of the issuance of shares of Parent Common Stock to a Person other than the registered holder of such Certificate or establish to the satisfaction of Parent that such tax has been paid or is not applicable. Until surrendered as contemplated by this Section 2.2, each Certificate or Common Stock Option shall be deemed at any time after the Effective Time to represent only the right to receive upon such surrender the Merger Consideration that the holder thereof

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has the right to receive pursuant to the provisions of this Article II, and, if applicable, certain dividends or other distributions in accordance with Section 2.2(c). No interest will be paid or will accrue on any cash payable to holders of Certificates or Common Stock Options pursuant to the provisions of this Article II.

(c) *Distributions with Respect to Unexchanged Shares.* No dividends or other distributions with respect to Parent Common Stock with a record date after the Effective Time shall be paid to the holder of any unsurrendered Certificate or Common Stock Option with respect to the shares of Parent Common Stock represented thereby, and no cash payment in lieu of fractional shares shall be paid to any such holder pursuant to Section 2.2(e), and all such dividends, other distributions and cash in lieu of fractional shares of Parent Common Stock shall be paid by Parent to the Exchange Agent and shall be included in the Exchange Fund, in each case until the surrender of such Certificate or Common Stock Option in accordance with this Article II. Subject to the effect of applicable escheat or similar laws, following surrender of any such Certificate or Common Stock Option, there shall be paid to the holder of the certificate representing whole shares of Parent Common Stock issued in exchange therefor, without interest, (i) at the time of such surrender, the amount of dividends or other distributions with a record date after the Effective Time theretofore paid with respect to such whole shares of Parent Common Stock, and the amount of any cash payable in lieu of a fractional share of Parent Common Stock to which such holder is entitled pursuant to Section 2.2(e) and (ii) at the appropriate payment date, the amount of dividends or other distributions with a record date after the Effective Time but prior to such surrender and with a payment date subsequent to such surrender payable with respect to such whole shares of Parent Common Stock. Parent shall make available to the Exchange Agent cash for these purposes.

(d) *No Further Ownership Rights in Company Common Stock.* All shares of Parent Common Stock issued, Contingent Value Rights issued, and the Aggregate Cash Payment paid, upon the surrender for exchange of Certificates or Common Stock Options in accordance with the terms of this Article II shall be deemed to have been issued in full satisfaction of all rights pertaining to the shares of Company Common Stock theretofore represented by such Certificates or Common Stock Options, subject, however, to the Surviving Corporation s obligation to pay any dividends or make any other distributions with a record date prior to the Effective Time that may have been authorized or made by the Company on such shares of Company Common Stock that remain unpaid at the Effective Time, and there shall be no further registration of transfers on the stock transfer books of the Surviving Corporation of the shares of Company Common Stock that were outstanding immediately prior to the Effective Time. If, after the Effective Time, Certificates or Common Stock Options are presented to the Surviving Corporation or the Exchange Agent for any reason, they shall be cancelled and exchanged as provided in this Article II, except as otherwise provided by law.

(e) *No Fractional Shares.*

(i) No certificates or scrip representing fractional shares of Parent Common Stock shall be issued upon the surrender for exchange of Certificates or Common Stock Options, no dividend or distribution of Parent shall relate to such fractional share interests and such fractional share interests will not entitle the owner thereof to vote or to any rights of a stockholder of Parent.

(ii) As promptly as practicable following the Effective Time, Parent shall pay to each former holder of Company Common Stock or Common Stock Options an amount in cash equal to the product obtained by multiplying (A) the fractional share interest to which such former holder (after taking into account all shares of Company Common Stock or Common Stock Options held at the Effective Time by such holder) would otherwise be entitled by (B) Parent s Conversion Price.

(iii) As soon as practicable after the determination of the amount of cash, if any, to be paid to holders of Company Common Stock or Common Stock Options with respect to any fractional share interests, the Exchange Agent will make available such amounts to such holders of Company Common Stock subject to and in accordance with the terms of Section 2.2(c).

(f) *Termination of Exchange Fund.* Any portion of the Exchange Fund that remains undistributed to the holders of the Certificates or Common Stock Options for twelve (12) months after the Effective

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Time shall be delivered to Parent, upon demand, and any holders of the Certificates who have not theretofore complied with this Article II shall thereafter look only to Parent for payment of their claim for Merger Consideration and any dividends or distributions with respect to Parent Common Stock.

(g) *No Liability.* None of Parent, the Company, Merger Sub, the Surviving Corporation or the Exchange Agent shall be liable to any Person in respect of any shares of Parent Common Stock (or dividends or distributions with respect thereto) or cash from the Exchange Fund in each case properly delivered to a public official pursuant to any applicable abandoned property, escheat or similar law. If any Certificate or Common Stock Option shall not have been surrendered prior to seven years after the Effective Time, and shall not previously have been required to be escheated to or become the property of any Governmental Entity, any such Merger Consideration or cash, dividends or distributions in respect of such Certificate shall, to the extent permitted by applicable law, become the property of Parent, free and clear of all claims or interest of any Person previously entitled thereto.

(h) *Investment of Exchange Fund.* The Exchange Agent shall invest any cash included in the Exchange Fund, as directed by Parent, on a daily basis. Any interest and other income resulting from such investments shall be paid to Parent upon termination of the Exchange Fund.

(i) *Lost Certificates.* If any Certificate shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the Person claiming such Certificate to be lost, stolen or destroyed, the Exchange Agent will issue in exchange for such lost, stolen or destroyed Certificate the Merger Consideration and unpaid dividends and distributions on shares of Parent Common Stock deliverable in respect thereof, in each case pursuant to this Agreement.

(j) *Withholding Rights.* Each of the Surviving Corporation, Parent and Exchange Agent shall be entitled to deduct and withhold from the consideration otherwise payable pursuant to this Agreement to any holder of shares of Company Common Stock or Common Stock Options such amounts as it is required to deduct and withhold with respect to the making of such payment under the Code and the rules and regulations promulgated thereunder, or any provision of state, local or foreign tax law. To the extent that amounts are so withheld by the Surviving Corporation, Parent or the Exchange Agent, as the case may be, such withheld amounts shall be treated for all purposes of this Agreement as having been paid to the holder of the shares of Company Common Stock in respect of which such deduction and withholding was made by the Surviving Corporation, Parent or the Exchange Agent, as the case may be.

2.3 *Further Assurances.*

At and after the Effective Time, the officers and directors of the Surviving Corporation shall be authorized to execute and deliver, in the name and on behalf of the Company or Merger Sub, any deeds, bills of sale, assignments or assurances and to take and do, in the name and on behalf of the Company or Merger Sub, any other actions and things to vest, perfect or confirm of record or otherwise in the Surviving Corporation any and all right, title and interest in, to and under any of the rights, properties or assets acquired or to be acquired by the Surviving Corporation as a result of, or in connection with, the Merger.

ARTICLE III
REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company hereby makes the following representations and warranties to Parent and Merger Sub as set forth in this Article III, subject to the exceptions disclosed in writing in the disclosure schedules of the Company delivered herewith (the **Company Disclosure Schedule**), each of which representations and warranties are being relied upon by Parent and Merger Sub as an inducement to enter into and perform this Agreement. It is acknowledged and agreed by Parent and Merger Sub that any matter set forth in any schedule, section or subsection of the Company Disclosure Schedule shall expressly not be deemed to constitute an admission by the Company, or otherwise imply, that any such matter rises to the

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level of a Material Adverse Effect or is otherwise material for purposes of this Agreement or the Company Disclosure Schedule.

3.1 *Corporate Organization.*

The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware. The Company has the corporate power and authority to own or lease all of its properties and assets and to carry on its business as it is now being conducted, and is duly licensed or qualified to do business in each jurisdiction in which the nature of any business conducted by it or the character or location of any properties or assets owned or leased by it makes such licensing or qualification necessary, except where the failure to so qualify or to be in good standing has not had and would not likely have a Material Adverse Effect. The certificate of incorporation and bylaws of the Company, copies of which are attached at Section 3.1 of the Company Disclosure Schedule, are true, correct and complete copies of such documents as in effect as of the date of this Agreement. Section 3.1 of the Company Disclosure Schedule includes a listing of all jurisdictions in which the Company is qualified to do business or has assets and/or conducts operations.

3.2 *Capitalization.*

The authorized capital stock of the Company consists of 41,712,335 shares of Company capital stock, of which 40,000,000 are designated as Company common stock (**Company Common Stock**), par value $.001 per share and of which 1,712,335 are designated as preferred shares, par value $.001 per share (**Company Preferred Shares**). As of the date hereof, there are (x) 10,055,398 shares of Company Common Stock issued and outstanding and no shares of Company Common Stock held in the Company s treasury, (y) 5,830,528 Company Common Stock reserved for issuance upon exercise of outstanding stock options or otherwise and (z) no shares of Company Preferred Shares are issued and outstanding, held in the Company s treasury or reserved for issuance upon exercise of outstanding stock options or otherwise. All of the issued and outstanding shares of Company Common Stock have been duly authorized and validly issued and are fully paid, nonassessable and free of preemptive rights, with no personal liability attaching to the ownership thereof. The Company does not have and is not bound by any outstanding subscriptions, options, warrants, calls, commitments or agreements of any character calling for the purchase or issuance of any Company Common Stock or Company Preferred Shares or any other equity security of the Company or any securities representing the right to purchase or otherwise receive any Company Common Stock or any other equity security of the Company. The Company has no Subsidiaries. There are not as of the date hereof and there will not be at the Effective Time any stockholder agreements, voting trusts or other agreements or understandings to which the Company is a party or to which it is bound relating to the voting of any shares of the capital stock of the Company. There are no existing rights with respect to the registration of Company Common Stock under the Securities Act, including, but not limited to, demand rights or piggy-back registration rights. Since September 30, 2005 through the date hereof no options or warrants have been issued or accelerated or had their terms modified.

3.3 *Authority; No Violation.*

(a) The Company has full corporate power and authority to execute and deliver this Agreement and, subject to receipt of stockholder approval, to consummate the transactions contemplated hereby. The Board of Directors of the Company has directed that this Agreement and the transactions contemplated hereby be submitted to the Company s stockholders for approval at the Company Stockholders Meeting. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly and validly approved by the Board of Directors of the Company. Other than the Company Stockholders Meeting, no other corporate proceedings on the part of the Company are necessary to approve this Agreement or to consummate the transactions contemplated hereby. This Agreement has been duly and validly executed and delivered by the Company and (assuming due authorization, execution and delivery by Parent and Merger Sub of this Agreement) will constitute valid and binding obligations of the Company, enforceable against the Company in accordance with its terms, except as enforcement may

be limited by general principles of equity whether applied in a court of law or a court of equity and by bankruptcy, insolvency and similar laws affecting creditors rights and remedies generally.

(b) Neither the execution and delivery of this Agreement by the Company, nor the consummation by the Company, of the transactions contemplated hereby, nor compliance by the Company with any of the terms or provisions hereof, will (i) violate any provision of the certificate of incorporation or bylaws of the Company or (ii) assuming that the consents and approvals referred to in Section 3.4 hereof are duly obtained, (x) violate any Laws applicable to the Company, or any of its properties or assets, or (y) violate, conflict with, result in a breach of any provision of or the loss of any benefit under, constitute a default (or an event which, with notice or lapse of time, or both, would constitute a default) under, result in the termination of or a right of termination or cancellation under, accelerate the performance required by, or result in the creation of any lien, pledge, security interest, charge or other encumbrance upon any of the properties or assets of the Company under any of the terms, conditions or provisions of any Company Contract to which the Company is a party, or by which they or any of their respective properties or assets may be bound or affected, except that in each case for such violations, breaches, defaults, or terminations as would not likely have, either individually or in the aggregate, a Material Adverse Effect on the Company.

(c) The Company is not: (i) in violation of its certificate of incorporation or bylaws or similar documents; (ii) in default in the performance of any obligation, agreement or condition of any debt instrument which (with or without the passage of time or the giving of notice, or both) affords to any Person the right to accelerate any indebtedness or terminate any right; (iii) in default under or breach of (with or without the passage of time or the giving of notice) any other contract to which it is a party or by which it or its assets are bound; or (iv) in violation of any law, regulation, administrative order or judicial order, decree or judgment (domestic or foreign) applicable to it or its business or assets, except where any violation, default or breach under items (ii), (iii), or (iv) could not reasonably be expected to, individually or in the aggregate, have a Material Adverse Effect on the Company.

3.4 *Consents and Approvals.*

(a) Except for (i) the approval of this Agreement by the requisite vote of the stockholders of the Company, (ii) any required filings with the SEC and state securities authorities, (iii) the filing of the Certificate of Merger with the Secretary of State of the State of Delaware pursuant to the DGCL, and (iv) such other filings, authorizations, consents, notices or approvals as may be set forth in Section 3.4(a) of the Company Disclosure Schedule, no consents or approvals of or filings or registrations with any court, administrative agency or commission or other governmental authority or instrumentality (each a **Governmental Entity**), or with any third party are necessary in connection with (x) the execution and delivery by the Company of this Agreement and (y) the consummation by the Company of the Merger and the other transactions contemplated hereby, except in each case for such consents, approvals or filings the failure of which to be obtained would not likely have a Material Adverse Effect on the Company.

(b) The Company has no Knowledge of any reason why approval or effectiveness of any of the applications, notices, filings or waivers thereof referred to in Section 3.4(a) will not be obtained or granted on a timely basis.

3.5 *Reports and Financial Statements.*

(a) The Company has previously made available to Parent (including through the SEC s EDGAR system) true and complete copies of: (a) the Company s Annual Report on Form 10-KSB filed with the SEC for each of the years ended December 31, 2002 through 2004; (b) the Company s Quarterly Report on Form 10-QSB filed with the SEC for the quarters ended March 31, 2005, June 30, 2005 and September 30, 2005; (c) each definitive proxy statement filed by the Company with the SEC since December 31, 2002; and (d) all Current Reports on Form 8-K filed by the Company with the SEC since December 31, 2002. As of their respective dates (or if amended or superseded by a filing prior to the date of this Agreement, then on the date of such filing), such reports, proxy statements and prospectuses (individually a **Company SEC Report** and collectively, the **Company SEC Reports**) (a) complied as

to form in all material respects with the applicable requirements of the Securities Act, the Securities Exchange Act of 1934, as amended (the **Exchange Act**) and the rules and regulations promulgated thereunder and (b) did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. The audited consolidated financial statements and unaudited consolidated interim financial statements included in the Company SEC Reports (including any related notes and schedules) complied as to form, as of their respective dates of filing with the SEC, in all material respects with all applicable accounting requirements and the published rules and regulations of the SEC with respect thereto, were prepared in accordance with GAAP consistently applied during the periods involved (except as otherwise disclosed in the notes thereto, and except that unaudited statements do not contain footnotes in substance or form required by GAAP, as is permitted by Form 10-QSB of the Exchange Act) and fairly presented the financial position of the Company as of the dates thereof and the results of operations and cash flows for the periods or as of the dates then ended (subject, where appropriate, to normal year-end adjustments). Since December 31, 2002, the Company has timely filed all reports and other filings required to be filed by it with the SEC under the rules and regulations of the SEC.

(b) Since September 30, 2005, there has not been any material change by the Company in accounting principles, methods or policies for financial accounting purposes, except as required by concurrent changes in generally accepted accounting principles. There are no material amendments or modifications to agreements, documents or other instruments which previously had been filed by the Company with the SEC pursuant to the Securities Act or the Exchange Act, which have not been filed with the SEC but which are required to be filed. The Company maintains a reasonable process or procedure under which management of the Company is aware of or authorizes material transactions of the Company such that such transactions may be recorded on the quarterly and annual financial reports of the Company in accordance with GAAP. The Company currently conducts its business in compliance in all material respects with all laws and regulations as currently applicable to the conduct of its business, including applicable provisions of the Sarbanes-Oxley Act of 2002.

(c) The Company has no material indebtedness, obligations or liabilities of any kind (whether accrued, absolute, contingent or otherwise, and whether due or to become due or asserted or unasserted), and, to the Knowledge of the Company, there is no reasonable basis for the assertion of any material claim or liability of any nature against the Company, except for liabilities (i) which are fully reflected in, reserved against or otherwise described in the Company s Quarterly Report on Form 10-QSB filed with the SEC for the quarter ended September 30, 2005, (ii) which have been incurred after the most recent Company SEC Reports in the ordinary course of business, consistent with past practice, or (iii) which are obligations to perform under executory contracts in the ordinary course of business (none of which is a liability resulting from a breach of contract or warranty, tort, infringement or legal action).

3.6 *Broker s Fees.*

Neither the Company nor any of its respective officers or directors has employed any broker or finder or incurred any liability for any broker s fees, commissions or finder s fees in connection with any of the transactions contemplated by this Agreement other than Q Advisors LLC (**Q Advisors**).

3.7 *Absence of Certain Changes or Events.*

Except as disclosed in the Company SEC Reports, since September 30, 2005, except with respect to the actions contemplated by this Agreement, the Company has conducted its business only in the ordinary course and in a manner consistent with past practice and, since such date, there has not been (i) any Material Adverse Effect on the Company, (ii) any damage, destruction or loss (whether or not covered by insurance) on the Company that has had or could reasonably be expected to have a Material Adverse Effect on the Company, (iii) any material change by the Company in its accounting methods, principles or practices; (iv) any material revaluation by the Company of any of its assets, including, without limitation, writing down the value of capitalized Software or inventory or deferred tax assets or writing off notes or accounts receivable other than in the ordinary course of business; (v) any labor dispute or charge

of unfair labor practice (other than routine individual grievances), any activity or proceeding by a labor union or representative thereof to organize any employee of the Company or any campaign being conducted to solicit authorization from employees to be represented by such labor union in each case which has had a Material Adverse Effect; (vi) any waiver by the Company of any rights of material value or (vii) any other action or event that would have required the consent of Company pursuant to Section 5.1 had such action or event occurred after the date of this Agreement.

3.8 *Legal Proceedings.*

(a) The Company is not a party to any, and there are no pending or to the Knowledge of the Company, threatened, legal, administrative, arbitration or other proceedings, claims, actions or governmental or regulatory investigations of any nature against the Company in which, to the Knowledge of the Company, there is a reasonable probability of any material recovery against or other material effect upon the Company or which challenge the validity or propriety of the transactions contemplated by this Agreement.

(b) There is no injunction, order, judgment, decree, or regulatory restriction imposed upon the Company or its assets.

3.9 *Taxes and Tax Returns.*

(a) The Company has duly filed all Tax Returns required to be filed by it on or prior to the date hereof (all such returns being accurate and complete in all material respects), except for such failures to file, taken together, as would not likely have a Material Adverse Effect on Company, and has duly paid or made provision on the financial statements for the periods ended December 31, 2004, March 31, 2005, June 30, 2005 and September 30, 2005 and as referred to in Sections 3.5 and 6.6 hereof in accordance with GAAP for the payment of all material Taxes which have been incurred or are due or claimed to be due from it by Taxing Authorities on or prior to the date hereof other than Taxes (a) that (x) are not yet delinquent or (y) are being contested in good faith and set forth in Section 3.9 of the Company Disclosure Schedule, (b) that have not been finally determined, and (c) the failure to pay, taken together, would not likely have a Material Adverse Effect. All liability with respect to the Tax Returns of the Company has been satisfied for all years prior to and including 2004. The Internal Revenue Service (**IRS**) has not notified the Company of, or to the Knowledge of the Company otherwise asserted, that there are any material deficiencies with respect to the federal income Tax Returns of the Company. There are no material disputes pending, or to the Knowledge of the Company claims asserted for, Taxes or assessments upon the Company. In addition, Tax Returns which are accurate and complete in all material respects have been filed by the Company for all periods for which returns were due with respect to income tax withholding, Social Security and unemployment taxes and the amounts shown on such Tax Returns to be due and payable have been paid in full or adequate provision therefor in accordance with GAAP has been included by the Company in the financial statements for the periods ended December 31, 2004, March 31, 2005, June 30, 2005 and September 30, 2005 and as referred to in Sections 3.5 and 6.6 hereto. The unpaid Taxes of the Company (i) did not, as of the date of any financial statement referred to in its annual reports filed on Form 10-KSB or in Section 6.6 hereto, exceed the reserve for Tax liability (rather than any reserve for deferred Taxes established to reflect timing differences between book and Tax income) set forth on the face of such financial statements (other than the notes thereto) and (ii) will not exceed such reserve as adjusted for the passage of time though the Closing Date in accordance with past custom and practice of the Company in filing its Tax Returns. The Company has not been asked to consent to, and has not consented to, any currently effective waiver or extension of any statute of limitations with respect to any Tax. The Company has not made an election under Section 341(f) of the Code. The Company has provided or made available to Parent complete and correct copies of its Tax Returns and all material correspondence and documents, if any, relating directly or indirectly to taxes for the Company s fiscal years 2000, 2001, 2002, 2003 and 2004. For this purpose, correspondence and documents include, without limitation, amended Tax Returns, claims for refunds, notices from Taxing Authorities of proposed changes or adjustments to Taxes or Tax Returns, consents to assessment or collection of Taxes, acceptances of proposed adjustments, closing agreements, rulings and determination letters and requests

therefor, and all other written communications to or from Taxing Authorities relating to any material Tax liability of the Company. The Company is not a foreign person as that term is used in § 1.1445-2 of the Treasury Regulations promulgated under the IRC. The Company is not a United States real property holding corporation within meaning of § 897 of the IRC and was not a United States real property holding corporation on any determination date (as defined in § 1.897-2(c) of such Regulations) that occurred during any relevant period.

(b) For purposes of this Agreement:

Tax or Taxes means any tax (including any income tax, capital gains tax, payroll, employment or withholding tax, value-added tax, franchise tax, sales or use tax, property tax, net worth tax, gift tax, or estate tax), levy, assessment, tariff, duty (including any customs duty), deficiency, or other fee, and any related charge or amount (including any fine, penalty, interest, or addition to tax), imposed, assessed, or collected by or under the authority of any Taxing Authority or payable pursuant to any tax-sharing agreement or any other contract relating to the sharing or payment of any such tax, levy, assessment, tariff, duty, deficiency, or fee.

Tax Return means any return (including any information return), report, statement, schedule, notice, form, or other document or information filed with or submitted to, or required to be filed with or submitted to, any Taxing Authority in connection with the determination, assessment, collection, or payment of any Tax or in connection with the administration, implementation, or enforcement of or compliance with any law, regulation or other legal requirement relating to any Tax.

Taxing Authority means any:

(i) nation, state, county, city, town, village, district, or other jurisdiction of any nature;

(ii) federal, state, local, municipal, foreign, or other government;

(iii) governmental or quasi-governmental authority of any nature (including any governmental agency, branch, department, official, or entity and any court or other tribunal);

(iv) multi-national organization or body; or

(v) body exercising, or entitled to exercise, any administrative, executive, judicial, legislative, police, regulatory, or taxing authority or power of any nature.

3.10 *Employee Plans.*

(a) For purposes of this Section 3.10, references to the Company shall include the Company and any other entity which together with the Company would be deemed a single employer within the meaning of Section 4001 of the Employee Retirement Income Security Act of 1974, as amended (**ERISA**) or Code Section 414(b), (c) or (m). Section 3.10(a) of the Company Disclosure Schedule sets forth a true and complete list of each employee benefit plan (within the meaning of Section 3(3) of ERISA), and each other plan, arrangement or agreement relating to deferred compensation, fringe benefits, flexible spending or other benefits of any current or former employee, that is maintained or contributed to as of the date of this Agreement, or that has within the last three years been maintained or contributed to, by the Company or under which the Company has any liability (collectively, the **Plans**).

(b) The Company has heretofore delivered or made available to Parent true, correct and complete copies of each of the Plans and all related documents, including but not limited to (i) the most recent determination letter from the IRS (if applicable) for such Plan, (ii) the current summary plan description and any summaries of material modification, (iii) all annual reports (Form 5500 series) for each Plan filed for the preceding three plan years, and (iv) all substantive correspondence relating to any such Plan addressed to or received from the IRS, the Department of Labor, the Pension Benefit Guaranty Corporation or any other governmental agency.

(c) (i) Each of the Plans has been operated and administered in all material respects in compliance with its terms and applicable Laws, including but not limited to ERISA and the Code, (ii) each of the

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Plans intended to be qualified within the meaning of Section 401(a) of the Code is so qualified, any trust created pursuant to any such Plan is exempt from federal income tax under Section 501(a) of the Code, each such Plan has either received from the IRS a favorable determination letter to such effect upon which the Company is entitled to rely as to such matters and which is currently applicable or may rely on a favorable opinion letter from the IRS as to such matters, and the Company is not aware of any circumstance or event which would jeopardize the tax-qualified status of any such Plan or the tax-exempt status of any related trust, or which would cause the imposition of any liability, penalty or tax under ERISA or the Code with respect to any Plan, (iii) no Plan is subject to Title IV of ERISA, (iv) no Plan provides benefits, including, without limitation, death or medical benefits (whether or not insured), with respect to current or former employees of the Company beyond their retirement or other termination of service, other than (w) coverage mandated by applicable Law, (x) death benefits or retirement benefits under a Plan that is an employee pension plan, as that term is defined in Section 3(2) of ERISA, (y) deferred compensation benefits under a Plan that are accrued as liabilities on the books of the Company, or (z) benefits the full cost of which is borne by the current or former employee (or his beneficiary), (vi) no Plan is a multiemployer pension plan, as such term is defined in Section 3(37) of ERISA, (vii) all contributions or other amounts payable by the Company as of the Effective Time with respect to each Plan and all other liabilities of each such entity with respect to each Plan, in respect of current or prior plan years have been paid or accrued in accordance with generally accepted accounting practices and Section 412 of the Code, (viii) the Company is not aware that it has engaged in a transaction in connection with which the Company could be subject to either a civil penalty assessed pursuant to Section 409 or 502(i) of ERISA or a tax imposed pursuant to Section 4975 or 4976 of the Code, (ix) there are no pending, or to the Knowledge of the Company, threatened or anticipated claims (other than routine claims for benefits) by, on behalf of or against any of the Plans or any trusts related thereto by any current or former employee of the Company, and (x) no Plan, program, agreement or other arrangement, either individually or collectively, provides for any payment by the Company that would not be deductible under Code Sections 162(a)(1), 162(m) or 404 or that would constitute a parachute payment within the meaning of Code Section 280G after giving effect to the transactions contemplated by this Agreement nor would the transactions contemplated by this Agreement accelerate the time of payment or vesting, or increase the amount of compensation due to any employee.

(d) (A) None of the employees of the Company is represented in his or her capacity as an employee of such company by any labor organization; (B) the Company has not recognized any labor organization nor has any labor organization been elected as the collective bargaining agent of any of their employees, nor has the Company signed any collective bargaining agreement or union contract recognizing any labor organization as the bargaining agent of any of its employees; and (C) to the Knowledge of the Company, there is no active or current union organization activity involving the employees of the Company, nor has there ever been union representation involving employees of the Company.

(e) The Company has provided to Parent a description of all written employment policies under which the Company is operating.

(f) The Company is in compliance with all Federal, foreign (as applicable), and state laws regarding employment practices, including laws relating to workers safety, sexual harassment or discrimination, except where the failure to so be in compliance, individually or in the aggregate, would not have a Material Adverse Effect on the Company.

(g) To the Knowledge of the Company, as of the date hereof, no executive, key employee or group of employees has any plans to terminate his or her employment with the Company.

3.11 *Contracts.*

(a) The Company is not a party to or bound by any contract, arrangement or commitment (i) with respect to the employment of any directors, officers, employees or consultants, (ii) which, upon the consummation of the transactions contemplated by this Agreement will (either alone or upon the occurrence of any additional acts or events) result in any payment (whether of severance pay or otherwise) becoming due from Parent, Merger Sub, the Company, or any of their respective Subsidiaries

to any director, officer or employee thereof, (iii) which materially restricts the conduct of any line of business by the Company, (iv) with or to a labor union or guild (including any collective bargaining agreement), or (v) any of the benefits of which will be increased, or the vesting of the benefits of which will be accelerated by the occurrence of any of the transactions contemplated by this Agreement, or the value of any of the benefits of which will be calculated on the basis of any of the transactions contemplated by this Agreement (including as to this clause (v), any stock option plan, stock appreciation rights plan, restricted stock plan or stock purchase plan). There are no employment, consulting and deferred compensation agreements to which the Company is a party. Section 3.11(a) of the Company Disclosure Schedule sets forth a list of all material contracts (as defined in Item 601(b)(10) of Regulation S-K or otherwise in an amount greater than $100,000 per annum) of the Company. Each contract, arrangement or commitment of the type described in this Section 3.11(a), whether or not set forth in Section 3.11(a) of the Company Disclosure Schedule, is referred to herein as a **Company Contract,** and the Company has not received notice of, nor do any executive officers of such entities know of, any violation of any Company Contract.

(b) (i) Each Company Contract is valid and binding and in full force and effect, (ii) the Company has in all material respects performed all obligations required to be performed by it to date under each Company Contract, and (iii) no event or condition exists which constitutes or, after notice or lapse of time or both, would constitute, a default on the part of the Company under any such Company Contract, except where such default would not be likely to have, either individually or in the aggregate, a Material Adverse Effect on Company.

3.12 *Environmental Matters.*

The Company is in material compliance with all Environmental Laws, except as would not likely have, either individually or in the aggregate, a Material Adverse Effect on Company. For purposes of this Section 3.12, the term **Environmental Law** means any applicable Law relating to the protection of human health and the environment.

3.13 *Properties and Assets.*

Section 3.13 of the Company Disclosure Schedule lists (i) all real property owned by the Company; (ii) each real property lease, sublease or installment purchase arrangement to which the Company is a party; (iii) a description of each contract for the purchase, sale, or development of real estate to which the Company is a party; and (iv) all items of the Company s tangible personal property and equipment with a book value of $50,000 or more or having any annual lease payment of $50,000 or more. Except for (a) items reflected in the Company s consolidated financial statements as of December 31, 2004, as filed in the Company s Annual Report on Form 10-KSB for the fiscal year ended December 31, 2004, (b) exceptions to title that do not interfere materially with the Company s use and enjoyment of owned or leased real property, (c) liens for current real estate taxes not yet delinquent, or being contested in good faith, properly reserved against (and reflected on the financial statements referred to in the Company s Annual Report on Form 10-KSB for the fiscal year ended December 31, 2004), and (d) items listed in Section 3.13 of the Company Disclosure Schedule, the Company has good and, as to owned real property, marketable and insurable title to all their properties and assets, free and clear of all liens, claims, charges and other encumbrances. The Company, as lessee, has the right under valid and subsisting leases to occupy, use and possess all property leased by them, and the Company has not experienced any material uninsured damage or destruction with respect to such properties since December 31, 2004. All properties and assets used by the Company are in good operating condition and repair suitable for the purposes for which they are currently utilized and, to the Knowledge of the Company, comply in all material respects with all Laws relating thereto now in effect or scheduled to come into effect. The Company enjoys peaceful and undisturbed possession under all leases for the use of all property under which it is the lessee, and all leases to which the Company is a party are valid and binding obligations in accordance with the terms thereof. The Company is not in default with respect to any such lease, and there has occurred no default by the Company or event which with the lapse of time or the giving of notice, or both, would constitute a default under any such lease, except where such default is not likely to have, either

individually or in the aggregate, a Material Adverse Effect. To the Knowledge of the Company, there are no Laws, conditions of record, or other impediments which interfere materially with the intended use by the Company of any of the property owned, leased, or occupied by it.

3.14 *Insurance.*

Section 3.14 of the Company Disclosure Schedule contains a true, correct and complete list of all insurance policies and bonds maintained by the Company, including the name of the insurer, the policy number, the type of policy and any applicable deductibles, and all such insurance policies and bonds or other insurance policies and bonds that have, from time to time, in respect of the nature of the risks insured against and amount of coverage provided are in full force and effect and have been in full force and effect since their respective dates of inception. As of the date hereof, the Company has not received any notice of cancellation or amendment of any such policy or bond or is in default under any such policy or bond, no coverage thereunder is being disputed and all material claims thereunder have been filed in a timely fashion. True, correct and complete copies of all such policies and bonds reflected at Section 3.14 of the Company Disclosure Schedule, as in effect on the date hereof, have been made available to Parent.

3.15 *Compliance with Applicable Laws.*

The Company has complied in all material respects with all Laws applicable to it or to the operation of its business, except where such noncompliance is not likely to have, either individually or in the aggregate, a Material Adverse Effect. To the Knowledge of the Company, the Company has not received any notice of any material alleged or threatened claim, violation, or liability under any such Laws that has not heretofore been cured and for which there is no remaining liability.

3.16 *Affiliates.*

Each director, executive officer and other person who is an affiliate (for purposes of Rule 145 under the Securities Act of 1933, as amended (the **Securities Act**)) of the Company is listed at Section 3.16 of the Company Disclosure Schedule. Except as set forth in the Company SEC Reports filed prior to the date of this Agreement, since the date of Company s last proxy statement to its stockholders, no event has occurred that would be required to be reported by Company as a Certain Relationship or Related Transaction, pursuant to Item 404 of Regulation S-K promulgated by the SEC.

3.17 *Ownership of Parent Common Stock.*

Neither the Company nor any of its directors, executive officers, or affiliates (as used above in Section 3.16) (i) beneficially own, directly or indirectly through an affiliate, or (ii) is a party to any agreement, arrangement or understanding for the purpose of acquiring, holding, voting or disposing of, in each case, any shares of outstanding capital stock of Parent (other than those agreements, arrangements or understandings specifically contemplated hereby).

3.18 *Fairness Opinion.*

The Company has received an opinion from Q Advisors to the effect that, in its opinion, the consideration to be paid to stockholders of the Company hereunder is fair to such stockholders from a financial point of view.

3.19 *Intellectual Property.*

(a) Section 3.19 of the Company Disclosure Schedule contains a correct and complete list of all Company Registered Intellectual Property and all material unregistered copyrights, trademarks and service marks of the Company.

(b) To the Company s Knowledge, no Intellectual Property owned by the Company and no Company Proprietary Software is subject to any proceeding or outstanding consent, decree, order or judgment (i) restricting in any manner the use thereof by the Company or (ii) that may affect the validity or enforceability thereof. To the Company s Knowledge, no Intellectual Property licensed to the Company and no Company Licensed Software, either of which is material to the operations of the Company, is

subject to any proceeding or outstanding consent, decree, order or judgment (i) restricting in any manner the use thereof by the Company or (ii) that may affect the validity or enforceability thereof.

(c) Each item of Company Registered Intellectual Property is subsisting and in full force in all material respects. All necessary registration, maintenance and renewal fees currently due and owing in connection with Company Registered Intellectual Property have been paid and all necessary documents, recordations and certifications in connection with the Company Registered Intellectual Property have been filed with the relevant patent, copyright, trademark or other authorities in the United States or foreign jurisdictions, as the case may be, for the purposes of maintaining such Company Registered Intellectual Property and recording ownership by the Company or any of its Subsidiaries of such Company Registered Intellectual Property.

(d) The Company is the sole and exclusive owner of each item of Intellectual Property used by the Company, other than Intellectual Property that is licensed to the Company, free and clear of any Lien, except Permitted Liens.

(e) Section 3.19 of the Company Disclosure Schedule sets forth a correct and complete list of (i) the Company Proprietary Software, and (ii) the Company Licensed Software.

(f) To the Knowledge of the Company, the operations of the Company as currently conducted, including the Company s design, development, manufacture, use, reproduction, display, marketing and sale of the products or services (including Software) of the Company do not infringe or misappropriate the Intellectual Property of any third party.

(g) The Company has no Knowledge and has not received written notice from any third party that the operations of the Company as currently conducted, or any current product or service of the Company infringes or misappropriates the Intellectual Property of any third party.

(h) To the Knowledge of the Company, no Person is infringing or misappropriating any Company Intellectual Property that is owned by or exclusively licensed to the Company.

(i) The Company has taken commercially reasonable steps to protect the rights of the Company in the Confidential Information and any trade secret or confidential information of third Parties used by the Company.

(j) The Company maintains in place and has taken commercially reasonable steps to enforce appropriate policies designed to ensure that all Intellectual Property owned by the Company and developed by employees of the Company is developed by such employees while working within the scope of their employment at the time of such development. Where appropriate, the Company has taken commercially reasonable steps to require its agents, consultants, contractors or other Persons to execute appropriate instruments of assignment in favor of the Company as assignee to convey to the Company ownership of Intellectual Property developed by such agents, consultants, contractors or other Persons on behalf of the Company.

3.20 *Company Information.*

This Agreement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements herein or therein, in light of the circumstances in which they are made, not misleading. The Company notice of the Company Stockholders Meeting (except for the portions thereof relating solely to Parent or any of its Subsidiaries, as to which the Company makes no representation or warranty) will comply in all material respects with the provisions of the DGCL.

3.21 *Proxy Materials; Registration Statement; Other Information.*

None of the information supplied or to be supplied by the Company for inclusion or incorporation by reference in the Registration Statement on Form S-4 relating to the registration of the Parent Common Stock and the Contingent Value Rights (the **Registration Statement**) or the letter to stockholders, notice of meeting, proxy statement and form of proxy to be distributed to Company stockholders in connection with the Merger and any schedules required to be filed with the SEC in connection therewith

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(collectively, the **Proxy Materials**) will (i) in the case of the Registration Statement, at the time it becomes effective or at the Effective Time, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading, or (ii) in the case of the Proxy Materials, at the time of the mailing of any of the Proxy Materials and at the time of the Company Stockholders Meeting, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading. If at any time prior to the Effective Time any event with respect to the Company, its officers and directors should occur which is required to be described in an amendment of, or a supplement to, the Proxy Materials or the Registration Statement, the Company shall promptly inform Parent, such event shall be so described, and such amendment or supplement shall be promptly filed with the SEC and, as required by law, disseminated to the stockholders of the Company and Parent. The Registration Statement will (with respect to the Company) comply as to form in all material respects with the requirements of the Securities Act and the rules and regulations promulgated thereunder. The Proxy Materials will (with respect to the Company) comply as to form in all material respects with the requirements of the Exchange Act and the rules and regulations promulgated thereunder. Notwithstanding the foregoing, the Company makes no representation or warranty with respect to any information supplied by Parent or Merger Sub which is contained in any of the foregoing documents.

3.22 *Unlawful Payments and Contributions.*

To the Knowledge of the Company, neither the Company nor any of its respective directors, officers, employees or agents has, with respect to the businesses of the Company, (i) used any funds for any unlawful contribution, endorsement, gift, entertainment or other unlawful expense relating to political activity; (ii) made any direct or indirect unlawful payment to any foreign or domestic government official or employee; (iii) violated or is in violation of any provision of the Foreign Corrupt Practices Act of 1977, as amended; or (iv) made any bribe, rebate, payoff, influence payment, kickback or other unlawful payment to any Person or entity.

3.23 *Listings.*

The Company s securities are not listed, or quoted, for trading on any U.S. domestic or foreign securities exchange.

3.24 *Permits.*

The Company holds all licenses, permits, registrations, orders, authorizations, approvals and franchises which are required to permit it to conduct its business as presently conducted, except where the failure to hold such licenses, permits, registrations, orders, authorizations, approvals or franchises could not reasonably be expected to, individually or in the aggregate, have a Material Adverse Effect on the Company. All such licenses, permits, registrations, orders, authorizations, approvals and franchises are now, and will be after the Closing, valid and in full force and effect, and Surviving Corporation shall have full benefit of the same, except where the failure to be valid and in full force and effect or to have the benefit of any such license, permit, registration, order, authorization, approval or franchise could not reasonably be expected to, individually or in the aggregate, have a Material Adverse Effect on the Company or Surviving Corporation. The Company has not received any notification of any asserted present failure (or past and unremedied failure) by it to have obtained any such license, permit, registration, order, authorization, approval or franchise, except where such failure could not reasonably be expected to, individually or in the aggregate, have a Material Adverse Effect on the Company or Surviving Corporation.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF PARENT AND MERGER SUB

Parent and Merger Sub hereby make the following representations and warranties to Company as set forth in this Article IV, subject to the exceptions disclosed in writing in the disclosure schedules of the

Parent and Merger Sub delivered herewith (the **Parent and Merger Sub Disclosure Schedule**), each of which representations and warranties are being relied upon by Company as an inducement to enter into and perform this Agreement. It is acknowledged and agreed by Company that any matter set forth in any schedule, section or subsection of the Parent and Merger Sub Disclosure Schedule shall expressly not be deemed to constitute an admission by the Parent and/or Merger Sub, as the case may be, or otherwise imply, that any such matter rises to the level of a Material Adverse Effect or is otherwise material for purposes of this Agreement or the Parent and Merger Sub Disclosure Schedule.

4.1 *Corporate Organization.*

Each of Parent, Merger Sub and Parent s other Subsidiaries is a corporation duly organized, validly existing and in good standing under the laws of their state or incorporation of organization. Each of Parent, Merger Sub and Parent s other Subsidiaries has the corporate power and authority to own or lease all of its properties and assets and to carry on its business as it is now being conducted, and is duly licensed or qualified to do business in each jurisdiction in which the nature of any business conducted by it or the character or location of any properties or assets owned or leased by it makes such licensing or qualification necessary, except where the failure to so qualify or to be in good standing has not had and would not likely have a Material Adverse Effect on Parent. The certificate of incorporation and bylaws of Parent, Merger Sub and Parent s other Subsidiaries, copies of which are attached at Section 4.1 of the Parent and Merger Sub Disclosure Schedule, are true, correct and complete copies of such documents as in effect as of the date of this Agreement. Gupta Technologies, LLC, a Delaware limited liability company, David Corporation, a California corporation, Foresight Software, Inc., a Delaware corporation, Process Software, LLC, a Delaware limited liability company, Profitkey International, LLC, a Delaware limited liability company, and TAC/ Halo, LLC (d/b/a Tesseract), a Delaware limited liability company are the only Subsidiaries of Parent, that qualify as a **Significant Subsidiary** as such term is defined in Regulation S-X promulgated by the Securities and Exchange Commission (the **SEC**). Section 4.1 of the Parent and Merger Sub Disclosure Schedule includes a listing of all jurisdictions in which Parent is qualified to do business or has assets and/or conducts operations.

4.2 *Capitalization.*

(a) The authorized capital stock of Parent consists of 150,000,000 shares of common stock (**Parent Common Stock**), par value $0.00001 per share and 50,000,000 shares of preferred stock, par value $0.00001 per share (**Parent Preferred Shares**), of which 16,000,000 shares of Series C Preferred Stock have been designated and 8,863,636 shares of Series D Preferred Stock have been designated. As of the date hereof, there are (i) 3,648,537 shares of Parent Common Stock issued and outstanding and 0 shares of Parent Common Stock held in Parent s treasury, (ii) 56,327,111 shares of Parent Common Stock reserved for issuance upon exercise of outstanding stock options or otherwise, (iii) 13,802,837 shares of Series C Preferred Stock issued and outstanding and (iv) 7,045,454 shares of Series D Preferred Stock issued and outstanding. There no issued and outstanding shares of Parent s Series A Preferred Stock or Series B Preferred Stock. All of the issued and outstanding Parent Common Stock have been duly authorized and validly issued and are fully paid, nonassessable and free of preemptive rights, with no personal liability attaching to the ownership thereof. Except as disclosed in the Parent SEC Reports, Parent does not have and is not bound by any outstanding subscriptions, options, warrants, calls, commitments or agreements of any character calling for the purchase or issuance of any Parent Common Stock or Parent Preferred Shares or any other equity security of Parent or any securities representing the right to purchase or otherwise receive any Parent Common Stock or any other equity security of Parent. Except as disclosed in the Parent SEC Reports, there are not as of the date hereof and there will not be at the Effective Time any stockholder agreements, voting trusts or other agreements or understandings to which Parent is a party or to which it is bound relating to the voting of any shares of the capital stock of Parent. Except as disclosed in the Parent SEC Reports, there are no existing rights with respect to the registration of Parent Common Stock under the Securities Act, including, but not limited to, demand rights or piggy-back registration rights. Except as disclosed in the Parent SEC Reports since September 30, 2005 through the date hereof no options or warrants have been issued or accelerated or had their terms modified.

(b) Section 4.2(b) of the Parent and Merger Sub Disclosure Schedule sets forth a true, correct and complete list of all direct or indirect Subsidiaries of Parent as of the date of this Agreement. Except as disclosed in the Parent SEC Reports, Parent owns, directly or indirectly, all of the issued and outstanding shares of capital stock of each of its Subsidiaries, free and clear of all liens, charges, encumbrances and security interests whatsoever, and all of such shares are duly authorized and validly issued and are fully paid, nonassessable and free of preemptive rights, with no personal liability attaching to the ownership thereof. No Subsidiary has or is bound by any outstanding subscriptions, options, warrants, calls, commitments or agreements of any character calling for the purchase or issuance of any shares of capital stock or any other equity security of such Subsidiary or any securities representing the right to purchase or otherwise receive any shares of capital stock or any other equity security of such Subsidiary.

4.3 *Authority; No Violation.*

(a) Each of Parent and Merger Sub has full corporate power and authority to execute and deliver this Agreement and, subject to the required regulatory approvals specified herein, to consummate the transactions contemplated hereby. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly and validly approved by the Boards of Directors of Parent and Merger Sub, and no other corporate proceedings on the part of Parent and Merger Sub are necessary to approve this Agreement or to consummate the transactions contemplated hereby. This Agreement has been duly and validly executed and delivered by each of Parent and Merger Sub and (assuming due authorization, execution and delivery by Company of this Agreement) will constitute valid and binding obligations of each of Parent and Merger Sub, enforceable against each of Parent and Merger Sub in accordance with its terms, except as enforcement may be limited by general principles of equity whether applied in a court of law or a court of equity and by bankruptcy, insolvency and similar laws affecting creditors rights and remedies generally.

(b) Neither the execution and delivery of this Agreement by Parent and Merger Sub, nor the consummation by Parent and Merger Sub, of the transactions contemplated hereby, nor compliance by Parent and Merger Sub with any of the terms or provisions hereof, will (i) violate any provision of the certificate of incorporation or bylaws of Parent, Merger Sub and each of its Subsidiaries or (ii) assuming that the consents and approvals referred to in Section 4.4 hereof are duly obtained, (x) violate any Laws applicable to Parent, Merger Sub and each of Parent s other Subsidiaries, or any of their respective properties or assets, or (y) violate, conflict with, result in a breach of any provision of or the loss of any benefit under, constitute a default (or an event which, with notice or lapse of time, or both, would constitute a default) under, result in the termination of or a right of termination or cancellation under, accelerate the performance required by, or result in the creation of any lien, pledge, security interest, charge or other encumbrance upon any of the respective properties or assets of Parent, Merger Sub and each of Parent s other Subsidiaries under any of the terms, conditions or provisions of any note, bond, mortgage, indenture, deed of trust, license, lease, agreement or other instrument or obligation to which Parent, Merger Sub and each of Parent s other Subsidiaries is a party, or by which they or any of their respective properties or assets may be bound or affected, except in each case for such violations, breaches, defaults, or terminations as would not likely have, either individually or in the aggregate, a Material Adverse Effect on Parent.

(c) Parent is not: (i) in violation of its certificate of incorporation or bylaws or similar documents; (ii) in default in the performance of any obligation, agreement or condition of any debt instrument which (with or without the passage of time or the giving of notice, or both) affords to any Person the right to accelerate any indebtedness or terminate any right; (iii) in default under or breach of (with or without the passage of time or the giving of notice) any other contract to which it is a party or by which it or its assets are bound; or (iv) in violation of any law, regulation, administrative order or judicial order, decree or judgment (domestic or foreign) applicable to it or its business or assets, except where any violation, default or breach under items (ii), (iii), or (iv) could not reasonably be expected to, individually or in the aggregate, have a Material Adverse Effect on Parent.

4.4 *Consents and Approvals.*

(a) Except for (i) any required filings with the SEC and state securities authorities, (ii) the filing of the Certificate of Merger with the Secretary of State of the State of Delaware pursuant to the DGCL, (iii) such other filings, authorizations, consents, notices or approvals as may be set forth in Section 4.4(a) of the Parent and Merger Sub Disclosure Schedule, no consents or approvals of or filings or registrations with any Governmental Entity, or with any third party are necessary in connection with (x) the execution and delivery by Parent or Merger Sub of this Agreement and (y) the consummation by Parent or Merger Sub of the Merger and the other transactions contemplated hereby, except in each case for such consents, approvals or filings the failure of which to be obtained would not likely have a Material Adverse Effect on Parent or Merger Sub. The approval of the stockholders of Parent is not required in connection with the execution and delivery by Parent or Merger Sub of this Agreement and the consummation by Parent or Merger Sub of the Merger and the other transaction contemplated hereby.

(b) Parent and Merger Sub have no Knowledge of any reason why approval or effectiveness of any of the applications, notices or filings referred to in Section 4.4(a) cannot be obtained or granted on a timely basis.

4.5 *Adequate Resources.*

Parent has or will have at the Effective Time cash on hand or borrowing availability under financing arrangements from financially responsible third Parties, or a combination thereof, in an aggregate amount sufficient to enable Parent to pay in full the Merger Consideration and all fees and expenses payable by Parent in connection with this Agreement and the transactions contemplated hereby.

4.6 *Legal Proceedings.*

(a) Except as disclosed in the Parent SEC Reports, Parent and Merger Sub are not party to any, and there are no pending or to the Knowledge of Parent or Merger Sub, threatened, legal, administrative, arbitration or other proceedings, claims, actions or governmental or regulatory investigations of any nature against Parent or Merger Sub in which, to the Knowledge of Parent or Merger Sub, there is a reasonable probability of any material recovery against or other material effect upon Parent or which challenge the validity or propriety of the transactions contemplated by this Agreement.

(b) There is no injunction, order, judgment, decree, or regulatory restriction imposed upon Parent, Merger Sub, or their respective assets.

4.7 *Broker s Fees.*

Neither Parent nor any Subsidiary nor any of their respective officers or directors has employed any broker or finder or incurred any liability for any broker s fees, commissions or finder s fees in connection with any of the transactions contemplated by this Agreement.

4.8 *Reports and Financial Statements.*

(a) Parent has previously made available to the Company (including through the SEC s EDGAR system) true and complete copies of (a) Parent s Annual Reports on Form 10-KSB filed with the SEC for each of the years ended June 30, 2003 through 2005; (b) Parent s Quarterly Reports on Form 10-QSB filed with the SEC for the quarter ended September 30, 2005; (c) each definitive proxy statement filed by Parent with the SEC since December 31, 2003; (d) each final prospectus filed by Parent with the SEC since December 31, 2003; and (e) all Current Reports on Form 8-K filed by Parent with the SEC since December 31, 2003. As of their respective dates (or if amended or superseded by a filing prior to the date of this Agreement, then on the date of such filing), such reports, proxy statements and prospectuses (individually a **Parent SEC Report** and, collectively, **Parent SEC Reports**) (a) complied as to form in all material respect with the applicable requirements of the Securities Act, the Exchange Act, and the rules and regulations promulgated thereunder and (b) did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. The audited

consolidated financial statements and unaudited consolidated interim financial statements included in the Parent SEC Reports (including any related notes and schedules) complied as to form, as of their respective dates of filing with the SEC, in all material respects with all applicable accounting requirements and the published rules and regulations of the SEC with respect thereto, were prepared in accordance with past practice and GAAP consistently applied during the periods involved (except as otherwise disclosed in the notes thereto) and fairly presented the financial position of Parent and its consolidated Subsidiaries as of the dates thereof and the results of their operations and their cash flows for the periods or as of the dates then ended (subject, where appropriate, to normal year-end adjustments). Since June 30, 2003, Parent has timely filed all material reports and other filings required to be filed by it with the SEC under the rules and regulations of the SEC.

(b) Since September 30, 2005, there has not been any material change by Parent in accounting principles, methods or policies for financial accounting purposes, except as required by concurrent changes in generally accepted accounting principles. There are no material amendments or modifications to agreements, documents or other instruments which previously had been filed by Parent with the SEC pursuant to the Securities Act or the Exchange Act, which have not been filed with the SEC but which are required to be filed. Parent maintains a reasonable process or procedure under which management of Parent is aware of or authorizes material transactions of Parent such that such transactions may be recorded on the quarterly and annual financial reports of Parent in accordance with GAAP. Parent currently conducts its business in compliance in all material respects with all laws and regulations as currently applicable to the conduct of its business, including the Sarbanes-Oxley Act of 2002.

(c) Parent has no material indebtedness, obligations or liabilities of any kind (whether accrued, absolute, contingent or otherwise, and whether due or to become due or asserted or unasserted), and, to the Knowledge of Parent, there is no reasonable basis for the assertion of any material claim or liability of any nature against Parent, except for liabilities (i) which are fully reflected in, reserved against or otherwise described in the Parent s Quarterly Report on Form 10-QSB filed with the SEC for the quarter ended September 30, 2005 or in Parent SEC Reports filed after such Quarterly Report, (ii) which have been incurred after the most recent Parent SEC Reports in the ordinary course of business, consistent with past practice, or (iii) which are obligations to perform under executory contracts in the ordinary course of business (none of which is a liability resulting from a breach of contract or warranty, tort, infringement or legal action).

4.9 *No Undisclosed Liabilities.*

Neither Parent nor any of its Subsidiaries has any liabilities or obligations of any nature, whether or not accrued, contingent or otherwise, except (a) liabilities or obligations reflected in any of the Parent SEC Reports filed and publicly available prior to the date hereof and (b) liabilities or obligations that would not, individually or in the aggregate, likely have a Material Adverse Effect on Parent.

4.10 *Absence of Certain Changes or Events.*

(a) Except as disclosed in the Parent SEC Reports (i) neither Parent nor any of its Subsidiaries has incurred any material liability, except as contemplated by the Agreement or in the ordinary course of their business consistent with their past practices, and (ii) no event has occurred which has had, or is likely to have, individually or in the aggregate, a Material Adverse Effect on Parent.

(b) Subject to the acquisitions and financing described in the Parent SEC Reports, since December 31, 2004, Parent and its Subsidiaries have carried on their respective businesses in the ordinary and usual course consistent with their past practices.

4.11 *Taxes and Tax Returns.*

(a) Parent and its Subsidiaries have duly filed all Tax Returns required to be filed by it on or prior to the date hereof (all such returns being accurate and complete in all material respects), except that all such failures to file, taken together, as would not likely have a Material Adverse Effect on Parent, and has duly paid or made provision on the financial statements for the periods ended December 31, 2004,

March 31, 2005, June 30, 2005 and September 30, 2005, and as referred to in Section 4.8 hereof, in accordance with GAAP for the payment of all material Taxes which have been incurred or are due or claimed to be due from it by Taxing Authorities on or prior to the date hereof other than Taxes (a) that (x) are not yet delinquent or (y) are being contested in good faith and set forth in Section 4.11 of the Parent and Merger Sub Disclosure Schedule (b) that have not been finally determined, and (c) the failure to pay, taken together, would not likely have a Material Adverse Effect on Parent. All liability with respect to the Tax Returns of Parent and its Subsidiaries has been satisfied for all years prior to and including 2004. The IRS has not notified Parent of, or to the Knowledge of Parent otherwise asserted, that there are any material deficiencies with respect to the federal income Tax Returns of Parent. There are no material disputes pending, or to the Knowledge of Parent claims asserted for, Taxes or assessments upon Parent or any of its Subsidiaries. In addition, Tax Returns which are accurate and complete in all material respects have been filed by Parent and its Subsidiaries for all periods for which returns were due with respect to income tax withholding, Social Security and unemployment taxes and the amounts shown on such Tax Returns to be due and payable have been paid in full or adequate provision therefor in accordance with GAAP has been included by Parent in the financial statements for the periods ended December 31, 2004, March 31, 2005, June 30, 2005 and September 30, 2005, and as referred to in Section 4.8 hereof. The unpaid Taxes of Parent (i) did not, as of the date of any financial statement referred to in Parent s Annual Reports on Form 10-KSB exceed the reserve for Tax liability (rather than any reserve for deferred Taxes established to reflect timing differences between book and Tax income) set forth on the face of such financial statements (other than the notes thereto) and (ii) will not exceed such reserve as adjusted for the passage of time though the Closing Date in accordance with past custom and practice of Parent in filing its Tax Returns. Neither Parent nor any of its Subsidiaries has been asked to consent to, and has not consented to, any currently effective waiver or extension of any statute of limitations with respect to any Tax. Neither Parent nor any Subsidiary has made an election under Section 341(f) of the Code. Parent has provided or made available to Company complete and correct copies of its Tax Returns and all material correspondence and documents, if any, relating directly or indirectly to taxes for Parent s fiscal years 2000, 2001, 2002, 2003 and 2004. For this purpose, correspondence and documents include, without limitation, amended Tax Returns, claims for refunds, notices from Taxing Authorities of proposed changes or adjustments to Taxes or Tax Returns, consents to assessment or collection of Taxes, acceptances of proposed adjustments, closing agreements, rulings and determination letters and requests therefor, and all other written communications to or from Taxing Authorities relating to any material Tax liability of Parent or any Subsidiary.

4.12 *Compliance with Applicable Laws.*

Parent and each of its Subsidiaries has complied in all material respects with all Laws applicable to it or to the operation of its business, except where such noncompliance would not likely have, either individually or in the aggregate, a Material Adverse Effect on Parent. To the Knowledge of Parent, neither Parent nor any of its Subsidiaries has received any notice of any material alleged or threatened claim, violation, or liability under any such Laws that has not heretofore been cured and for which there is no remaining liability.

4.13 *Proxy Materials; Registration Statement; Other Information.*

None of the information supplied or to be supplied by Parent for inclusion or incorporation by reference in the Registration Statement or the Proxy Materials will (i) in the case of the Registration Statement, at the time it becomes effective or at the Effective Time, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading, or (ii) in the case of the Proxy Materials, at the time of the mailing of any of the Proxy Materials and at the time of the Company Stockholders Meeting, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading. If at any time prior to the Effective Time any event with respect to Parent, its officers and directors should occur which is required to be described in an amendment of, or a supplement to, the Proxy Materials or the Registration Statement, Parent shall promptly inform the Company, such

event shall be so described, and such amendment or supplement shall be promptly filed with the SEC and, as required by law, disseminated to the stockholders of the Company and Parent. The Registration Statement will (with respect to Parent) comply as to form in all material respects with the requirements of the Securities Act and the rules and regulations promulgated thereunder. The Proxy Materials will (with respect to Parent) comply as to form in all material respects with the requirements of the Exchange Act and the rules and regulations promulgated thereunder. Notwithstanding the foregoing, Parent makes no representation or warranty with respect to any information supplied by the Company which is contained in any of the foregoing documents.

4.14 *Ownership of Company Common Stock.*

Except as disclosed on the Parent Disclosure Schedule, neither Parent nor any of its Subsidiaries, directors, executive officers, or affiliates (as such term is described above in Section 3.16) (i) beneficially own, directly or indirectly through an affiliate, or (ii) is a party to any agreement, arrangement or understanding for the purpose of acquiring, holding, voting or disposing of, in each case, any shares of outstanding capital stock of Company (other than those agreements, arrangements or understandings specifically contemplated hereby).

4.15 *Takeover Statutes.*

The Board of Directors of Parent has approved the terms of this Agreement, and such approval constitutes approval of this Agreement by the Board of Directors of Parent under the provisions of Section 203 of the DGCL, other than Section 203(b)(1) of the DGCL, to the knowledge of Parent, no state takeover statute or similar statute or regulation applies or purports to apply to this Agreement, the Merger or any of the other transaction documents contemplated by this Agreement.

4.16 *Unlawful Payments and Contributions.*

To the Knowledge of Parent, neither Parent nor any of its respective directors, officers, employees or agents has, with respect to the businesses of Parent, (i) used any funds for any unlawful contribution, endorsement, gift, entertainment or other unlawful expense relating to political activity; (ii) made any direct or indirect unlawful payment to any foreign or domestic government official or employee; (iii) violated or is in violation of any provision of the Foreign Corrupt Practices Act of 1977, as amended; or (iv) made any bribe, rebate, payoff, influence payment, kickback or other unlawful payment to any Person or entity.

4.17 *Listings.*

Parent s securities are not listed, or quoted, for trading on any U.S. domestic or foreign securities exchange.

4.18 *Permits.*

Parent holds all licenses, permits, registrations, orders, authorizations, approvals and franchises which are required to permit it to conduct its business as presently conducted, except where the failure to hold such licenses, permits, registrations, orders, authorizations, approvals or franchises could not reasonably be expected to, individually or in the aggregate, have a Material Adverse Effect on Parent. All such licenses, permits, registrations, orders, authorizations, approvals and franchises are now, and will be after the Closing, valid and in full force and effect, and Surviving Corporation shall have full benefit of the same, except where the failure to be valid and in full force and effect or to have the benefit of any such license, permit, registration, order, authorization, approval or franchise could not reasonably be expected to, individually or in the aggregate, have a Material Adverse Effect on Parent or Surviving Corporation. Parent has not received any notification of any asserted present failure (or past and unremedied failure) by it to have obtained any such license, permit, registration, order, authorization, approval or franchise, except where such failure could not reasonably be expected to, individually or in the aggregate, have a Material Adverse Effect on Parent.

ARTICLE V
COVENANTS RELATING TO CONDUCT OF BUSINESS

5.1 *Covenants of the Company.*

During the period from the date of this Agreement and continuing until the Effective Time, except as expressly contemplated or permitted by this Agreement, or with the prior written consent of Parent, the Company shall carry on its business in the ordinary course consistent with past practices. The Company will use its commercially reasonable efforts, consistent with past practices, to (x) preserve its business organization intact, (y) keep available to itself and Parent the present services of the employees of the Company and (z) preserve for itself and Parent the goodwill of the customers of the Company and others with whom business relationships exist. Without limiting the generality of the foregoing, and except as set forth in Section 5.1(c) of the Company Disclosure Schedule or as otherwise contemplated by this Agreement or consented to by Parent in writing, which consent shall not be unreasonably withheld, conditioned or delayed, the Company shall not:

(a) declare or pay any dividends on, or make other distributions in respect of, any of its capital stock;

(b) (i) split, combine or reclassify any shares of its capital stock or issue, authorize or propose the issuance of any other securities in respect of, in lieu of or in substitution for shares of its capital stock, or (ii) repurchase, redeem or otherwise acquire, any shares of the capital stock of the Company, or any securities convertible into or exercisable for any shares of the capital stock of the Company;

(c) issue, deliver or sell, or authorize or propose the issuance, delivery or sale of, any shares of its capital stock or any securities convertible into or exercisable for, or any rights, warrants or options to acquire, any such shares, or enter into any agreement with respect to any of the foregoing, other than issuances, deliveries or sales in the ordinary course consistent with past practices;

(d) amend its certificate of incorporation, bylaws or other similar governing documents;

(e) make individual capital expenditures of $100,000 in the aggregate;

(f) enter into any new line of business or any material partnership arrangements, joint development agreements or strategic alliances;

(g) acquire or agree to acquire, by merging or consolidating with, or by purchasing an equity interest in or the assets of, or by any other manner, any business or any corporation, partnership, association or other business organization or division thereof;

(h) take any action that is intended or may reasonably be expected to result in any of its representations and warranties set forth in this Agreement being or becoming untrue or in any of the conditions to the Merger set forth in Article VII not being satisfied, or in a violation of any provision of this Agreement, except, in every case, as may be required by applicable law;

(i) change its methods of accounting in effect at December 31, 2004, except for changes effected to comply with Statement of Financial Accounting Standards No. 86, and except as required by changes in GAAP or regulatory accounting principles;

(j) (i) except as required by applicable law or this Agreement or to maintain qualification pursuant to the Code, adopt, amend, renew or terminate any Plan or any agreement, arrangement, plan or policy between the Company and one or more of its current or former directors or officers, (ii) increase in any manner the compensation of any director, executive officer or other employee who is a party to a contract relating to employment or severance

referenced in Section 3.11 of this Agreement, or pay any benefit not required by any plan or agreement as in effect as of the date hereof (except for the granting of stock options, stock appreciation rights, restricted shares, restricted share units or performance units or shares granted in the ordinary course consistent with past

practices), (iii) enter into, modify or renew any contract, agreement, commitment or arrangement providing for the payment of compensation or benefits to any director, executive officer or employee who is a party to a contract relating to employment or severance referenced in Section 3.11 of this Agreement, (iv) enter into, modify or renew any contract, agreement, commitment or arrangement providing for the payment of compensation or benefits to any employee who is not a director or executive officer or who is not a party to a contract relating to employment or severance referenced in Section 3.11 of this Agreement, other than normal annual cash increases in pay, consistent with past practice and not exceeding five percent on average of all employees base salary or wage, and ordinary course offer letters and stock option agreements to new hires permitted under the immediately following clause, (v) hire any new employee at an annual compensation in excess of $100,000, or (vi) promote any employee to a rank of senior vice president or more senior rank;

(k) incur any indebtedness for borrowed money, assume, guarantee, endorse or otherwise as an accommodation become responsible for the obligations of any other individual, corporation or other entity;

(l) sell, lease, license, encumber or otherwise dispose of any of the Company s properties or assets, except in the ordinary course of business consistent with past practice, or enter into a lease, relocate, open or close any office;

(m) propose or enter into any contract, agreement or commitment relating to the settlement of any legal, administrative, arbitration or other proceeding, claim, action or governmental or regulatory investigation of any nature against the Company in excess of $100,000;

(n) Transfer or license to any person or entity or otherwise extend, amend or modify any rights to the Company Intellectual Property (including rights to resell or relicense the Company Intellectual Property) or enter into grants to future patent rights, other than transactions entered into in the ordinary course of business consistent with past practices;

(o) Commence any material litigation other than (i) for the routine collection of bills, (ii) for software piracy, or (iii) in such cases where the Company in good faith determines that failure to commence suit would result in the material impairment of a valuable aspect of the Company s business, provided that the Company consults with the Parent prior to the filing of such a suit (except that the Company shall not require the approval of, and shall not be required to consult with, Parent with respect to any claim, suit or proceeding by the Company against Parent or any of its affiliates; and

(p) agree or commit to do any of the actions set forth in (a)-(o) above.

The consent of Parent to any action by the Company that is not permitted by any of the preceding paragraphs shall be evidenced by a writing signed by an officer of Parent.

5.2 *Covenants of Parent*

During the period from the date of this Agreement and continuing until the Effective Time, except as expressly contemplated or permitted by this Agreement, or with the prior written consent of the Company, Parent shall carry on its business in the ordinary course consistent with past practices. Without limiting the generality of the foregoing, and except as set forth in the Parent and Merger Sub Disclosure Schedule or as otherwise contemplated by this Agreement or consented to by the Company in writing, which consent shall not be unreasonably withheld, conditioned or delayed, Parent:

(a) shall notify the Company of any emergency or other change in the normal course of its or its Subsidiaries respective businesses or in the operation of its or its Subsidiaries respective properties and of any complaints, investigations or hearings (or communications indicating that the same may be contemplated) of any Governmental Entity if such emergency, change, complaint, investigation or hearing would likely have a Material Adverse Effect on Parent;

(b) shall notify the Company of any material transaction;

(c) shall not declare or pay any dividends on, or make other distributions in respect of, any of its capital stock (other than dividends on the Series C Preferred Stock and the Series D Preferred Stock);

(d) shall not (i) split, combine or reclassify any shares of its capital stock or issue, authorize or propose the issuance of any other securities in respect of, in lieu of or in substitution for shares of its capital stock, or (ii) repurchase, redeem or otherwise acquire, any shares of the capital stock of Parent, or any securities convertible into or exercisable for any shares of the capital stock of Parent;

(e) amend its certificate of incorporation, bylaws or other similar governing documents (other than an amendment to change the name of the Parent to Halo Technology Holdings, Inc.); or

(f) shall not, and shall not permit any of its Subsidiaries to, agree, in writing or otherwise, to take any of the foregoing actions or take any action that would result in any of the conditions to the Merger set forth in Article VII not being satisfied, or, except as otherwise allowed hereunder, that could reasonably be expected to prevent, impede, interfere with or significantly delay the transactions contemplated hereby.

5.3 *Compliance with Antitrust Laws.*

Each of Parent and the Company shall use its reasonable best efforts to resolve objections, if any, which may be asserted with respect to the Merger under antitrust laws, including, without limitation, the HSR Act. In the event a suit is threatened or instituted challenging the Merger as violative of antitrust laws, each of Parent and the Company shall use its reasonable best efforts to avoid the filing of, or resist or resolve such suit. Parent and the Company shall use their reasonable best efforts to take such action as may be required: (a) by the Antitrust Division of the Department of Justice or the Federal Trade Commission in order to resolve such objections as either of them may have to the Merger under antitrust laws, or (b) by any federal or state court of the United States, in any suit brought by a private party or Governmental Entity challenging the Merger as violative of antitrust laws, in order to avoid the entry of, or to effect the dissolution of, any injunction, temporary restraining order, or other order which has the effect of preventing the consummation of the Merger. Reasonable best efforts shall not include, among other things and to the extent Parent so desires, the willingness of Parent to accept an order agreeing to the divestiture, or the holding separate, of any assets of Parent or the Company.

5.4 *No Solicitation.*

(a) From and after the date of this Agreement until the Effective Time or the earlier termination of this Agreement in accordance with its terms, the Company will not, and will not permit its directors, officers, investment bankers, affiliates, representatives and agents to, (i) solicit, initiate, or encourage (including by way of furnishing information), or take any other action to facilitate, any inquiries or proposals that constitute, or could reasonably be expected to lead to, any Company Acquisition Proposal, or (ii) engage in, or enter into, any negotiations or discussions concerning any Company Acquisition Proposal. Notwithstanding the foregoing, in the event that, notwithstanding compliance with the preceding sentence, the Company receives a Company Superior Proposal the Company may, to the extent that the Board of Directors of the Company determines in good faith (in consultation with outside counsel) that such action would, be required by its fiduciary duties, participate in discussions regarding any Company Superior Proposal in order to be informed and make a determination with respect thereto. In such event, the Company shall, (i) no less than twenty four (24) hours prior to participating in any such discussions, inform Parent of the material terms and conditions of such Company Superior Proposal, including the identity of the Person making such Company Superior Proposal and (ii) promptly keep Parent informed of the status including any material change to the terms of any such Company Superior Proposal. The Company will immediately cease any and all existing activities, discussions or negotiations with any parties conducted heretofore with respect to any of the foregoing.

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(b) For Purposes of this Agreement:

Company Acquisition Proposal means any bona fide inquiry, proposal or offer relating to any (i) merger, consolidation, business combination, or similar transaction involving the Company, (ii) sale, lease or other disposition, directly or indirectly, by merger, consolidation, share exchange or otherwise, of any assets of the Company in one or more transactions, (iii) issuance, sale, or other disposition of (including by way of merger, consolidation, share exchange or any similar transaction) securities (or options, rights or warrants to purchase such securities, or securities convertible into such securities) of the Company, (iv) liquidation, dissolution, recapitalization or other similar type of transaction with respect to the Company, (v) tender offer or exchange offer for Company securities; in the case of (i), (ii), (iii), (iv) or (v) above, which transaction would result in a third party (or its shareholders) acquiring more than twenty percent (20%) of the voting power of the Company or the assets representing more than twenty percent (20%) of the net income, net revenue or assets of the Company on a consolidated basis, (vi) transaction which is similar in form, substance or purpose to any of the foregoing transactions, or (vii) public announcement of an agreement, proposal, plan or intention to do any of the foregoing, provided, however, that the term Company Acquisition Proposal shall not include the Merger and the transactions contemplated thereby.

Company Superior Proposal means any offer not solicited by the Company, or by other persons in violation of the first sentence of Section 5.4(a), and made by a third party to consummate a tender offer, exchange offer, merger, consolidation or similar transaction which would result in such third party (or its shareholders) owning, directly or indirectly, more than fifty percent (50%) of the Company Shares then outstanding (or of the surviving entity in a merger) or all or substantially all of the assets of Company, and otherwise on terms which the Board of Directors of the Company determines in good faith (based on its consultation with a financial advisor and other such matters that it deems relevant) would, if consummated, result in a transaction more favorable to the Company s stockholders than the Merger and, in the reasonable good faith judgment of the Board of Directors of the Company after consultation with its financial advisor, the persons or entity making such Company Superior Proposal has the financial means to conclude such transaction.

(c) Neither the Board of Directors of the Company nor any committee thereof shall, except as required by their fiduciary duties as determined in good faith in consultation with outside counsel, (i) withdraw or modify, or propose to withdraw or modify, in a manner adverse to Parent or Merger Sub, the approval or recommendation by the Board of Directors of the Company or such committee of this Agreement or the Merger, (ii) approve, recommend, or otherwise support or endorse any Company Acquisition Proposal, or (iii) cause the Company to enter into any letter of intent, agreement in principle, acquisition agreement or similar agreement (each a Company Acquisition Agreement) with respect to any Company Acquisition Proposal. Nothing contained in this Section 5.4 shall prohibit the Company from taking and disclosing to its stockholders a position contemplated by Rule 14d-9 or 14e-2 promulgated under the Exchange Act or from making any disclosure to the Company s stockholders if, in the good faith judgment of the Board of Directors of the Company, in consultation with outside counsel, such disclosure is necessary for the Board of Directors to comply with its fiduciary duties under applicable law.

(d) In addition to the obligations of the Company set forth in paragraphs (a) and (c) of this Section 5.4, the Company will promptly (and in any event within twenty-four (24) hours) advise Parent, orally and in writing, if any Company Acquisition Proposal is made or proposed to be made or any information or access to properties, books or records of the Company is requested in connection with a Company Acquisition Proposal, the principal terms and conditions of any such Company Acquisition Proposal or potential Company Acquisition Proposal or inquiry and the identity of the party making such Company Acquisition Proposal, potential Company Acquisition Proposal or inquiry. The Company will keep Parent advised of the status and details (including amendments and proposed amendments) of any such request or Company Acquisition Proposal.

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ARTICLE VI
ADDITIONAL AGREEMENTS

6.1 *Cooperation.*

(a) The Company and Parent shall together, or pursuant to an allocation of responsibility to be agreed upon between them:

(i) prepare and file with the SEC as soon as is practicable the Proxy Materials and the Registration Statement, and shall use all reasonable best efforts to cause the Proxy Materials and the Registration Statement to comply with the rules and regulations promulgated by the SEC, to cause the Registration Statement to qualify as a resale registration statement with respect to shares of Parent Common Stock of Persons who are affiliates within the meaning of Rule 145 under the Securities Act, to respond promptly to any comments of the SEC or its staff, and to have the Proxy Materials cleared by the SEC under the Exchange Act and the Registration Statement declared effective by the SEC under the Securities Act as promptly as practicable after it is filed;

(ii) as soon as reasonably practicable take all such action as may be required under state blue sky or securities laws of every jurisdiction of the United States in which any registered holder of Company Common Stock has an address of record on the record date for determining the stockholders entitled to notice of and to vote and the Company Stockholders Meeting; provided, however, that Parent shall not be required (A) to qualify to do business as a foreign corporation in any jurisdiction in which it is not now qualified or (B) to file a general consent to service of process in any jurisdiction;

(iii) cooperate with one another in order to lift any injunctions or remove any other impediment to the consummation of the transactions contemplated herein;

(iv) cooperate with one another in obtaining opinions of Hogan & Hartson, L.L.P., counsel to the Company, and Day, Berry and Howard, tax counsel to Parent, dated as of the date the Registration Statement is declared effective satisfying the requirements of Item 601 of Regulation S-K promulgated under the Securities Act and opinions of Hogan & Hartson, L.L.P. and Day, Berry and Howard, dated as of the Effective Time, to the effect that the Merger qualifies as a reorganization under the provisions of Section 368(a) of the Code. In connection therewith, each of the Company and Parent shall deliver to Hogan & Hartson L.L.P. and Day, Berry and Howard representation letters in customary form and shall deliver any such letters obtained to Hogan & Hartson L.L.P. and Day, Berry and Howard; and

(v) use all reasonable best efforts to (x) prepare the Contingent Value Rights Agreement in accordance with the terms of this Agreement and in a form, and containing terms and conditions, customary for the issuance of Contingent Value Rights in transactions of the type contemplated by this Agreement and reasonably satisfactory to the Company; (y) register the Contingent Value Rights with the SEC under the Registration Statement; and (z) issue the Contingent Value Rights at the Closing in accordance with Article II.

(b) Subject to the limitations contained in Section 6.2, the Company and Parent shall each furnish to one another and to one another s counsel all such information as may be required in order to effect the foregoing actions and each represents and warrants to the other that no information furnished by it in connection with such actions or otherwise in connection with the consummation of the transactions contemplated by this Agreement will contain any untrue statement of a material fact or omit to state a material fact required to be stated in order to make any information so furnished, in light of the circumstances under which it is so furnished, not misleading.

(c) Assuming the requisite amount of Parent Common Stock is issued in the Merger, no party to this Agreement knows of any fact or has taken, or will take, any action that could reasonably be expected to prevent the Merger from qualifying as a reorganization within the meaning of Section 368(a) of the Code.

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(d) The Company will use all reasonable best efforts to cause the Proxy Materials to be mailed to the Company s stockholders as promptly as practicable after the Registration Statement is declared effective under the Securities Act. The Company shall promptly furnish to Parent all information concerning the Company, its Subsidiaries and the Company s stockholders that may be required or reasonably requested in connection with any action contemplated by this Section 6.1. If any event relating to the Company occurs that is required to be disclosed in an amendment or supplement to the Registration Statement or the Proxy Materials, or if the Company becomes aware of any information that is required to be disclosed in an amendment or supplement to the Registration Statement or the Proxy Materials, then the Company shall promptly inform Parent thereof and shall cooperate with Parent in filing such amendment or supplement with the SEC and, if appropriate, in mailing such amendment or supplement to the stockholders of the Company. If any event relating to Parent or any of its Subsidiaries occurs that is required to be disclosed in an amendment or supplement to the Registration Statement or the Proxy Materials, or if Parent becomes aware of any information that is required to be disclosed in an amendment or supplement to the Registration Statement or the Proxy Materials, then Parent shall promptly inform the Company thereof and shall cooperate with the Company in filing such amendment or supplement with the SEC.

(e) The Company and Parent will cooperate with one another in preparing and filing all necessary documentation to effect any other applications, notices, petitions and filings, and to obtain as promptly as practicable, all permits, consents, approvals and authorizations of all other third Parties and Governmental Entities which are necessary or advisable to consummate the transactions contemplated by this Agreement. The Company and Parent shall have the right to review in advance, and to the extent practicable each will consult the other on, in each case subject to applicable laws relating to the exchange of information, all the information relating to the Company or Parent, as the case may be, which appears in any filing made with, or written materials submitted to, any third party or any Governmental Entity in connection with the transactions contemplated by this Agreement; provided, however, that nothing contained herein shall be deemed to provide either party with a right to review any information provided by the other party to any Governmental Entity on a confidential basis in connection with the transactions contemplated hereby. In exercising the foregoing right, each of the Parties shall act reasonably and as promptly as practicable. The Parties agree that they will consult with each other with respect to the obtaining of all permits, consents, approvals and authorizations of all third Parties and Governmental Entities necessary or advisable to consummate the transactions contemplated by this Agreement and each of the Parties will keep the other apprised of the status of matters relating to contemplation of the transactions contemplated herein.

(i) The Company shall, upon request, furnish Parent with all information concerning the Company and its directors, officers and stockholders and such other matters as may be reasonably necessary in connection with any statement, filing, notice or application made by or on behalf of Parent to any Governmental Entity in connection with the Merger or the other transactions contemplated by this Agreement

(ii) Parent, Merger Sub and the Company shall promptly advise each other upon receiving any communication from any Governmental Entity whose consent or approval is required for consummation of the transactions contemplated by this Agreement.

6.2 *Access to Information.*

(a) Upon reasonable notice and subject to applicable Laws relating to the exchange of information, the Company shall accord to the officers, employees, accountants, counsel and other representatives of Parent, access, during normal business hours during the period prior to the Effective Time, to all its properties, books, contracts, commitments and records.

(b) No investigation by either of the Parties or their respective representatives shall affect the representations and warranties of the other set forth herein.

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6.3 *Stockholder Meeting*

The Company shall take all reasonable steps necessary to duly call, give notice of, convene and hold a meeting of its stockholders promptly after the date of this Agreement for the purpose of voting upon the approval of this Agreement and the Merger (the **Company Stockholders Meeting**). Management and the Board of Directors of the Company shall recommend to the Company s stockholders approval of this Agreement, including the Merger, and the transactions contemplated hereby, together with any matters incident thereto, and shall oppose any third party proposal or other action that is inconsistent with this Agreement or the consummation of the transactions contemplated hereby; provided, however, that the Company shall not be obligated to recommend or oppose, as the case may be, if the Board of Directors of the Company determines in good faith, after the receipt of advice from counsel, that such recommendation or opposition, as the case may be, would result in a breach of its fiduciary duties under applicable Delaware law.

6.4 *Legal Conditions to Merger.*

Each of Parent and the Company shall use their reasonable best efforts (a) to take, or cause to be taken, all actions necessary, proper or advisable to comply promptly with all legal requirements which may be imposed on such party with respect to the Merger and, subject to the conditions set forth in Article VII hereof, to consummate the transactions contemplated by this Agreement and (b) to obtain (and to cooperate with the other party to obtain) any consent, authorization, order or approval of, or any exemption by, any Governmental Entity and any other third party which is required to be obtained by the Company or Parent in connection with the Merger and the other transactions contemplated by this Agreement.

6.5 *Employees.*

(a) To the extent permissible under the applicable provisions of the Code and ERISA, for purposes of crediting periods of service for eligibility to participate and vesting, but not for benefit accrual purposes, under the Section 401(k) plan maintained by Parent, as applicable, individuals who are employees of the Company at the Effective Time and who become eligible to participate in such plans will be credited with periods of service with the Company before the Effective Time as if such service had been with Parent, as applicable.

(b) If required by Parent in writing delivered to the Company not less than five business days before the Closing Date, the Company shall, on or after the Closing Date, (i) terminate any Plan that includes a qualified cash or deferred arrangement within the meaning of Code Section 401(k) (collectively, the **401(k) Plans**) and no further contributions shall be made to any 401(k) Plan after such termination, or (ii) freeze the 401(k) Plans and no further contributions shall be made to any 401(k) Plan after such freeze, or (iii) cause the 401(k) Plans to be merged in to the Parent 401(k) Plan as soon as administratively possible after the Closing Date and the participants of the 401(k) Plans shall be governed by the Parent 401(k) Plan. The Company shall provide to Parent (i) certified copies of resolutions adopted by the Board of Directors of the Company, as applicable, authorizing such termination and (ii) an executed amendment to each 401(k) Plan in form and substance reasonably satisfactory to Parent to conform the plan document for such Plan with all applicable requirements of the Code and regulations thereunder relating to the tax-qualified status of such Plan. To the extent the applicable 401(k) Plan has been amended pursuant to this section, Parent will not be obligated to make any matching or other employer contributions to any 401(k) Plan after the Merger.

(c) After the Effective Time, except to the extent that Parent or its Subsidiaries continues Plans in effect, employees of the Company who become employed by Parent or any of its Subsidiaries will be eligible for employee benefits that Parent or such Subsidiary, as the case may be, provides to its employees generally and, except as otherwise required by this Agreement, on substantially the same basis as is applicable to such employees, provided that nothing in this Agreement shall require any duplication of benefits. Parent will or will cause its Subsidiaries to give credit to employees of the Company, with respect to the satisfaction of the limitations as to pre-existing condition exclusions and waiting periods for

participation and coverage that are applicable under the employee welfare benefit plans (within the meaning of Section 3(1) of ERISA) of Parent and credit employees of the Company with an amount equal to the credit that any such employee had received as of the Effective Time towards the satisfaction of any co-insurance, co-payment, deductible or out-of-pocket limit under the comparable employee welfare benefit plans of the Company.

(d) After the Merger, Parent and each relevant Parent Subsidiary will honor, without modification, and perform the obligations of the Company under, the contracts, plans and arrangements listed in Sections 6.5(d) and 3.11 of the Company Disclosure Schedule.

(e) If an employee of the Company as of immediately prior to the Effective Time has his or her employment terminated by Parent or any of its Subsidiaries, such terminated employees shall be entitled to severance benefits from Parent and its Subsidiaries, to the extent such employee is not entitled to receive severance benefits from the Company, in accordance with the severance plans and policies of Parent and its Subsidiaries, as in effect from time to time thereafter for similarly situated employees.

6.6 *Subsequent Financial Statements.*

As soon as reasonably available, but in no event more than thirty (30) days after the end of each month, the Company will deliver to Parent the unaudited financial statements of the Company as of the end of each such month.

6.7 *Additional Agreements.*

In case at any time after the Effective Time any further action is necessary or desirable to carry out the purposes of this Agreement, or to vest the Surviving Corporation with full title to all properties, assets, rights, approvals, immunities and franchises of any of the Parties to the Merger, the proper officers and directors of each of Parent and the Company shall take all such necessary action as may be reasonably requested by Parent.

6.8 *Advice of Changes.*

Parent and the Company shall promptly advise each other of any change or event that, individually or in the aggregate, has or would likely have a Material Adverse Effect on it or to cause or constitute a material breach of any of its representations, warranties or covenants contained herein. From time to time prior to the Effective Time, each party will promptly supplement or amend its disclosure schedule delivered in connection with the execution of this Agreement to reflect any matter which, if existing, occurring or known at the date of this Agreement, would have been required to be set forth or described in such disclosure schedule or which is necessary to correct any information in such disclosure schedule which has been rendered inaccurate thereby. No supplement or amendment to such disclosure schedule shall have any effect for the purpose of determining satisfaction of the conditions set forth in Sections 7.2(a) or 7.3(a) hereof, as the case may be.

6.9 *Current Information.*

During the period from the date of this Agreement to the Effective Time, each of Parent and the Company will cause one or more of its designated representatives to confer on a regular and frequent basis (not less than semi-monthly) with representatives of the other Party and to report the general status of their respective ongoing operations. Parent and the Company will promptly notify each other of any material change in the normal course of business or in the operation of their properties and of any governmental complaints, investigations or hearings (or communications indicating that the same may be contemplated), or the institution or the threat of litigation involving Parent and the Company, and will keep each other fully informed of such events.

6.10 *Execution of the Certificate of Merger.*

Prior to the Effective Time, Parent, Merger Sub and the Company each shall execute and deliver the Certificate of Merger in a form reasonably satisfactory to the Parties.

6.11 *Indemnification and Insurance.*

(a) In the event of any threatened or actual claim, action, suit, proceeding or investigation, whether civil, criminal or administrative, in which any person who is now, or has been at any time prior to the date of this Agreement, or who becomes prior to the Effective Time, a director or officer or employee of the Company (the **Indemnified Parties**) is, or is threatened to be, made a party based in whole or in part on, or arising in whole or in part out of, or pertaining to (i) the fact that he is or was a director, officer or employee of the Company or any of its predecessors or (ii) this Agreement or any of the transactions contemplated hereby, whether in any case asserted or arising before or after the Effective Time, the Parties agree to cooperate and defend against and respond thereto to the extent permitted by applicable law and the certificate of incorporation and bylaws of the Company. It is understood and agreed that after the Effective Time, Parent and Surviving Corporation shall indemnify and hold harmless, as and to the fullest extent permitted by applicable law and the certificate of incorporation and bylaws of the Company as in effect immediately prior to the Effective Time, each such Indemnified Party against any losses, claims, damages, liabilities, costs, expenses (including reasonable attorney s fees and expenses in advance of the final disposition of any claim, suit, proceeding or investigation to each Indemnified Party to the fullest extent permitted by law upon receipt of any undertaking required by applicable law), judgments, fines and amounts paid in settlement (**Damages**) in connection with any such threatened or actual claim, action, suit, proceeding or investigation, and in the event of any such threatened or actual claim, action, suit, proceeding or investigation (whether asserted or arising before or after the Effective Time), the Indemnified Parties may retain counsel reasonably satisfactory to Parent; provided, however, that (1) Parent shall have the right to assume the defense thereof and upon such assumption Parent shall not be liable to any Indemnified Party for any legal expenses of other counsel or any other expenses subsequently incurred by any Indemnified Party in connection with the defense thereof, except that if Parent elects not to assume such defense or counsel for the Indemnified Parties reasonably advises the Indemnified Parties that there are issues which raise conflicts of interest between Parent and the Indemnified Parties, the Indemnified Parties may retain counsel reasonably satisfactory to Parent, and Parent shall pay the reasonable fees and expenses of such counsel for the Indemnified Parties, (2) Parent shall be obligated pursuant to this paragraph to pay for only one counsel for each Indemnified Party, (3) Parent shall not be liable for any settlement effected without its prior written consent (which consent shall not be unreasonably withheld or delayed), and (4) Parent shall not be obligated pursuant to this paragraph to the extent that a final judgment determines that any Damages are as a result of the gross negligence or willful misconduct or result from a decision made by the Indemnified Party when the Indemnified Party had no good faith belief that he or she was acting in the best interests of the Company. Any Indemnified Party wishing to claim indemnification under this Section 6.11, upon learning of any such claim, action, suit, proceeding or investigation, shall notify Parent thereof; provided, however, that the failure to so notify shall not affect the obligations of Parent under this Section 6.11 except to the extent such failure to notify materially prejudices Parent. Parent s obligations under this Section 6.11 continue in full force and effect for a period of five years from the Effective Time; provided, however, that all rights to indemnification in respect of any claim asserted or made within such period shall continue until the final disposition of such claim.

If Parent or any of its successors or assigns shall consolidate with or merge into any other entity and shall not be the continuing or surviving entity of such consolidation or merger or shall transfer all or substantially all of its assets to any entity, then and in each case, the successors and assigns of Parent shall assume the obligations set forth in this Section 6.11.

(b) Company shall purchase for the benefit of the persons serving as executive officers and directors of the Company immediately prior to the Effective Time, directors and officers liability insurance coverage for five years after the Effective Time, under either Company s policy in existence on the date hereof, or under a policy of similar coverage and amounts containing terms and conditions which are generally not less advantageous than the Company s current policy, and in either case, with respect to acts or omissions occurring prior to the Effective Time which were committed by such executive officers and

directors in their capacity as such (**Tail Insurance**). Company shall not purchase Tail Insurance with a premium of more than $250,000.

6.12 *Takeover Statute.*

If any fair price, moratorium, control share acquisition or other form of antitakeover statute or regulation shall become applicable to the transactions contemplated hereby, each of the Company and Parent and the members of their respective Boards of Directors shall grant such approvals and take such actions as are reasonably necessary so that the transactions contemplated hereby may be consummated as promptly as practicable on the terms contemplated hereby and otherwise act to eliminate or minimize the effects of such statute or regulation on the transactions contemplated hereby.

6.13 *Accountants Comfort Letters.*

The Company and Parent will each use reasonable best efforts to cause to be delivered to each other letters from their respective independent accountants, dated a date within two business days before the date of the Registration Statement, in form reasonably satisfactory to the recipient and customary in scope for comfort letters delivered by independent accountants in connection with registration statements on Form S-4 under the Securities Act.

6.14 *Additional Reports.*

The Company and Parent shall each furnish to the other copies of any reports of the type referred to in Sections 3.5 and 4.8 that it files with the SEC on or after the date hereof, and each of the Company and Parent, as the case may be, represents and warrants that as of the respective dates thereof, such reports will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. Any unaudited consolidated interim financial statements included in such reports (including any related notes and schedules) will fairly present the financial position of the Company or Parent and its consolidated Subsidiaries, as the case may be, as of the dates thereof and the results of operations and changes in financial position or other information included therein for the periods or as of the date then ended (subject, where appropriate, to normal year-end adjustments), in each case in accordance with past practice and GAAP consistently applied during the periods involved (except as otherwise disclosed in the notes thereto).

6.15 *Delisting of Company Common Stock.*

Parent, Merger Sub and Company agree that the delisting of Company Common Stock from the Nasdaq Stock Market on December 20, 2005 shall not be deemed a breach by the Company of any provision of this Agreement, and such delisting shall not be deemed a Material Adverse Effect.

6.16 *Stockholders Agreement.*

Concurrently with the execution and delivery of this Agreement, each of the Company s directors shall execute and deliver the Stockholder Agreement.

ARTICLE VII

CONDITIONS PRECEDENT

7.1 *Conditions to Each Party s Obligation To Effect the Merger.*

The respective obligation of each party to effect the Merger shall be subject to the satisfaction at or prior to the Effective Time of the following conditions:

(a) *Stockholder Approvals.* This Agreement and the Merger shall have been approved and adopted by the affirmative vote of the holders of at least a majority of the outstanding shares of the Company Common Stock entitled to vote thereon.

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(b) *No Injunctions or Restraints; Illegality.* No order, injunction or decree issued by any court or agency of competent jurisdiction or other legal restraint or prohibition preventing the consummation of the Merger or any of the other transactions contemplated by this Agreement shall be in effect. No statute, rule, regulation, order, injunction or decree shall have been enacted, entered, promulgated or enforced by any Governmental Entity which prohibits, restricts or makes illegal consummation of the Merger.

(c) *Registration Statement.* The Registration Statement shall have been declared effective in accordance with the provisions of the Securities Act and no stop order suspending such effectiveness shall have been issued and remain in effect.

7.2 *Conditions to Obligations of Parent.*

The obligation of Parent and Merger Sub to effect the Merger is also subject to the satisfaction or waiver by Parent at or prior to the Effective Time of the following conditions:

(a) *Representations and Warranties.* The representations and warranties of the Company set forth in this Agreement that are qualified as to materiality or words of similar import shall be true and correct in all respects, and those not so qualified shall be true and correct in all material respects, as of the date of this Agreement and (except to the extent such representations and warranties speak as of an earlier date) as of the Closing Date as though made on and as of the Closing Date; provided, however, that for purposes of this paragraph, all such representations and warranties shall be deemed to be true and correct unless the failure or failures of such representations and warranties to be so true and correct in all material respects or true and correct in all respects, as the case may be, either individually or in the aggregate, will likely have a Material Adverse Effect on the Company. Parent shall have received a certificate signed on behalf of the Company by each of the Interim Chief Executive Officer and the Interim Chief Financial Officer of the Company to the foregoing effect.

(b) *Performance of Covenants and Agreements of the Company.* The Company shall have performed in all material respects all covenants and agreements required to be performed by it under this Agreement at or prior to the Closing Date, except where failure to perform would not likely have a Material Adverse Effect on Company. Parent shall have received a certificate signed on behalf of the Company by each of the Interim Chief Executive Officer and the Interim Chief Financial Officer of the Company to such effect.

(c) *Consents under Agreements.* The consent, approval or waiver of each person whose consent or approval shall be required in order to permit the succession by the Surviving Corporation pursuant to the Merger to any obligation, right or interest of the Company under any Company Contract shall have been obtained except for those, the failure of which to obtain, will not likely have a Material Adverse Effect on the Company or the Surviving Corporation.

(d) *No Material Adverse Change.* There shall have been no changes in the business, operations, condition (financial or otherwise), assets or liabilities of the Company (regardless of whether or not such events or changes are inconsistent with the representations and warranties given herein) that individually or in the aggregate has had or would likely have a Material Adverse Effect on the Company.

(e) *Stockholder Agreements.* Each Stockholder Agreement shall remain in full force and effect.

(f) *Dissenter or Appraisal Rights.* To the extent available to the holders of the Company Common Stock in connection with the Merger, holders of not more than ten (10%) of the Company Common Stock shall have exercised and not withdrawn prior to the Effective Time dissenter s or appraisal rights.

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7.3 *Conditions to Obligations of the Company.*

The obligation of the Company to effect the Merger is also subject to the satisfaction or waiver by the Company at or prior to the Effective Time of the following conditions:

(a) *Representations and Warranties.* The representations and warranties of Parent and Merger Sub set forth in this Agreement that are qualified as to materiality or words of similar import shall be true and correct in all respects, and those not so qualified shall be true and correct in all material respects, as of the date of this Agreement and (except to the extent such representations and warranties speak as of an earlier date) as of the Closing Date as though made on and as of the Closing Date; provided, however, that for purposes of this paragraph, such representations and warranties shall be deemed to be true and correct unless the failure or failures of such representations and warranties to be so true and correct in all material respects or true and correct in all respects, as the case may be, either individually or in the aggregate, will likely have a Material Adverse Effect on Parent. The Company shall have received a certificate signed on behalf of both Parent and Merger Sub by each of the President or any Executive Vice President and the Chief Financial Officer or Treasurer of Parent to the foregoing effect.

(b) *Performance of Covenants and Agreements of Parent.* Parent shall have performed in all material respects all covenants and agreements required to be performed by it under this Agreement at or prior to the Closing Date, except where failure to perform would not likely have a Material Adverse Effect on Parent. The Company shall have received a certificate signed on behalf of both Parent by each of the President or any Executive Vice President and the Chief Financial Officer or Treasurer of Parent to such effect.

(c) *Consents under Agreements.* The consent or approval or waiver of each person (other than the Governmental Entities referred to in Section 7.1(b)) whose consent or approval shall be required in connection with the transactions contemplated hereby under any loan or credit agreement, note, mortgage, indenture, lease, license or other agreement or instrument to which Parent is a party or is otherwise bound shall have been obtained, except where failure to obtain such consent, approval or waiver would not likely have a Material Adverse Effect on Parent.

(d) *No Material Adverse Change.* There shall have been no changes in the business, operations, condition (financial or otherwise), assets or liabilities of the Parent regardless of whether or not such events or changes are inconsistent with the representations and warranties given herein) that individually or in the aggregate has had or would likely have a Material Adverse Effect on Parent.

(e) *Contingent Value Rights.* Parent shall have entered into the Contingent Value Rights Agreement with respect to the CVRs.

(f) *Conversion of Series C Preferred Stock.* All issued and outstanding shares of Series C Preferred Stock of the Parent shall have converted to shares of Parent Common Stock.

(g) *Parent Closing Date Price.* The Parent Closing Date Price shall equal or exceed one dollar ($1.00).

ARTICLE VIII

TERMINATION AND AMENDMENT

8.1 *Termination.*

This Agreement may be terminated at any time prior to the Effective Time, whether before or after approval by the stockholders of the Company of the matters presented in connection with the Merger:

(a) by mutual consent of Parent and the Company in a written instrument, if the Board of Directors of each so determines by a vote of a majority of the members of its entire Board;

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(b) by either Parent or the Company upon written notice to the other party (i) 30 days after the date on which any request or application for a regulatory approval shall have been denied or withdrawn at the request or recommendation of the Governmental Entity which must grant such regulatory approval, unless within the 30-day period following such denial or withdrawal the Parties agree to file, and have filed with the applicable Governmental Entity, a petition for rehearing or an amended application; provided, however, that no party shall have the right to terminate this Agreement pursuant to this Section 8.1(b), if such denial or request or recommendation for withdrawal shall be due to the failure of the party seeking to terminate this Agreement to perform or observe the covenants and agreements of such party set forth herein;

(c) by either Parent or the Company if the Merger shall not have been consummated on or before July 31, 2006, unless the failure of the Closing to occur by such date shall be due to the failure of the party seeking to terminate this Agreement to perform or observe the covenants and agreements of such party set forth herein;

(d) by either Parent or the Company (provided that the terminating party is not in breach of its obligations under Section 6.3 hereof) if the approval of the stockholders of the Company hereto required for the consummation of the Merger shall not have been obtained by reason of the failure to obtain the required vote at a duly held Company Stockholders Meeting or at any adjournment or postponement thereof;

(e) by either Parent or the Company (provided that the terminating party is not then in breach of any representation, warranty, covenant or other agreement contained herein that, individually or in the aggregate, would give the other party the right to terminate this Agreement) if there shall have been a breach of any of the representations or warranties set forth in this Agreement on the part of the other party, if such breach, individually or in the aggregate, has had or is likely to have a Material Adverse Effect on the breaching party, and such breach shall not have been cured within 30 days following receipt by the breaching party of written notice of such breach from the other party hereto or such breach, by its nature, cannot be cured prior to the Closing;

(f) by either Parent or the Company (provided that the terminating party is not then in breach of any representation, warranty, covenant or other agreement contained herein that, individually or in the aggregate, would give the other party the right to terminate this Agreement) if there shall have been a breach of any of the covenants or agreements set forth in this Agreement on the part of the other party, if such breach, individually or in the aggregate, has had or is likely to have a Material Adverse Effect on the breaching party, and such breach shall not have been cured within 30 days following receipt by the breaching party of written notice of such breach from the other party hereto or such breach, by its nature, cannot be cured prior to the Closing;

(g) by Parent, if the management of the Company or its Board of Directors, for any reason, (i) fails to call and hold a Company Stockholders Meeting to consider and approve this Agreement and the transactions contemplated hereby, (ii) fails to recommend to stockholders the approval of this Agreement and the transactions contemplated hereby, (iii) fails to oppose any third party proposal that is inconsistent with the transactions contemplated by this Agreement other than as expressly permitted by Section 5.4 of this Agreement, or (iv) violates Section 5.4 of this Agreement;

(h) by Parent or the Company if the Company has complied with Section 5.4 above, and has given written notice to Parent that the Company has agreed to enter into a Company Superior Proposal; provided, however, that such termination under this Section 8.1(h) shall not be effective unless and until the Company shall have complied with breakup fee provisions of Section 8.2 below.

(i) by Company, if all of the holders of the Series C Preferred Stock do not convert all such stock to Parent Common Stock prior to the Company Stockholders Meeting;

8.2 *Effect of Termination; Termination Fee.*

(a) Except as set forth in this Section 8.2, in the event of termination of this Agreement by either Parent or the Company as provided in this Article VIII, this Agreement shall forthwith become void and there shall be no liability or obligation on the part of the Parties or their respective affiliates, officers, directors or stockholders except (x) with respect to the treatment of confidential information, the payment of expenses pursuant to Section 9.2, and Article IX generally, (y) to the extent that such termination results from the willful breach of a Party of any of its representations or warranties, or any of its covenants or agreements or (z) intentional or knowing misrepresentation in connection with this Agreement or the transactions contemplated hereby.

(b) In the event that (i)(1) a Company Acquisition Proposal or the intention to make a Company Acquisition Proposal shall have been made directly to the stockholders of the Company generally or otherwise publicly announced by the Company or the Person making such Company Acquisition Proposal, (2) such Company Acquisition Proposal or intention is not irrevocably and publicly withdrawn prior to the vote of the Company stockholders at the duly held Company Stockholders Meeting, and (3) this Agreement is terminated by either the Company or Parent (x) pursuant to Section 8.1(c) [drop dead date] due to the Company Stockholders Meeting not occurring as a result of such Company Acquisition Proposal or (y) Section 8.1(d) [Company stockholder disapproval], (ii) this Agreement is terminated by Parent pursuant to Section 8.1(g) [Company Board withdraws recommendation] or (iii) this Agreement is terminated by either the Company or Parent pursuant to Section 8.1(h) [Company Superior Proposal], then the Company shall promptly, but in no event later than the date of such termination, pay Parent a fee equal to $300,000 (the **Company Termination Fee**), payable by wire transfer of same day funds. The Company acknowledges that the agreements contained in this Section 8.2(b) are an integral part of the transactions contemplated by this Agreement, and that, without these agreements, Parent would not enter into this Agreement, and accordingly, if the Company fails promptly to pay the amount due pursuant to this Section 8.2(b), and, in order to obtain such payment, Parent commences a suit which results in a judgment against the Company for the fee set forth in this Section 8.2(b), the Company shall pay to Parent its costs and expenses (including reasonable attorneys fees and expenses) in connection with such suit, together with interest on the amount of the fee at the prime rate of Citibank, N.A. in effect on the date such payment was required to be made.

(c) If this Agreement is terminated under circumstances in which the Parent is entitled to receive a Company Termination Fee, the payment of such Company Termination Fee shall be the sole and exclusive remedy available to such party, except in the event of (x) a willful breach by the other party of any provision of this Agreement or (y) the intentional or knowing misrepresentation in connection with this Agreement or the transactions contemplated hereby, in which event the non-breaching Party shall have all rights, powers and remedies against the breaching Party which may be available at law or in equity. All rights, powers and remedies provided under this Agreement or otherwise available in respect hereof at law or in equity shall be cumulative and not alternative, and the exercise of any such right, power or remedy by any Party shall not preclude the simultaneous or later exercise of any other such right, power or remedy by such Party.

(d) In the event that this Agreement is terminated by the Company pursuant to Section 8.1(i), within ten (10) days of such termination, Parent shall pay Company its reasonable documented out-of-pocket expenses incurred in connection with this Agreement and the transactions contemplated hereby, including all professional fees, as well as a fee, in the nature of liquidated damages, in the amount of $50,000.

8.3 *Amendment.*

Subject to compliance with applicable law, this Agreement may be amended by the Parties, by action taken or authorized by their respective Board of Directors, at any time before or after approval of the matters presented in connection with the Merger by the stockholders of the Company; provided, however, that after any approval of the transactions contemplated by this Agreement by the Company s stockholders, there may not be, without further approval of such stockholders, any amendment of this

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Agreement which reduces the amount or changes the form of the consideration to be delivered to the Company stockholders hereunder other than as contemplated by this Agreement. This Agreement may not be amended except by an instrument in writing signed on behalf of each of the Parties.

8.4 *Extension; Waiver.*

At any time prior to the Effective Time, the Parties, by action taken or authorized by their respective Boards of Directors, may, to the extent legally allowed, (a) extend the time for the performance of any of the obligations or other acts of the other Parties, (b) waive any inaccuracies in the representations and warranties contained herein or in any document delivered pursuant hereto, and (c) waive compliance with any of the agreements or conditions contained herein. Any agreement on the part of a party hereto to any such extension or waiver shall be valid only if set forth in a written instrument signed on behalf of such Party, but such extension or waiver or failure to insist on strict compliance with an obligation, covenant, agreement or condition shall not operate as a waiver of, or estoppel with respect to, any subsequent or other failure.

ARTICLE IX
GENERAL PROVISIONS

9.1 *Nonsurvival of Representations, Warranties and Agreements.*

The respective representations and warranties made by the Company, Parent and Merger Sub in this Agreement or in any instrument delivered pursuant to this Agreement shall not survive the Effective Time and no Person shall have any liability or obligation in connection with any such representation or warranty following the Effective Time.

9.2 *Expenses.*

All costs and expenses incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the party incurring such expense. The Registration Statement filing fee shall be borne by Parent and the cost of printing the Registration Statement and the Proxy Materials shall be borne seventy-five percent (75%) by Parent and twenty-five percent (25%) by the Company.

9.3 *Notices.*

All notices and other communications hereunder shall be in writing and shall be deemed given if delivered personally, mailed by registered or certified mail (return receipt requested), or if sent by facsimile or delivered by an express courier (with confirmation) to the Parties at the following addresses (or at such other address for a party as shall be specified by like notice):

(a) if to Parent and Merger Sub, to:

Halo Technology Holdings
200 Railroad Avenue, Third Floor
Greenwich, Connecticut 06830
Attn: Ernest (JR) Mysogland
Tel: (203) 422-2950
Fax: (203) 422-5329

with a copy (which shall not constitute notice) to:

Bell, Boyd & Lloyd LLC
70 W. Madison Street, Suite 3100
Chicago, Illinois 60602
Attn: Merrick D. Hatcher
Tel: (312) 807-4433
Fax: (312) 827-8036

and

(b) if to Company, to:
InfoNow Corporation
1875 Lawrence Street, Suite 1100
Denver, Colorado 80202
Attn: Harry R. Herbst
Tel: (303) 293-0212
Fax: (303) 293-0213
with a copy (which shall not constitute notice) to:
Hogan & Hartson L.L.P.
One Tabor Center
1200 Seventeenth Street, Suite 1500
Denver, Colorado 80202
Attn: Robert Mintz, Esq.
Tel: (303) 899-7399
Fax: (303) 899-7333

9.4 *Interpretation.*

When a reference is made in this Agreement to Sections, Exhibits or Schedules, such reference shall be to a Section of or an Exhibit or Schedule to this Agreement unless otherwise indicated. The table of contents and headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Whenever the words include , includes or including are used in this Agreement, they shall be deemed to be followed by the words without limitation .

9.5 *Counterparts.*

This Agreement may be executed in counterparts, all of which shall be considered one and the same agreement and shall become effective when counterparts have been signed by each of the Parties and delivered to the other Parties, it being understood that all Parties need not sign the same counterpart. A facsimile or electronic transmission of a signed counterpart of this Agreement shall be sufficient to bind the party or Parties whose signature(s) appear thereon.

9.6 *Entire Agreement.*

This Agreement (including the disclosure schedules, documents and the instruments referred to herein) constitutes the entire agreement and supersedes all prior agreements and understandings, both written and oral, among the Parties with respect to the subject matter hereof, other than the Confidentiality Agreement by and among Parent and the Company, dated as of September 26, 2005 (which shall survive the execution and termination of this Agreement).

9.7 *Governing Law.*

This Agreement shall be governed and construed in accordance with the laws of the State of Delaware, without regard to any applicable conflicts of law rules.

9.8 *Enforcement of Agreement.*

The Parties agree that irreparable damage would occur in the event that the provisions of this Agreement were not performed in accordance with its specific terms or were otherwise breached. It is accordingly agreed that the Parties shall be entitled to an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions thereof in any court of the United States or any state having jurisdiction, this being in addition to any other remedy to which they are entitled at law or in equity.

9.9 *Severability.*

Any term or provision of this Agreement which is invalid or unenforceable in any jurisdiction shall, as to that jurisdiction, be ineffective to the extent of such invalidity or unenforceability without rendering invalid or unenforceable the remaining terms and provisions of this Agreement or affecting the validity or enforceability of any of the terms or provisions of this Agreement in any other jurisdiction. If any provision of this Agreement is so broad as to be unenforceable, the provision shall be interpreted to be only so broad as is enforceable.

9.10 *Publicity.*

Except as otherwise required by law or the rules of the Nasdaq Stock Market National Market System (or such other exchange on which the Company Common Stock or the Parent Common Stock is or may become listed), so long as this Agreement is in effect, neither Parent nor the Company shall, or shall permit any of Parent s Subsidiaries to, issue or cause the publication of any press release or other public announcement with respect to, or otherwise make any public statement concerning, the transactions contemplated by this Agreement, without the consent of the other party, which consent shall not be unreasonably withheld or delayed.

9.11 *Assignment; Limitation of Benefits.*

Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by any of the Parties (whether by operation of law or otherwise) without the prior written consent of the other Parties. Subject to the preceding sentence, this Agreement will be binding upon, inure to the benefit of and be enforceable by the Parties and their respective successors and assigns. Except for Section 6.11, this Agreement (including the documents and instruments referred to herein) is not intended to confer upon any person other than the Parties any rights or remedies hereunder, and the covenants, undertakings and agreements set out herein shall be solely for the benefit of, and shall be enforceable only by, the Parties hereto and their permitted assigns.

9.12 *Additional Definitions.*

In addition to any other definitions contained in this Agreement, the following words, terms and phrases shall have the following meanings when used in this Agreement.

Aggregate Cash Payment means a cash amount, determined no less than three days prior to the Closing, equal to the lesser of (i) the Company s cash on hand on the date of determination or (ii) the excess of the Company s Current Assets minus its Current Liabilities each determined on such date.

Cash Payment means the amount equal to the Aggregate Cash Payment divided by the number of Fully Diluted Shares.

Common Stock Options means all options to acquire Company Common Stock with a per share exercise price less than seventy-one cents ($0.71).

Common Stock Option Holders means the holders of Common Stock Options.

Company Intellectual Property means any Intellectual Property that is owned by or licensed to the Company, including the Company Software.

Company Licensed Software means all third party Software used by the Company.

Company Proprietary Software means all Software owned by the Company.

Company Registered Intellectual Property means all of the Registered Intellectual Property owned by or filed in the name of the Company.

Company Software means the Company Licensed Software and the Company Proprietary Software.

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Confidential Information means any data or information of the Company (including trade secrets) that is valuable to the operation of the Company s business and not generally known to the public or competitors.

Contingent Value Right or CVR means a transferable right issued pursuant to the Contingent Value Rights Agreement in certificated form. Under the terms of the Contingent Value Rights Agreement, each share of Parent Common Stock issued in the Merger will be accompanied by a CVR that is separately transferable from the Parent Common Stock. If the CVR Payment Date occurs prior to the CVR Termination Date, each holder of a CVR will receive the CVR Payment. If the CVR Termination Date occurs prior to the CVR Payment Date, the CVRs will expire without payment.

Contingent Value Rights Agreement means a Contingent Value Rights Agreement in such form and substance as is reasonably satisfactory to the Company to be entered into by Parent and its stock transfer agent (or other trustee reasonably satisfactory to the Company).

Current Assets means the current assets of the Company determined in accordance with GAAP and the historical accounting practices of the Company, including such amounts as cash and cash equivalents, accounts receivable and prepaid expenses and other current assets.

Current Liabilities means the current liabilities of the Company determined in accordance with GAAP and the historical accounting practices of the Company, including such amounts as accounts payable, payroll related liabilities and other current liabilities, and specifically excluding any amounts attributable to deferred revenue and prepaid service fees. Without limiting the generality of the foregoing, Current Liabilities will include (i) an accrual for the cost of the Tail Insurance if not paid prior to the calculation of the Aggregate Cash Payment; (ii) an accrual of $605,000 (with appropriate reduction for severance amounts actually paid prior to the calculation of the Aggregate Cash Payment) for severance obligations due under the Company s existing employment agreements with certain members of its senior management team (or such lesser amount as may be agreed to by the Parties prior to the Effective Time); and (iii) an accrual for the Company s legal fees, broker or investment banking fees, printing costs and all other transaction expenses associated with the Merger to the extent any of such expenses are not paid prior to the calculation of the Aggregate Cash Payment.

CVR Payment means, for each CVR, a cash payment equal to the amount by which the then-current market value of Parent Common Stock is less than Parent s Conversion Price on the CVR Payment Date (as adjusted for stock splits, stock dividends or reverse stock splits). For purposes of this calculation, then-current market value means the volume weighted average trading price for Parent Common Stock for the twenty (20) consecutive trading days immediately preceding the CVR Payment Date.

CVR Payment Date means the eighteen month anniversary date of the date of the Effective Time.

CVR Termination Date means the first date after the Effective Time, but prior to the CVR Payment Date, upon which the volume weighted average trading price of Parent Common Stock for each trading day in any forty-five (45) consecutive trading day period during which the average daily trading volume of the Parent Common Stock is not less than 200,000 shares is greater than or equal to 175% of the Parent s Conversion Price (as such price and trading volume are adjusted for stock splits, stock dividends or reverse stock splits).

Fully Diluted Shares means an amount equal to the sum of (a) the total number of shares of Common Stock outstanding immediately prior to the Effective Time, plus (b) the total number of shares of Company Common Stock that all Common Stock Options outstanding immediately prior to the Effective Time are exercisable into based on a cashless exercise with withholding of shares to pay the exercise price and without withholding of taxes.

GAAP means generally accepted accounting principles as applied in the United States of America.

HSR Act means the United States Hart-Scott Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations promulgated thereunder.

Intellectual Property means all intellectual property rights, including: (a) all United States and foreign patents and applications therefor and all reissues, divisions, renewals, extensions, provisionals and continuations thereof; (b) all inventions (whether patentable or not), invention disclosures, improvements, mask works, trade secrets, manufacturing processes, test and qualification processes, designs, schematics, proprietary information, know-how, technology, technical data and customer lists; (c) all works of authorship (whether copyrightable or not), copyrights, copyright registrations and applications therefor throughout the world; (d) all industrial designs and any registrations and applications therefor throughout the world; (e) all Software; and (f) all internet uniform resource locators, domain names, trade names, logos, slogans, designs, trade dress, common law trademarks and service marks, and trademark and service mark and trade dress registrations and applications therefor throughout the world.

Knowledge with respect to any entity, refers to the knowledge of such entity s directors and officers in the ordinary course of their duties in such positions without inquiry.

Laws means any and all statutes, laws, ordinances, rules, regulations, orders, permits, judgments, injunctions, decrees, case law and other rules of law enacted, promulgated or issued by any Governmental Entity.

Material Adverse Effect means with respect to Parent, Merger Sub or the Company, as the case may be, a condition, event, change or occurrence that is reasonably likely to have a material adverse effect upon (A) the financial condition, results of operations, securities, business or properties of Parent, Merger Sub or the Company, as the case may be, and its Subsidiaries taken as a whole (other than as a result of (i) any change, effect, event or occurrence relating to the United States economy or financial or securities markets in general, (ii) any change, effect, event or occurrence relating to the software applications industry to the extent not affecting such party to a materially greater extent than it affects other Persons in the software applications industry, (iii) any change, effect, event or occurrence relating to the announcement or performance of this Agreement and the transactions contemplated hereby, (iv) with respect to the Company or Parent, any change, effect, event or occurrence resulting from any action or omission taken with the prior consent of the other Party, and (v) effects arising from war or terrorism), or (B) the ability of Parent, Merger Sub or the Company to perform its obligations under, and to consummate the transactions contemplated by, this Agreement. Notwithstanding the foregoing, a delisting of the Company Common Stock from the Nasdaq Stock Market shall not be deemed a Material Adverse Effect.

Parent s Closing Date Price means the average closing price of Parent Common Stock as reported on the over-the-counter market for the twenty (20) consecutive trading days through and including the trading day two trading days prior to the Closing Date.

Parent s Conversion Price means the greater of (a) the Parent s Closing Date Price and (b) $1.00.

Per Common Stock Option Closing Merger Consideration means, with respect to each Common Stock Option, the amount, if any, by which (a)(i) the Per Share Equity Stock Closing Merger Consideration multiplied by (ii) the number of shares of Common Stock for which such Common Stock Option is exercisable immediately prior to the Effective Time pursuant to the Certificate of Incorporation exceeds (b) the aggregate per share exercise price of such Common Stock Option.

Per Share Equity Stock Closing Merger Consideration means an amount equal to (a) Seven Million Two Hundred Thousand Dollars ($7,200,000) divided by (b) the number of Fully Diluted Shares, which, as of the date of this Agreement, equals $0.70662. The determination of Fully Diluted Shares, Per Share Equity Stock Closing Merger Consideration and Per Common Stock Option Closing Merger Consideration is set forth on Schedule 1 attached hereto.

Permitted Liens means in the case of Intellectual Property, license agreements entered into in the ordinary course.

Person means any natural person, corporation, business trust, joint venture, association, company, firm, partnership or other entity or government or Governmental Entity.

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Registered Intellectual Property means all United States and foreign: (a) patents and patent applications (including provisional applications); (b) registered trademarks, service marks and trade dress, and applications to register trademarks, service marks and trade dress; (c) registered copyrights and applications to register copyrights; and (d) domain name registrations.

Series C Preferred Stock means the Parent s Series C Preferred Stock, par value of $.00001 per share.

Series D Preferred Stock means the Parent s Series D Preferred Stock, par value of $.00001 per share.

Software means all computer software programs, together with any error corrections, updates, modifications, or enhancements thereto, in both machine-readable form and human-readable form.

Stock Payment means the number of fully paid and non-assessable shares of Parent Common Stock equal to the quotient of (a) a fraction, the numerator of which is 7,200,000 minus the Aggregate Cash Payment, if any, and the denominator of which is the Parent s Conversion Price, divided by (b) the number of Fully Diluted Shares.

Stockholder Agreement means the Stockholder Agreements in the form of Exhibit A attached hereto between the Parent and each of the Company s directors.

Subsidiary with respect to any party means any corporation, partnership or other organization, whether incorporated or unincorporated, which is consolidated with such party for financial reporting purposes.

IN WITNESS WHEREOF, Parent, Merger Sub and the Company have caused this Agreement to be executed and delivered by their respective officers thereunto duly authorized as of the date first above written.

WARP TECHNOLOGY HOLDINGS, INC.,
operating under the name

HALO TECHNOLOGY HOLDINGS
By: /s/ Ernest Mysogland

Name: Ernest (JR) Mysogland
Title: Executive Vice President

WTH MERGER SUB, INC.
By: /s/ Ernest Mysogland

Name: Ernest (JR) Mysogland
Title: President and Sole Director

INFONOW CORPORATION
By: /s/ Jeffrey D. Peotter

Name: Jeffrey D. Peotter
Title: Chairman of the Board of Directors

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ANNEX C

[Q Advisors LLC Letterhead]

FAIRNESS OPINION LETTER

December 23, 2005
Board of Directors
InfoNow Corporation
Suite 1100
1875 Lawrence Street
Denver, CO 80202

Members of the Board of Directors:

You have requested our opinion as to the fairness, from a financial point of view, to the stockholders of InfoNow Corporation (the Company) of the Consideration (as defined below) to be paid to the Company s shareholders pursuant to the terms of that certain draft Agreement and Plan of Merger, dated as of December 22, 2005 (the Agreement), by and among the Company, Warp Technologies, Inc. (operating under the name Halo Technology Holdings) (Parent), and WTH Merger Sub, Inc. (Merger Sub).

As more specifically set forth in the Agreement, and subject to the terms, conditions and adjustments set forth therein, the Agreement provides for the acquisition of the Company by Parent through the merger (the Merger) of Merger Sub with and into the Company, with the Company as the surviving company as a wholly-owned subsidiary of Parent. In the Merger, among other things, the shares of common stock of the Company (Company Common Stock) outstanding as of the effective time of the Merger, other than shares held by the Company, Parent or affiliates of Parent, will be converted into the right to receive consideration as follows (the Consideration):

(1) An aggregate cash payment equal to the lesser of (a) the Company s cash balance at closing or (b) the amount of the Company s positive Net Working Capital (defined as Current Assets minus Current Liabilities (excluding Deferred Revenue and Prepaid Service Fees and including accruals for management severance obligations and transaction related expenses)) as measured two (2) days prior to close of the Merger (the Cash Consideration).

(2) An aggregate number of shares of Parent stock calculated as (i) $7.2 million, plus (ii) the aggregate exercise price of the Company s outstanding stock options, minus (iii) the amount of the Cash Consideration (the Stock Consideration). The Stock Consideration will be calculated using Parent s 20-day average stock trading price measured two (2) days prior to close of the Merger (subject to a minimum price of $1.00).

The per share consideration to be paid for each share of Company Common Stock shall be calculated by dividing the aggregate Cash Consideration and Stock Consideration by the number of the Company s fully diluted shares.

In addition, each share of Parent stock issued as Stock Consideration will be accompanied by a Contingent Value Right (CVR), entitling the CVR holder to receive cash for any negative difference between the Parent share price (i) at the 18 month anniversary of the close of the Merger and (ii) the value of each Parent share as of the time of closing, subject to certain expiration provisions.

Q Advisors LLC (Q Advisors), as part of its investment banking business, is continually engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, private placements and valuations for corporate and other purposes.

We have been engaged to act as exclusive financial advisor to the Board of Directors of the Company in connection with the Merger and to render to the Board of Directors of the Company in connection with

the Merger an opinion as to the fairness, from a financial point of view, to the stockholders of the Company, of the consideration to be received. We will receive a fee from the Company for providing these services, including this opinion, pursuant to the terms of our engagement letter with the Company, dated as of July 28, 2005. A significant portion of our fee is contingent upon the consummation of the Merger. Q Advisors in the ordinary course of business has from time to time provided, and in the future may continue to provide, investment banking services to the Company and has received fees for the rendering of such services.

In connection with our opinion, we have reviewed and considered such financial and other matters as we have deemed relevant, including, among other things:

A draft of the Agreement dated December 22, 2005 and drafts of Exhibits, thereto;

Certain publicly available information for the Company, including its annual reports filed on Form 10-K for each of the years ended December 31, 2003 and 2004, and its quarterly reports filed on Form 10-Q for each of the quarters ended March 31, June 30 and September 30, 2005 and certain other relevant financial and operating data furnished to Q Advisors by the Company s management;

Certain relevant financial and operating data for Parent furnished to Q Advisors by Parent management;

Certain financial forecasts, reports and other information concerning the both the Company (the Company Forecasts), and Parent (the Parent Forecasts);

Discussions we have had with certain members of management of the Company and Parent concerning the historical and current business operations, financial conditions and prospects of the Company and Parent, respectively, and such other matters we deemed relevant;

Certain operating results and implied purchase price multiples for the Company compared to certain operating results and trading statistics of certain publicly traded companies we deemed relevant;

Certain operating results for the Company compared to certain operating results and trading statistics of certain publicly traded companies we deemed relevant, and the reported price and trading histories of the shares of common stock of the Company;

Certain financial terms of the Merger as compared to the financial terms of certain selected business combinations we deemed relevant;

Certain Company Forecasts and cash flows projected to be generated by the Company on a stand-alone basis to determine the present value of the discounted cash flows;

Certain Company Forecasts of its future projected cash expenditures;

Certain pro forma financial effects of the Merger; and

Such other information, financial studies, analyses and investigations and such other factors that we deemed relevant for the purposes of this opinion.

In conducting our review and arriving at our opinion, we have, with your consent, assumed and relied, without independent investigation, upon the accuracy and completeness of all financial and other information provided to us by the Company and Parent, or which is publicly available. We have not undertaken any responsibility for the accuracy, completeness or reasonableness of, or independently to verify, such information. In addition, we have not conducted nor have we assumed any obligation to conduct any physical inspection of the properties or facilities of the

Company or Parent. We have further relied upon the assurance of management of the Company that they are unaware of any facts that would make the information provided to us incomplete or misleading in any respect. We have, with your consent, assumed that the financial forecasts that we examined were reasonably prepared by the management of the

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Company and Parent on bases reflecting the best currently available estimates and good faith judgments of management of the Company and Parent, and such projections provide a reasonable basis for our opinion.

We have neither made nor obtained any independent evaluations, valuations or appraisals of the assets or liabilities of the Company or Parent, nor have we been furnished with such materials. Our services to the Company in connection with the Merger have included rendering an opinion from a financial point of view with respect to the Consideration. Our opinion is necessarily based upon economic and market conditions and other circumstances as they exist and can be evaluated by us on the date hereof. It should be understood that although subsequent developments may affect our opinion, we do not have any obligation to update, revise or reaffirm our opinion and we expressly disclaim any responsibility to do so.

For the purposes of rendering our opinion we have assumed, in all respects material to our analysis, that the representations and warranties of each party contained in the Agreement are true and correct, that each party will perform all of the covenants and agreements required to be performed by it under the Agreement and that all conditions to the consummation of the Merger will be satisfied without waiver thereof. We have assumed that the final form of the Agreement will be substantially similar to the last draft reviewed by us. We have also assumed that all governmental, regulatory and other consents and approvals contemplated by the Agreement will be obtained; and that, in the course of obtaining any of those consents, no restrictions will be imposed or waivers made that would have an adverse effect on the contemplated benefits of the Merger.

It is understood that this letter is intended for the benefit and use of the Board of Directors of the Company in its consideration of the Merger and may not be used for any other purpose or reproduced, disseminated, quoted or referred to at any time, in any manner or for any purpose without our prior written consent, which consent shall not be unreasonably withheld or delayed. We are not expressing any opinions as to fairness of the Consideration that will actually be paid at the closing of the Merger to the extent that it is different from the value as of the date hereof. We have not been requested to opine as to, and our opinion does not in any manner address, the merits of the Company s underlying business decision to effect the Merger. We are not rendering an opinion to the future performance of Parent subsequent to the Merger or the performance of Parent s stock price subsequent to the Merger.

Based upon and subject to the foregoing, including the various assumptions and limitations set forth herein, it is our opinion that, as of the date hereof, the Consideration to be paid in the Merger is fair, from a financial point of view, to the shareholders of the Company.

Very truly yours,

Q ADVISORS LLC

By: Q Consulting & Advisors, Inc., Manager
By: /s/ Robert W. Kaufman

Robert W. Kaufman

ANNEX D

FORM OF STOCKHOLDER AGREEMENT

This **STOCKHOLDER AGREEMENT,** is dated as of December 23, 2005, by and between Warp Technology Holdings, Inc., a Nevada corporation doing business as Halo Technology Holdings (Parent), and the undersigned, holder (Stockholder) of shares of common stock (Company Common Stock), of InfoNow Corporation, a Delaware corporation (Company).

WHEREAS, in order to induce Parent to enter into an Agreement and Plan of Merger, dated as of the date hereof (the Merger Agreement), with Company, Parent has requested Stockholder and Stockholder has agreed, to enter into this Stockholder Agreement with respect to all shares of Company Common Stock now or hereafter beneficially owned by Stockholder (the Shares);

NOW, THEREFORE, the parties hereto agree as follows:

ARTICLE I

GRANT OF PROXY AND VOTING AGREEMENT

1.1 *Voting Agreement.* In the event that any stockholder action is to be taken at any time with respect to the approval and adoption of the Merger Agreement, the Merger and all agreements related to the Merger and any actions related thereto or contemplated thereby (collectively, the Transaction Documents), whether by written consent, vote of the shareholders of the Company at a meeting or otherwise, Stockholder agrees to vote all of the Shares in favor of the approval and adoption of the Transaction Documents. Stockholder hereby agrees that Stockholder will not vote any Shares in favor of the approval of any (i) Company Acquisition Proposal, (ii) reorganization, recapitalization, liquidation or winding up of Company or any other extraordinary transaction involving Company, (iii) corporate action the consummation of which would frustrate the purposes of, or prevent or delay the consummation of the Merger or other transactions contemplated by the Transaction Documents or (iv) other matter relating to, or in connection with, any of the foregoing matters.

1.2 *Irrevocable Proxy.* Stockholder hereby revokes any and all previous proxies granted with respect to the Shares. By entering into this Stockholder Agreement, Stockholder hereby grants a proxy appointing Parent, and each duly elected officer thereof, as such Stockholder s attorney-in-fact and proxy, with full power of substitution, for and in such Stockholder s name, to vote, express, consent or dissent, or otherwise to utilize such voting power as Parent or its proxy or substitute shall, in Parent s sole discretion, deem proper with respect to the Shares to effect any action described in Section 1.1 above (including, without limitation, the right to sign its name (as Stockholder) to any consent, certificate or other document relating to Company that the law of the State of Delaware permit or require in furtherance of the approval and adoption of the Merger Agreement, the Merger and the Transaction Documents). Stockholder retains the right to vote or otherwise utilize its voting power for all purposes not inconsistent with this Section 1.2. The proxy granted by Stockholder pursuant to this Article I is irrevocable for the term of this Stockholder Agreement and is granted in consideration of Parent entering into this Stockholder Agreement and the Merger Agreement and incurring certain related fees and expenses.

ARTICLE II

REPRESENTATIONS AND WARRANTIES OF STOCKHOLDER

Stockholder represents and warrants to Parent that:

2.1 *Authorization.* This Stockholder Agreement has been duly executed and delivered by and the consummation of the transactions contemplated hereby are within the powers of Stockholder. If this Stockholder Agreement is being executed in a representative or fiduciary capacity, the person signing this Stockholder Agreement has full power and authority to enter into and perform this Stockholder

Agreement. The obligations under this Stockholder Agreement constitute the legal, valid and binding obligations of Stockholder.

2.2 *Non-Contravention.* The execution, delivery and, subject to compliance with the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, (the HSR Act) and securities laws, as applicable, performance by Stockholder of this Stockholder Agreement, do not and will not (i) violate any applicable law, rule, regulation, judgment, injunction, order or decree, (ii) require any consent or other action by any person under, constitute a default under or give rise to any right of termination, cancellation or acceleration under any provision of any agreement or other instrument binding on Stockholder or (iii) result in the imposition of any Encumbrance on the Shares.

2.3 *Ownership of Shares.* Stockholder is the record and beneficial owner of the Shares, free and clear of any Encumbrance and any other limitation or restriction (including any restriction on the right to vote or otherwise dispose of the Shares) other than restrictions under the Securities Act of 1933, as amended. None of the Shares is subject to any voting trust or other agreement or arrangement with respect to the voting of the Shares. Stockholder possesses the sole and exclusive right to vote all of the Shares in any vote of the shareholders of the Company.

2.4 *Total Shares.* Except for the Shares set forth on the signature page hereto next to Stockholder s name, Stockholder does not beneficially own any (i) shares of capital stock or voting securities of Company, (ii) securities of Company convertible into or exchangeable for shares of capital stock or voting securities of the Company or (iii) options or other rights to acquire from Company any capital stock, voting securities or securities convertible into or exchangeable for capital stock or voting securities of Company. If Stockholder acquires any additional Shares after the date hereof, Stockholder will notify Parent in writing within two business days of such acquisition, but in any event prior to the date of the shareholder meeting of the Company.

ARTICLE III

COVENANTS OF STOCKHOLDER

Stockholder hereby covenants and agrees that:

3.1 *No Proxies for or Encumbrances on Shares.* Except pursuant to the terms of this Stockholder Agreement, Stockholder shall not, without prior written consent of Parent, directly or indirectly, (i) grant any proxies or enter into any voting trust or other agreement or arrangement with respect to the voting of any Shares with respect to any matter described in Section 1.1 of this Stockholder Agreement or (ii) acquire, sell, assign, transfer, encumber or otherwise dispose of, or enter into any contract, option or other arrangement or understanding with respect to the direct or indirect acquisition or sale, assignment, transfer, encumbrance or other disposition of, any Shares during the term of this Stockholder Agreement other than pursuant to the Merger or the Transaction Documents. Stockholder shall not seek or solicit any such acquisition or sale, assignment, transfer, encumbrance of other disposition or any such contract, option or other arrangement or understanding and agrees to notify Parent promptly, and to provide all details required by Parent, if Stockholder shall be approached or solicited, directly or indirectly, by any Person with respect to any of the foregoing.

3.2 *Appraisal Rights.* Stockholder agrees not to exercise any rights to demand appraisal of any Shares which may arise with respect to the Merger.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES OF PARENT

Parent represents and warrants to Stockholder that:

4.1 *Authorization.* This Stockholder Agreement has been duly executed and delivered by and the consummation of the transactions contemplated hereby are within the powers of Parent. The obligations under this Stockholder Agreement constitute the legal, valid and binding obligations of Parent.

4.2 *Non-Contravention.* The execution, delivery and, subject to compliance with the HSR Act and securities laws, as applicable, performance by Parent of this Stockholder Agreement, do not and will not (i) violate any applicable law, rule, regulation, judgment, injunction, order or decree or (ii) require any consent or other action by any person under, constitute a default under or give rise to any right of termination, cancellation or acceleration under any provision of any agreement or other instrument binding on Parent.

ARTICLE V
MISCELLANEOUS

5.1 *Termination.* This Stockholder Agreement shall terminate and be of no further force or effect upon the termination of the Merger Agreement in accordance with its terms.

5.2 *Further Assurances.* Parent and Stockholder will each execute and deliver, or cause to be executed and delivered, all further documents and instruments and use all reasonable efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary, proper or advisable under applicable laws and regulations, to consummate and make effective the transactions contemplated by this Stockholder Agreement.

5.3 *Amendments.* Any provision of this Stockholder Agreement may be amended or waived if, but only if, such amendment or waiver in writing is signed, in the case of an amendment, by each party to this Stockholder Agreement or in the case of a waiver, by the party against whom the waiver is to be effective.

5.4 *Duties as Director.* Nothing contained in this Stockholder Agreement shall be deemed to restrict Stockholder from taking actions in his capacity as a director of the Company as may be permitted under the Merger Agreement.

5.5 *Parties in Interest.* This Stockholder Agreement shall be binding upon, inure to the benefit of, and be enforceable by, each party hereto and each party s respective heirs, beneficiaries, executors, representatives and permitted assigns. Nothing in this Agreement, express or implied, is intended to or shall confer upon any other person any right, benefit or remedy of any nature whatsoever under or by reason of this Stockholder Agreement.

5.6 *Expenses.* All costs and expenses incurred in connection with this Stockholder Agreement shall be paid by the party incurring such cost or expense.

5.7 *Successors and Assigns.* The provisions of this Stockholder Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns; provided that no party may assign, delegate or otherwise transfer any of its rights or obligations under this Stockholder Agreement without the consent of the other party hereto, except that Parent may transfer or assign its rights and obligations to any affiliate of Parent.

5.8 *Governing Law.* This Stockholder Agreement shall be construed in accordance with and governed by the laws of the State of Delaware, without giving effect to the principles of conflicts of law thereof.

5.9 *Consent to Jurisdiction.* Each of Parent and Stockholder hereby irrevocably submits in any suit, action or proceeding arising out of or related to this Stockholder Agreement or any other instrument,

document or agreement executed or delivered in connection herewith and the transactions contemplated hereby and thereby, whether arising in contract, tort, equity or otherwise, to the exclusive jurisdiction of any state or federal court located in the State of Delaware and waives any and all objections to jurisdiction that it may have under the laws of the United States or of any state. Each of Parent and Stockholder waives any objection that it may have (including, without limitation, any objection of the laying of venue or based on *forum non conveniens*) to the location of the court in any proceeding commenced in accordance with this Section 5.9.

5.10 *Counterparts; Effectiveness.* This Stockholder Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instruments. This Stockholder Agreement shall become effective when each party hereto shall have received counterparts hereof signed by the other party hereto.

5.11 *Severability.* If any term, provision or covenant of this Stockholder Agreement is held by a court of competent jurisdiction or other authority to be invalid, void or unenforceable, the remainder of the terms, provisions and covenants of this Stockholder Agreement shall remain in full force and effect and shall in no way be affected, impaired or invalidated.

5.12 *Specific Performance.* The parties hereto agree that irreparable damage would occur in the event any provision of this Stockholder Agreement is not performed in accordance with the terms hereof and that the parties shall be entitled to specific performance of the terms hereof in addition to any other remedy to which they are entitled at law or in equity without the posting of a bond or other security.

5.13 *Capitalized Terms.* Capitalized terms used but not defined herein shall have the respective meanings set forth in the Merger Agreement.

5.14 *No Strict Construction.* The language used in this Stockholder Agreement will be deemed to be the language chosen by the parties hereto to express their mutual intent, and no rule of strict construction will be used against any person hereto.

IN WITNESS WHEREOF, the parties hereto have caused this Stockholder Agreement to be duly executed as of the day and year first above written.

Warp Technology Holdings, Inc.

By:

Name: Ernest C. Mysogland

Title: Executive Vice President

Stockholder

By:

Its:

Shares Owned:

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ANNEX E

8 Del. C. § 262
8 Del. C. § 262 (2005)

§ 262. Appraisal rights

(a) Any stockholder of a corporation of this State who holds shares of stock on the date of the making of a demand pursuant to subsection (d) of this section with respect to such shares, who continuously holds such shares through the effective date of the merger or consolidation, who has otherwise complied with subsection (d) of this section and who has neither voted in favor of the merger or consolidation nor consented thereto in writing pursuant to § 228 of this title shall be entitled to an appraisal by the Court of Chancery of the fair value of the stockholder s shares of stock under the circumstances described in subsections (b) and (c) of this section. As used in this section, the word stockholder means a holder of record of stock in a stock corporation and also a member of record of a nonstock corporation; the words stock and share mean and include what is ordinarily meant by those words and also membership or membership interest of a member of a nonstock corporation; and the words depository receipt mean a receipt or other instrument issued by a depository representing an interest in one or more shares, or fractions thereof, solely of stock of a corporation, which stock is deposited with the depository.

(b) Appraisal rights shall be available for the shares of any class or series of stock of a constituent corporation in a merger or consolidation to be effected pursuant to § 251 (other than a merger effected pursuant to § 251(g) of this title), § 252, § 254, § 257, § 258, § 263 or § 264 of this title:

(1) Provided, however, that no appraisal rights under this section shall be available for the shares of any class or series of stock, which stock, or depository receipts in respect thereof, at the record date fixed to determine the stockholders entitled to receive notice of and to vote at the meeting of stockholders to act upon the agreement of merger or consolidation, were either (i) listed on a national securities exchange or designated as a national market system security on an interdealer quotation system by the National Association of Securities Dealers, Inc. or (ii) held of record by more than 2,000 holders; and further provided that no appraisal rights shall be available for any shares of stock of the constituent corporation surviving a merger if the merger did not require for its approval the vote of the stockholders of the surviving corporation as provided in subsection (f) of § 251 of this title.

(2) Notwithstanding paragraph (1) of this subsection, appraisal rights under this section shall be available for the shares of any class or series of stock of a constituent corporation if the holders thereof are required by the terms of an agreement of merger or consolidation pursuant to §§ 251, 252, 254, 257, 258, 263 and 264 of this title to accept for such stock anything except:

a. Shares of stock of the corporation surviving or resulting from such merger or consolidation, or depository receipts in respect thereof;

b. Shares of stock of any other corporation, or depository receipts in respect thereof, which shares of stock (or depository receipts in respect thereof) or depository receipts at the effective date of the merger or consolidation will be either listed on a national securities exchange or designated as a national market system security on an interdealer quotation system by the National Association of Securities Dealers, Inc. or held of record by more than 2,000 holders;

c. Cash in lieu of fractional shares or fractional depository receipts described in the foregoing subparagraphs a. and b. of this paragraph; or

d. Any combination of the shares of stock, depository receipts and cash in lieu of fractional shares or fractional depository receipts described in the foregoing subparagraphs a., b. and c. of this paragraph.

(3) In the event all of the stock of a subsidiary Delaware corporation party to a merger effected under § 253 of this title is not owned by the parent corporation immediately prior to the merger, appraisal rights shall be available for the shares of the subsidiary Delaware corporation.

(c) Any corporation may provide in its certificate of incorporation that appraisal rights under this section shall be available for the shares of any class or series of its stock as a result of an amendment to its certificate of incorporation, any merger or consolidation in which the corporation is a constituent corporation or the sale of all or substantially all of the assets of the corporation. If the certificate of incorporation contains such a provision, the procedures of this section, including those set forth in subsections (d) and (e) of this section, shall apply as nearly as is practicable.

(d) Appraisal rights shall be perfected as follows:

(1) If a proposed merger or consolidation for which appraisal rights are provided under this section is to be submitted for approval at a meeting of stockholders, the corporation, not less than 20 days prior to the meeting, shall notify each of its stockholders who was such on the record date for such meeting with respect to shares for which appraisal rights are available pursuant to subsection (b) or (c) hereof that appraisal rights are available for any or all of the shares of the constituent corporations, and shall include in such notice a copy of this section. Each stockholder electing to demand the appraisal of such stockholder s shares shall deliver to the corporation, before the taking of the vote on the merger or consolidation, a written demand for appraisal of such stockholder s shares. Such demand will be sufficient if it reasonably informs the corporation of the identity of the stockholder and that the stockholder intends thereby to demand the appraisal of such stockholder s shares. A proxy or vote against the merger or consolidation shall not constitute such a demand. A stockholder electing to take such action must do so by a separate written demand as herein provided. Within 10 days after the effective date of such merger or consolidation, the surviving or resulting corporation shall notify each stockholder of each constituent corporation who has complied with this subsection and has not voted in favor of or consented to the merger or consolidation of the date that the merger or consolidation has become effective; or

(2) If the merger or consolidation was approved pursuant to § 228 or § 253 of this title, then either a constituent corporation before the effective date of the merger or consolidation or the surviving or resulting corporation within 10 days thereafter shall notify each of the holders of any class or series of stock of such constituent corporation who are entitled to appraisal rights of the approval of the merger or consolidation and that appraisal rights are available for any or all shares of such class or series of stock of such constituent corporation, and shall include in such notice a copy of this section. Such notice may, and, if given on or after the effective date of the merger or consolidation, shall, also notify such stockholders of the effective date of the merger or consolidation. Any stockholder entitled to appraisal rights may, within 20 days after the date of mailing of such notice, demand in writing from the surviving or resulting corporation the appraisal of such holder s shares. Such demand will be sufficient if it reasonably informs the corporation of the identity of the stockholder and that the stockholder intends thereby to demand the appraisal of such holder s shares. If such notice did not notify stockholders of the effective date of the merger or consolidation, either (i) each such constituent corporation shall send a second notice before the effective date of the merger or consolidation notifying each of the holders of any class or series of stock of such constituent corporation that are entitled to appraisal rights of the effective date of the merger or consolidation or (ii) the surviving or resulting corporation shall send such a second notice to all such holders on or within 10 days after such effective date; provided, however, that if such second notice is sent more than 20 days following the sending of the first notice, such second notice need only be sent to each stockholder who is entitled to appraisal rights and who has demanded appraisal of such holder s shares in accordance with this subsection. An affidavit of the secretary or assistant secretary or of the transfer agent of the corporation that is required to give either notice that such notice has been given shall, in the absence of fraud, be prima facie evidence of the facts stated therein. For purposes of determining the stockholders entitled to receive either notice, each constituent corporation may fix, in advance, a record date that shall be not more than 10 days prior to the date the notice is given,

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provided, that if the notice is given on or after the effective date of the merger or consolidation, the record date shall be such effective date. If no record date is fixed and the notice is given prior to the effective date, the record date shall be the close of business on the day next preceding the day on which the notice is given.

(e) Within 120 days after the effective date of the merger or consolidation, the surviving or resulting corporation or any stockholder who has complied with subsections (a) and (d) hereof and who is otherwise entitled to appraisal rights, may file a petition in the Court of Chancery demanding a determination of the value of the stock of all such stockholders. Notwithstanding the foregoing, at any time within 60 days after the effective date of the merger or consolidation, any stockholder shall have the right to withdraw such stockholder s demand for appraisal and to accept the terms offered upon the merger or consolidation. Within 120 days after the effective date of the merger or consolidation, any stockholder who has complied with the requirements of subsections (a) and (d) hereof, upon written request, shall be entitled to receive from the corporation surviving the merger or resulting from the consolidation a statement setting forth the aggregate number of shares not voted in favor of the merger or consolidation and with respect to which demands for appraisal have been received and the aggregate number of holders of such shares. Such written statement shall be mailed to the stockholder within 10 days after such stockholder s written request for such a statement is received by the surviving or resulting corporation or within 10 days after expiration of the period for delivery of demands for appraisal under subsection (d) hereof, whichever is later.

(f) Upon the filing of any such petition by a stockholder, service of a copy thereof shall be made upon the surviving or resulting corporation, which shall within 20 days after such service file in the office of the Register in Chancery in which the petition was filed a duly verified list containing the names and addresses of all stockholders who have demanded payment for their shares and with whom agreements as to the value of their shares have not been reached by the surviving or resulting corporation. If the petition shall be filed by the surviving or resulting corporation, the petition shall be accompanied by such a duly verified list. The Register in Chancery, if so ordered by the Court, shall give notice of the time and place fixed for the hearing of such petition by registered or certified mail to the surviving or resulting corporation and to the stockholders shown on the list at the addresses therein stated. Such notice shall also be given by 1 or more publications at least 1 week before the day of the hearing, in a newspaper of general circulation published in the City of Wilmington, Delaware or such publication as the Court deems advisable. The forms of the notices by mail and by publication shall be approved by the Court, and the costs thereof shall be borne by the surviving or resulting corporation.

(g) At the hearing on such petition, the Court shall determine the stockholders who have complied with this section and who have become entitled to appraisal rights. The Court may require the stockholders who have demanded an appraisal for their shares and who hold stock represented by certificates to submit their certificates of stock to the Register in Chancery for notation thereon of the pendency of the appraisal proceedings; and if any stockholder fails to comply with such direction, the Court may dismiss the proceedings as to such stockholder.

(h) After determining the stockholders entitled to an appraisal, the Court shall appraise the shares, determining their fair value exclusive of any element of value arising from the accomplishment or expectation of the merger or consolidation, together with a fair rate of interest, if any, to be paid upon the amount determined to be the fair value. In determining such fair value, the Court shall take into account all relevant factors. In determining the fair rate of interest, the Court may consider all relevant factors, including the rate of interest which the surviving or resulting corporation would have had to pay to borrow money during the pendency of the proceeding. Upon application by the surviving or resulting corporation or by any stockholder entitled to participate in the appraisal proceeding, the Court may, in its discretion, permit discovery or other pretrial proceedings and may proceed to trial upon the appraisal prior to the final determination of the stockholder entitled to an appraisal. Any stockholder whose name appears on the list filed by the surviving or resulting corporation pursuant to subsection (f) of this section and who has submitted such stockholder s certificates of stock to the Register in Chancery, if such is required, may

participate fully in all proceedings until it is finally determined that such stockholder is not entitled to appraisal rights under this section.

(i) The Court shall direct the payment of the fair value of the shares, together with interest, if any, by the surviving or resulting corporation to the stockholders entitled thereto. Interest may be simple or compound, as the Court may direct. Payment shall be so made to each such stockholder, in the case of holders of uncertificated stock forthwith, and the case of holders of shares represented by certificates upon the surrender to the corporation of the certificates representing such stock. The Court s decree may be enforced as other decrees in the Court of Chancery may be enforced, whether such surviving or resulting corporation be a corporation of this State or of any state.

(j) The costs of the proceeding may be determined by the Court and taxed upon the parties as the Court deems equitable in the circumstances. Upon application of a stockholder, the Court may order all or a portion of the expenses incurred by any stockholder in connection with the appraisal proceeding, including, without limitation, reasonable attorney s fees and the fees and expenses of experts, to be charged pro rata against the value of all the shares entitled to an appraisal.

(k) From and after the effective date of the merger or consolidation, no stockholder who has demanded appraisal rights as provided in subsection (d) of this section shall be entitled to vote such stock for any purpose or to receive payment of dividends or other distributions on the stock (except dividends or other distributions payable to stockholders of record at a date which is prior to the effective date of the merger or consolidation); provided, however, that if no petition for an appraisal shall be filed within the time provided in subsection (e) of this section, or if such stockholder shall deliver to the surviving or resulting corporation a written withdrawal of such stockholder s demand for an appraisal and an acceptance of the merger or consolidation, either within 60 days after the effective date of the merger or consolidation as provided in subsection (e) of this section or thereafter with the written approval of the corporation, then the right of such stockholder to an appraisal shall cease. Notwithstanding the foregoing, no appraisal proceeding in the Court of Chancery shall be dismissed as to any stockholder without the approval of the Court, and such approval may be conditioned upon such terms as the Court deems just.

(l) The shares of the surviving or resulting corporation to which the shares of such objecting stockholders would have been converted had they assented to the merger or consolidation shall have the status of authorized and unissued shares of the surviving or resulting corporation.

HISTORY: 8 Del. C. 1953, § 262; 56 Del. Laws, c. 50; 56 Del. Laws, c. 186, § 24; 57 Del. Laws, c. 148, §§ 27-29; 59 Del. Laws, c. 106, § 12; 60 Del. Laws, c. 371, §§ 3-12; 63 Del. Laws, c. 25, § 14; 63 Del. Laws, c. 152, §§ 1, 2; 64 Del. Laws, c. 112, §§ 46-54; 66 Del. Laws, c. 136, §§ 30-32; 66 Del. Laws, c. 352, § 9; 67 Del. Laws, c. 376, §§ 19, 20; 68 Del. Laws, c. 337, §§ 3, 4; 69 Del. Laws, c. 61, § 10; 69 Del. Laws, c. 262, §§ 1-9; 70 Del. Laws, c. 79, § 16; 70 Del. Laws, c. 186, § 1; 70 Del. Laws, c. 299, §§ 2, 3; 70 Del. Laws, c. 349, § 22; 71 Del. Laws, c. 120, § 15; 71 Del. Laws, c. 339, §§ 49-52; 73 Del. Laws, c. 82, § 21.

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PART II
INFORMATION NOT REQUIRED IN PROSPECTUS

Item 20. ***Indemnification of Directors and Officers***

Under Nevada law, a director or officer is not individually liable to the corporation or its stockholders for any damages as a result of any act or failure to act in his or her capacity as a director or officer unless it is proven that such act or failure to act constituted a breach of fiduciary duties as a director or officer; and the breach of those duties involved intentional misconduct, fraud or a knowing violation of law. Such provisions, however, will not eliminate a director or officer s liability to the corporation in the case of a judgment of ouster rendered against a corporation on account of the misconduct of the director or officer, a violation of Nevada state securities laws, or certain other violations of law.

Under Section 78.7502 of the Nevada Revised Statutes, a corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, except an action by or in the right of the corporation, by reason of the fact that such person is or was a director, officer, employee or agent of the corporation, against expenses, including attorneys fees, judgments, fines and amounts paid in settlement actually and reasonably incurred in connection with the action, suit or proceeding, but only if such person did not breach his or her fiduciary duties in a manner involving intentional misconduct, fraud or a knowing violation of law, or acted in good faith and in a manner which he or she reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful. A corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that such person is or was a director, officer, employee or agent of the corporation against expenses, including amounts paid in settlement and attorneys fees actually and reasonably incurred in connection with the defense or settlement of the action or suit if such person did not breach his or her fiduciary duties in a manner involving intentional misconduct, fraud or a knowing violation of law or acted in good faith and in a manner which he or she reasonably believed to be in or not opposed to the best interests of the corporation.

Nevada law further provides that indemnification may not be made for any claim, issue or matter as to which such a person has been adjudged to be liable to the corporation or for amounts paid in settlement to the corporation, unless and only to the extent that the court determines the person is fairly and reasonably entitled to indemnity for such expenses as the court deems proper. Nevada law provides for mandatory indemnification of a director, officer, employee or agent of a corporation to the extent that such person has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in this paragraph against expenses, including attorneys fees, actually and reasonably incurred by him in connection with the defense.

Halo s bylaws and articles of incorporation provide for indemnification of directors and officers to the fullest extent permitted by Nevada law. The Halo bylaws also provide for the advancement of indemnified expenses.

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Item 21. ***Exhibits.***

HALO Technology Holdings, Inc.
INDEX TO EXHIBITS

Exhibit No.	Description of Exhibit
2.1(*)	Agreement and Plan of Merger, by and among Warp Technology Holdings, Inc., operating under the name Halo Technology Holdings, WTH Merger Sub, Inc. and InfoNow Corporation, dated as of December 23, 2005, excluding exhibits and schedules thereto (included as Annex A to the proxy statement/ prospectus in this Registration Statement).
3.1(1)	Articles of Incorporation of Warp Technology Holdings, Inc.
3.2(1)	Bylaws of Halo 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(35)	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.
4.10(20)	Form of Promissory Note.
4.11(20)	Warrant Certificate, Form of Fact of Warrant Certificate, Warrants to Purchase Common
4.12(24)	Stock of Warp Technology Holdings, Inc. Form of Promissory Note first issued October 21, 2005.

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Exhibit No.	Description of Exhibit
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(31)	Form of Note first issued January 11, 2006.
4.15(32)	Form of Note first issued January 27, 2006.
5.1(*)	Opinion of Hale Lane Peek Dennison and Howard, a Professional Corporation.
8.1(**)	Form of Opinion of Hogan & Hartson L.L.P. regarding tax matters.
8.2(**)	Form of Opinion of Day, Berry & Howard LLP regarding tax matters.
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 Technology 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.
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 Warp Technology Holdings, Inc. and the Persons listed on Schedule 1.01 thereto.
10.17(10)	Stockholders Agreement, dated as of August 4, 2004, between and among Warp Technology Holdings, Inc., 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 Warp Technology Holdings, Inc. made as of August 4, 2004.
10.20(11)	Form of Employment Agreement for Ernest Mysogland and Warp Technology Holdings, Inc. 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 Warp Technology Holdings, Inc., 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 Warp Technology Holdings, Inc., 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.

Exhibit No.	Description of Exhibit
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 Warp Technology Holdings, Inc. and Gupta Holdings, LLC.
10.36(14)	Form of Series C Subscription Agreement entered into January 31, 2005 by and between Warp Technology Holdings, Inc. and the Investors as identified therein.
10.37(14)	Investors Agreement entered into the 31st day of January, 2005 by and among Warp Technology Holdings, Inc., 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 Warp Technology Holdings, Inc. and the Purchasers identified therein.
10.39(14)	Subordinated Note and Warrant Purchase Agreement, as of January 31, 2005, by and among Warp Technology Holdings, Inc. and the Purchasers identified therein.
10.40(14)	Senior Security Agreement, dated as of January 31, 2005, between Warp Technology Holdings, Inc. 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).
10.42(14)	Senior Security Agreement, dated as of January 31, 2005, between Gupta Technologies, LLC and Collateral Agent (as defined therein).
10.43(14)	Senior Guaranty, dated as of January 31, 2005, between Warp Solutions, Inc. and Collateral Agent (as defined therein).
10.44(14)	Senior Guaranty, dated as of January 31, 2005, between Gupta Technologies, LLC and Collateral Agent (as defined therein).
10.45(14)	Subordinated Security Agreement, dated as of January 31, 2005, between Warp Technology Holdings, Inc. 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).
10.47(14)	Subordinated Subsidiary Security Agreement, dated as of January 31, 2005, between Gupta Technologies, LLC 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).
10.49(14)	Subordinated Guaranty, dated as of January 31, 2005, between Gupta Technologies, LLC and Collateral Agent (as defined therein).
10.50(14)	

Intercreditor and Subordination Agreement dated as of January 31, 2005, by and among: the Subordinated Noteholders, the Senior Noteholders, Warp Technology Holdings, Inc., Warp Solutions, Inc., Gupta Technologies, LLC, and the Collateral Agent (as such terms are defined therein).

Exhibit No.	Description of Exhibit
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 Warp Technology Holdings, Inc. and Gus Bottazzi.
10.54(18)	Letter Agreement dated October 31, 2003 by and between Gupta Technologies, LLC and Jeffrey L. Bailey.
10.55(18)	Letter Agreement dated August 4, 2004 by and between Gupta Technologies, LLC and Jeffrey Bailey, as amended January 1, 2005.
10.56(18)	Premium International Distribution Agreement dated January 1, 2004 by and between ADN Distribution, GmbH and Gupta Technologies, LLC.
10.57(18)	Premium International Distribution Agreement dated March 1, 2005 by and between Scientific Computers and Gupta Technologies, LLC.
10.58(18)	Premium International Distribution Agreement dated January 1, 2004 by and between NOCOM AB and Gupta Technologies, LLC, as amended January 1, 2005.
10.59(18)	Premium International Distribution Agreement dated October 1, 2003 by and between Sphinx CST and Gupta Technologies, LLC, as amended October 1, 2004.
10.60(18)	Premium International Distribution Agreement dated March 24, 2004 by and between Xtura B.V. and Gupta Technologies, LLC.
10.61(18)	OEM Software License Agreement dated September 29, 1994 by and between United Parcel Service General Services Co. and Gupta Technologies, LLC, as amended September 8, 1995, September 30, 1999, December 21, 1999, March 23, 2001, and December 31, 2004.
10.62(18)	Service Agreement dated March 27, 2002 by and between Offshore Digital Services Inc., DBA Sonata and Gupta Technologies, LLC, as amended March 28, 2003, July 21, 2003, and March 28, 2004.
10.63(18)	Services Agreement dated September 20, 2004 by and between CodeWeavers, Inc. and Gupta Technologies, LLC.
10.64(18)	OEM Product Agreement dated September 20, 2004 by and between CodeWeavers, Inc. and Gupta Technologies, LLC.
10.65(18)	Qt Commercial License Agreement for Enterprise Edition dated as of December 15, 2004 by and between Trolltech Inc. and Gupta Technologies, LLC.
10.66(18)	OEM License Agreement dated January 1, 2004 by and between Graphics Server Technologies, L.P. and Gupta Technologies, LLC.
10.67(18)	Shrinkwrap software license agreement with Data Techniques, Inc. for the ImageMan software product.
10.68(18)	Shrinkwrap software license agreement with Rogue Wave Software Inc. for the Rogue Wave Stingray software product.
10.69(18)	Lease Agreement dated July 19, 2001 by and between Westport Joint Venture and Gupta Technologies, LLC, together with amendments thereto.
10.70(18)	Stock Purchase Agreement by and among Warp Technology Holdings, Inc., Bristol Technology, Inc. and Kenosia, dated June 10, 2005.
10.71(19)	Pledge and Security Agreement by and among the Company, Kenosia, and Bristol Technology, Inc. dated July 6, 2005.
10.72(20)	Credit Agreement dated August 2, 2005 between Warp Technology Holdings, Inc., the Subsidiaries of Warp Technology Holdings, Inc., 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 Technology Holdings, Inc., and Fortress Credit Corp.

Exhibit No.	Description of Exhibit
10.74(20)	Security Agreement dated as of August 2, 2005 between Warp Technology Holdings, Inc. and Fortress Credit Corp.
10.75(20)	Stock Pledge Agreement dated as of August 2, 2005 between Warp Technology Holdings, Inc. and Fortress Credit Corp.
10.76(20)	Pledge Agreement dated as of August 2, 2005 between Warp Technology Holdings, Inc. and Fortress Credit Corp.
10.77(20)	Intercreditor and Subordination Agreement dated as of August 2, 2005 between Warp Technology Holdings, Inc, the Subsidiaries of Warp Technology Holdings, Inc., the Financial Institutions, the Holders of Subordinated Notes and Fortress Credit Corp.
10.78(20)	Deed dated August 1, 2005 between Gupta Technologies, LLC and Fortress Credit Corp.
10.79(20)	Deed dated August 2, 1005 between Gupta Technologies Limited and Fortress Credit Corp.
10.80(20)	Deed dated August 2, 2005 between Warp Technology Limited and Fortress Credit Corp.
10.81(20)	Deed dated August 2, 1005 between Gupta Technologies, LLC and Fortress Credit Corp.
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.
10.84(21)	Share Pledge Agreement dated August 2, 2005 between Gupta Technologies LLC, Fortress Credit Corp., Fortress Credit Opportunities I LP and Finance Parties.
10.85(21)	Commercial Lease dated as of August 29, 2005 by and between Railroad Avenue LLC and Warp Technology 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 and Platinum Equity, LLC.
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.
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.

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Exhibit No.	Description of Exhibit
10.99(26)	Pledge Agreement between Warp Technology Holdings, Inc. and Fortress Credit Corp. dated October 26, 2005 regarding Process Software, LLC.
10.100(26)	Pledge Agreement between Warp Technology Holdings, Inc. and Fortress Credit Corp. dated October 26, 2005 regarding ProfitKey International, LLC.
10.101(26)	Pledge Agreement between Warp Technology Holdings, Inc. 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)	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, and certain stockholders of Empagio.
10.110(28)	Agreement and Plan of Merger, dated as of December 23, 2005 by and among Warp Technology Holdings, Inc., WTH Merger Sub, Inc., and InfoNow.
10.111(29)	Employment Agreement with Mark Finkel.
10.112(29)	Non-Competition Agreement with Mark Finkel.
10.113(29)	Confidentiality Agreement with Mark Finkel.
10.114(30)	Form of Agreement Regarding Warrants.
10.115(31)	Subscription Agreement entered into January 11, 2006.
10.116(32)	Subscription Agreement first entered into January 27, 2006.
10.117(33)	Merger Agreement, dated as of January 30, 2006, by and among Warp Technology Holdings, Inc., ECI Acquisition, Inc., ECI, and certain stockholders of ECI.
10.118(34)	Merger Agreement, dated as of March 14, 2006, by and among Warp Technology Holdings, Inc., operating under the name Halo Technology Holdings, UCA Merger Sub, Inc., and Unify Corporation.
10.119(34)	Form of Stockholder Agreement, dated March 14, 2006, by and among Warp Technology Holdings, Inc., operating under the name Halo Technology Holdings, and the persons listed on Schedule I thereto.
10.120(36)	Amendment and Consent, dated as of March 31, 2006 between Warp Technology Holdings, Inc. and Platinum Equity, LLC.
21.1(34)	Subsidiaries of Halo Technology Holdings, Inc.
23.1(*)	Consent of Hale Lane Peek Dennison and Howard, a Professional Corporation (contained in Exhibit 5.1).
23.2(*)	Consent of Mahoney Cohen & Company, CPA, P.C.
23.3(*)	Consent of Deloitte & Touche, LLP, Independent Auditors.
23.4(*)	Consent of Q Advisors LLC.

23.5(**)	Consent of Hogan & Hartson L.L.P. (contained in Exhibit 8.1).
23.6(**)	Consent of Day, Berry & Howard LLP (contained in Exhibit 8.2).

Exhibit No.	Description of Exhibit
99.1(*)	Opinion of Q Advisors LLC regarding the fairness of the merger consideration (included as Annex C to the proxy statement/ prospectus forming a part of this registration statement).
99.2(*)	Form of InfoNow Proxy Card.

(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 Warp Technology Holdings, Inc. on February 14, 2003.

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

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

(8) Incorporated by reference to the exhibits to the Quarterly Report on Form 10-QSB filed by Warp Technology Holdings, Inc. on February 12, 2004.

(9) Incorporated by reference to the exhibits to the Quarterly Report on Form 10-QSB filed by Warp Technology Holdings, Inc. 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.

(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 Technology Holdings, Inc. s Current Report on Form 8-K filed on September 26, 2005.

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

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

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

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

(28) Incorporated herein by reference to the second of Warp Technology Holdings, Inc. s Current Reports on Form 8-K filed on December 27, 2005.

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

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

(31) Incorporated herein by reference to Warp Technology Holdings, Inc. s Current Report on Form 8-K filed on January 18, 2006.

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

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

(34) Incorporated herein by reference to Warp Technology Holdings, Inc. s Current Report on Form 8-K filed on March 20, 2006.

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

(36) Incorporated herein by reference to Halo Technology Holdings, Inc. s Current Report on Form 8-K filed April 3, 2006.

(*) Filed herewith.

(**) To be filed in a subsequent amendment hereto.

2. Financial Statement Schedules.

Not applicable.

Item 22. ***Undertakings.***

The undersigned registrant undertakes as follows: that prior to any public reoffering of the securities registered hereunder through use of a prospectus which is a part of this registration statement, by any person or party who is deemed to be an underwriter within the meaning of Rule 145(c), the issuer undertakes that such reoffering prospectus will contain the information called for by the applicable registration form with respect to reofferings by persons who may be deemed underwriters, in addition to the information called for by the other items of the applicable form.

The registrant undertakes that every prospectus: (i) that is filed pursuant to the preceding paragraph, or (ii) that purports to meet the requirements of Section 10(a)(3) of the Securities Act and is used in connection with an offering of securities subject to Rule 415, will be filed as a part of an amendment to the registration statement and will not be used until such amendment is effective, and that, for purposes of

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determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

Insofar as indemnification for liabilities arising under the Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

The undersigned Registrant hereby undertakes to supply by means of a post-effective amendment all information concerning a transaction, and the company being acquired involved therein, that was not the subject of and included in the registration statement when it became effective.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Greenwich, State of Connecticut, on April 13, 2006.

HALO TECHNOLOGY HOLDINGS, INC.
By: /s/ Rodney A. Bienvenu, Jr.

Rodney A. Bienvenu, Jr.
Chief Executive Officer
(principal executive officer)

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints, Rodney A. Bienvenu, Jr. and Ernest C. Mysogland, and each of them, as his attorney-in-fact, each with full power of substitution, for him in any and all capacities, to sign any and all amendments to this Registration Statement (including post-effective amendments), and any and all Registration Statements filed pursuant to Rule 462 under the Securities Act of 1933, in connection with or related to this Registration Statement and its amendments, if any, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming our signatures as they may be signed by our said attorney to any and all amendments to said Registration Statement.

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities and on the dates indicated.

Name	Title	Date
/s/ Rodney A. Bienvenu, Jr. Rodney A. Bienvenu, Jr.	Chief Executive Officer, Director, Chairman of Board of Directors (principal executive officer)	April 13, 2006
/s/ Mark Finkel Mark Finkel	Chief Financial Officer (principal financial officer)	April 13, 2006
/s/ Takeshi Taniguchi Takeshi Taniguchi	Controller	April 13, 2006
/s/ John A. Boehmer John A. Boehmer	Director	April 13, 2006
/s/ David M. Howitt David M. Howitt	Director	April 13, 2006